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THE MAGAZINE FOR SOUTHERN NEVADA COMMERCIAL REAL ESTATE • JULY 2009

FOCUS ON: NORTH LAS VEGAS

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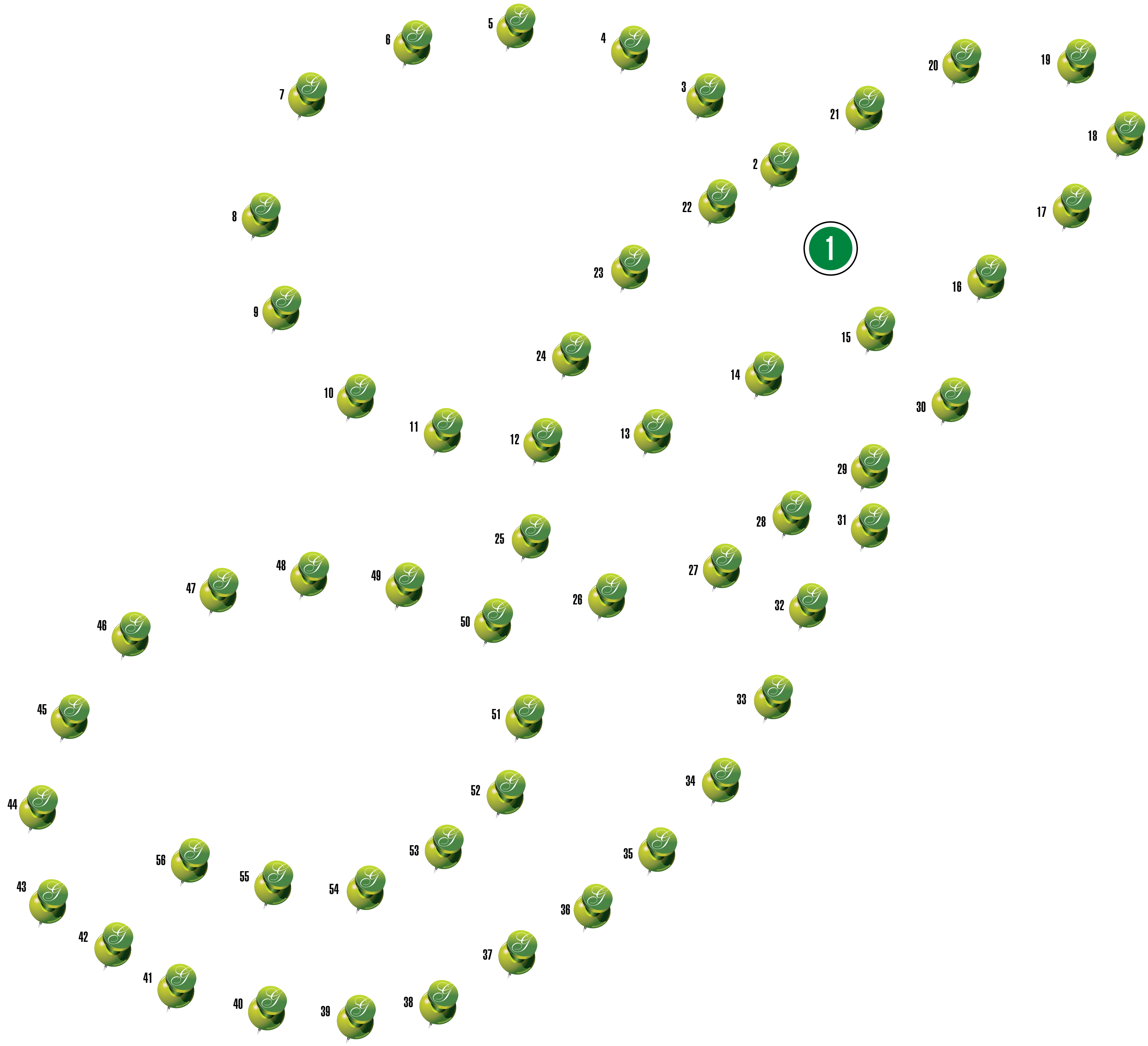

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FROM THE EDITOR

Dear readers,

Thanks for picking up our most recent edition of *CRE*, the magazine for Southern Nevada commercial real estate.

It's no secret that the commercial real estate industry is battling through some tough economic times. Beginning with this edition of *CRE*, we are making a conscious effort to help you, the reader. For some of you, that may be as a business owner; for others, it may be as a consumer.

The scope of some of our stories in *CRE* are geared toward helping you survive these challenging times. We also have moved the publication into the core of the paper, bringing important information closer to your fingertips.

In this edition, *CRE* columnist John Restrepo of the Restrepo Consulting Group analyzes the local market in a must-read article, beginning on page 6A. John provides an overview of the local economy and the market indicators and discusses where the economy is expected to take us during the next two years.

This *CRE* focuses on North Las Vegas and the growth and changes in that market. North Las Vegas has gained national attention for its recent population growth. According to the census bureau report released earlier this month, North Las Vegas is the country's 19th-fastest-growing large city (population of more than 100,000). As of July 1, 2008, North Las Vegas' population stood at 217,253 — up almost 3 percent from the previous year. It had ranked in the top 10 the previous two years.

You'll find stories about the development and redevelopment going on in the city. Read updates on Deer Springs Town Center, Centennial Gateway and Cannery Corner, to name a few.

We'll be back with another edition of *CRE* in October, when we'll feature the winners of our annual SIR Awards. It's not too late to nominate those making their mark on the construction industry. Contact me if you need more information.

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FROM THE SPONSOR

On behalf of Gatski Commercial Real Estate Services, I'd like to express how pleased we are to sponsor the *In Business Las Vegas Commercial Real Estate Guide.*

It's been a challenging year. The free-falling economy, which has taken its toll on business and paralyzed lending, appears to have bottomed out and left the commercial real estate market with a resilient new foundation that will be the cornerstone of our recovery.

Without question, there is more activity in the leasing market, and the fear that has frozen any negotiations has been replaced by an atmosphere of optimism.

As a company, we've redefined who we are and have spent countless hours negotiating workouts between landlords, tenants and lenders. In the midst of it all, we continue to grow as a company and expand our services to cost segregation and will be providing a tax abatement division to ensure the ad valorem taxes paid to the county are reflective of the now-discounted value.

We also are positioning ourselves for the rebound of the brokerage market by helping clients who are looking to liquidate and take a more conservative investing approach. Simultaneously, we're building relationships with aggressive investment groups that are excited about the future of the commercial market in Las Vegas. This is the foundation for recovery.

This *CRE* issue features North Las Vegas. Some of the properties we manage and lease in North Las Vegas include:

- 4444 W. Craig Road – Retail
- 3940 Martin Luther King Blvd. – Retail
- 4528 W. Craig Road – Office/Retail
- 5135 Camino Al Norte – Two-story office building
- 4220 E. Craig Road – Industrial/Warehouse
- 4610 Donovan Way – Industrial/Warehouse

Best personal regards,

Frank Gatski, CEO
Gatski Commercial Real Estate Services
www.GatskiCommercial.com

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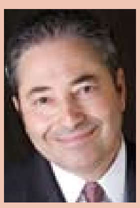

JOHN RESTREPO

Principal — Restrepo Consulting Group

John Restrepo has provided economic consulting services in Nevada for 20 years. RCG, which is based in Las Vegas and opened in 1997, is the most established economics and public policy research firm in the state. Prior to opening RCG, Restrepo was the director for the Las Vegas office of Coopers & Lybrand (now PricewaterhouseCoopers). Restrepo has analyzed regional economic trends in a number of markets. His clients include many prominent private and public organizations. He also has prepared detailed quarterly market surveys tracking Las Vegas' industrial, office and retail markets since 1990. Restrepo was the 2008 president of the Las Vegas chapter of NAIOP, a member of the District Council of the ULI-Las Vegas and an associate member of the Las Vegas chapter of the Society of Industrial and Office Realtors.

SCOT MARKER

Senior Vice President, Colliers International – Las Vegas

Scot Marker is in the retail division at Colliers International. Since beginning his career in 1995, he has successfully negotiated many transactions as a tenant representative and has marketed a variety of retail developments in the Greater Las Vegas market. Marker has represented or currently represents a number of chain restaurants, including Darden Restaurants, which encompasses Olive Garden, Red Lobster, Bahama Breeze, Capital Grill, Seasons 52, Longhorn Steakhouse, as well as BJ's Restaurants Inc., Chipotle Mexican Grill, Marie Callender's franchisee, Jason's Deli Restaurant and Memphis Championship Barbeque. In addition, he also has marketed properties owned and operated by such entities as Kimco Realty, Donahue Schriber, Dylan Investments, Jack Tarr Development and Centra Pecos Legacy.

ON THE COVER:
SOUTHERN WINE & SPIRITS OF NEVADA

- DEER SPRINGS TOWN CENTER
- VA LAS VEGAS MEDICAL CENTER
- TERRITORY INC.

With the sites of the future University of Nevada, Las Vegas campus and the Veterans Affairs Las Vegas Medical Center (pictured) being in such close proximity to each other, North Las Vegas could see a partnership develop between the two.

Development, redevelopment plans inching forward in North Las Vegas

When it comes to the future growth of their city, the city of North Las Vegas' economic and redevelopment brass would love to tell us about the huge strides made in the past year. But officials agree, they'll have to enjoy the small steps for now, while keeping a long-term focus.

Mike Majewski, North Las Vegas' economic development director, reserves much of his enthusiasm for long-term developments. He recently talked up the future University of Nevada, Las Vegas campus in the city, which will probably break ground about four years after master planning on the first building is complete and approved, most likely in the next legislative session.

Mike Majewski

While UNLV's campus is shaping into a 2015 ground breaking, Majewski is excited about the Veterans Affairs hospital currently under construction in the northern part of the city, not far from the future UNLV campus.

"I see that (a future partnership between UNLV and the VA hospital) as being a real potential for doing research and bringing leading edge technology to the area," Majewski said.

The new hospital will bring about 2,000 jobs to the area when it opens at the end of 2010 — some new and some transplanted from other areas of the valley.

Industrial space questions

Long known for its wealth of industrial land opportunities for investors and business owners, demand for industrial land and space has waned, to say the least, in North Las Vegas. Majewski points to strides being made by land owners in the Las Vegas Speedway area and Apex Industrial Park, which are bringing infrastructure improvements to both areas, as current positives.

Meanwhile, the northeast region Majewski is discussing makes up a northeast research region for Applied Analysis, a Southern Nevada economic research firm. Unfortunately, the area also has the worst industrial vacancy rate in the valley of 16.1 percent for the first quarter 2009. Valleywide industrial vacancy for the same quarter is at 10.5 percent, said Brian Gordon, an Applied Analysis principal.

"It's a superb location, being off the I-15. Access for distributors and the ability to get in and out of there is important, and tenants historically sought out that area," Gordon said. "But with the downturn in the economy, it's being affected like other parts of the valley. No submarket is immune to this."

Peggy Proestos, the business development manager for the city of North Las Vegas, said that having available industrial space helped bring in some companies in the past year, including Monster Cable.com. Others, such as Amazon.com and Priority Plastics, formerly known as Show Me Containers, expanded operations.

"(Priority Plastics) came here from the Midwest three years ago and have grown from 48,000 to 102,000 square feet. Between leasing new space and adding equipment, they spent over $13 million," she said. "With Monster Cable, our friends in Henderson (economic development) called, and we had the land and we had the building available for them."

Others businesses that moved to the area in the past year include: Amazon.com, which signed a five-year, $8.6 million lease for more than 280,000 square feet of industrial space, and GE Transportation, a division of General Electric, which signed a 10-year lease earlier this year for 87,000 square feet. In addition, Three Square, a nonprofit food bank, opened its building on land it purchased in 2007.

"I don't think we'll ever match the pace of 2005. But it hasn't been stagnant. It hasn't completely stopped."

Proestos also said there have been some small companies coming to the area in the past year. She said North Las Vegas Tequila Co., a "green" multipurpose cleaner manufacturer and several restaurants along the Craig Road corridor are examples of smaller businesses coming to the city.

"We seem to be seeing more of those smaller companies with a 'green' focus coming in," she added.

Fifth Street, redevelopment

Larry Bender, redevelopment manager for the city of North Las Vegas, says redevelopment plans are still in place for the city despite several setbacks due to the economy.

Bender highlights the area's Fifth Street corridor and the importance of current widening efforts downtown as well as its extension north to the Clark County 215 as important facets of the redevelopment plans.

"It's not redevelopment, per se, but it will help drive traffic downtown," Bender said.

Equally important to redevelopment is the now under-construction $142 million city hall at 2250 N. Las Vegas Blvd., just north of the Silver Nugget casino. The site also will house an events center and about 3,000 square feet of retail space. Planning and public works will relocate to the new city hall in 2011, upon its completion. Meanwhile, the municipal courts and police headquarters will be located on Civic Center Drive, just north of Lake Mead Boulevard, where public works and planning is currently located. Currently, a police substation is located next door to North Vista Hospital, which could use the space to expand its operations. With the movement of the public works, space will be freed up for the jails, police and courts to be located "all in one place and all within walking distance of the new city hall," said Bender.

With an economic turnaround, new government facilities in the city's urban core and an expanded North Vista Hospital, Bender said the owners of Jerry's Nugget and Silver Nugget casinos will likely move forward with their currently on-hold expansion plans.

The Los Flores factor

One project very much holding the key to the future of downtown redevelopment is the 352,000-square-foot, $100 million Los Flores project at the northwest corner of Las Vegas Boulevard and Hamilton Street. Permits are being finalized, said Michael Townsend, chief operating officer for Montecito Cos., the development manager. But retailers are waiting on the sidelines for the economy to show some signs of life before signing leases.

"We (as developers) have taken this thing about as far as we can go," Townsend said. "There's been some waffling going on, and we can't get commitments out of larger national or regional tenants. … The interest is very, very good. But it's hard to move forward with 1,000- or 2,000-square-foot commitments when you've got 100,000-, 30,000- and 70,000-square-foot sites open."

Townsend is hoping to break ground within 12 months. He was hoping to have the project completed and open next summer, but financing can't be arranged until 55 to 60 percent of the space is leased, he said.

The 32-acre site is owned outright by Texas-based Sarofim Realty Advisors, which, with an unencumbered parcel, are in a good position to "play the waiting game," Townsend added.

I don't think it's going to be too much longer of a wait. … People are starting to look around. Probably after the first of the year, then we'll see more activity," he added. <

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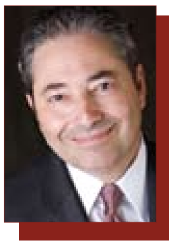
John Restrepo, Principal, with **John Donovan** and **Maria Guideng,** Researchers, **Restrepo Consulting Group LLC**

Economic recovery hinges on job growth



An epiphany is not necessary to understand that the health of the economy is the primary determinant of the health of the real estate market — commercial and residential. Accordingly, it is no great surprise that the economic turmoil in Southern Nevada following the boom that peaked in 2004-o5 has dramatically impacted the performance of the Las Vegas Valley commercial real estate market. In this issue of CRE, we focus on how this turmoil has affected the region and North Las Vegas. We start with an overview of the economy, followed by a discussion of the commercial real market indicators. Finally, we conclude with some further thoughts about where the national and Southern Nevada economies are heading during the next two years.

Total Job Change

In May, the Nevada Department of Employment, Training and Rehabilitation reported that Clark County had a net job loss of 58,600 establishment-based jobs compared to May 2008, dropping 6.3 percent to 871,200. This set another year-over-year record. Additionally, there were 300 fewer jobs recorded in May compared to this past April. The good, even great news, was that this represented a major improvement over the March-April decline of 4,100 jobs.

One month does not make a trend, but it is definitely a hopeful sign. We also note that May's job total was 172,000 higher than that recorded in May 2000 (699,200 jobs). So, on a net basis, more jobs have been created in Clark County in the last eight-plus years than have been lost.

Regarding Clark County's unemployment rate, the official reported estimate was 11.1 percent in May, higher than April, and almost double the 5.7 percent recorded in May 2008. Our research and anecdotal information indicate that Clark County's actual rate is three to five points higher, if discouraged and forced part-time workers are included. In May, the Nevada unemployment rate was also 11.3 percent, and the U.S. rate was 9.4 percent.

The County's labor force was 1,012,900 in May, up by .62 percent from April's 1,006,600 people, and up by 3 percent from May 2008's 982,600 job seekers. There are several reasons for this growth — college graduates entering the job market; retirees returning to work because of financial need; nonworking spouses seeking work to help their families; and population growth via in-migration, such as it is.

Job Change, By Industry

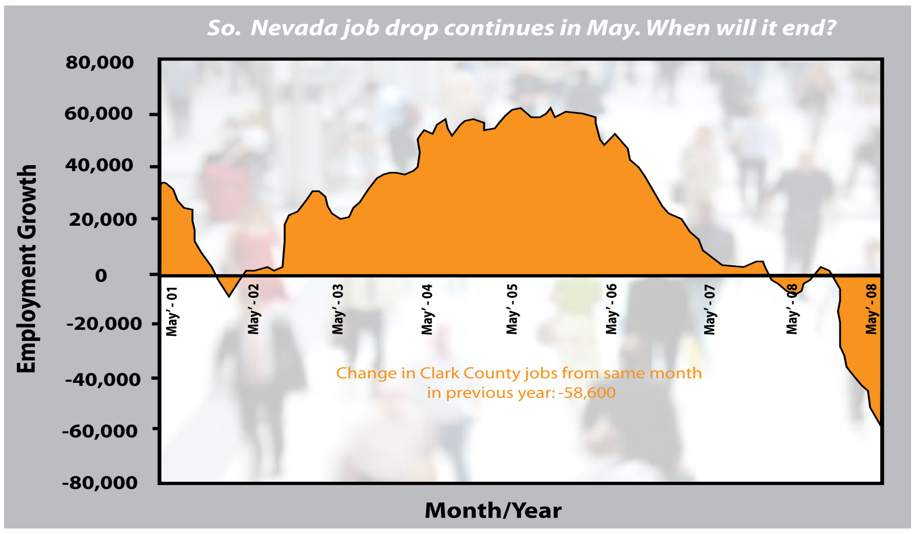
Job losses occurred in nine of the 11 major employment sectors this May compared to May 2008. The single gain was 3.2 percent (2,100 jobs) in Education (includes private colleges such as the University of Phoenix) and Health employment. Natural Resources saw no change.

Leisure and Hospitality, Construction, and Professional and Business Services continued to lead in these losses. The problems in these three industries are having a material impact on the demand for commercial space throughout the valley, as companies reduce business activity and spending.

So how did the valley's and North Las Vegas' commercial markets perform in Q1, 2009?

Inventory

The inventory of commercial space in the valley and NLV is presented in the table below. While most of NLV's space is in industrial, the city has seen significant additions in office and retail projects in the past several years. Furthermore, our research shows that NLV is slated to receive almost half of the valley's forward-supply of commercial space (under-construction or planned to begin construction during the next four quarters, as of Q1), more than any other of Resptrepo Consulting Group's submarkets. At the end of Q1, NLV accounted for 19 percent of the valley's commercial inventory (by square footage).



Vacancy & Rents

Industrial

Valley industrial vacancy rose for the 11th straight quarter, from a low of 3.1 percent in Q2, 2006, to 11.8 percent in Q1, 2009. The rise has been particularly steep in the past four quarters, with Q1's vacancy being 4.9 percentage points above the 6.9 percent reported in Q1, 2008.

Overall, many of the industrial projects recently completed in the valley did so with much of their space yet to be occupied. For example, projects completed in 2008 and Q1 were, on average, 58.3 percent vacant.

NLV's vacancy trend has closely followed the valley's during the past five years. NLV closed Q1 with a vacancy rate of 10.2 percent, -1.7 points below Q4, 2008 (11.9 percent). NLV was the only submarket to see any improvement in Q1, while all other submarkets posted increases in vacancy. This was driven by positive net absorption in light industrial space (392,200 sf) and light distribution space (135,100 sf) in NLV. In addition, among industrial products, Warehouse/Distribution space continued to have the lowest vacancy at 6.8 percent valleywide. Notably, 41 percent of the valley's Warehouse/Distribution inventory is located in NLV.

Downward pressure on average monthly asking rents continued in Q1. At $.67 per square foot NNN, valley industrial rents fell 15 percent from $.79 psf in Q1, 2008. The sharp reduction in rents during the past three quarters reversed the gains seen in the past two years, heading toward levels last seen in 2006.

At the end of Q1, industrial rents in NLV were $.56 psf NNN. In the past five years, rents have been, on average, 19 percent below the valley rate. This has given NLV a competitive advantage over the valley's other industrial submarkets, particularly in the big box sector.

Office

Vacancy in the valley's for-lease office market has risen steadily since Q4, 2006 (9.3 percent), especially starting in Q1, 2008 (14.2 percent). In Q1, the vacancy rate surpassed the 20 percent mark, reaching 20.6 percent. The average vacancy in newly completed office projects (2008 to Q1, 2009) was 54.1 percent.

Vacancy in NLV's office market has been higher than in the valley for most of the past 5 years. After hitting a 36 percent peak in Q1, 2007, vacancy levels declined for five quarters, falling to 19.1 percent in Q2, 2008. Vacancy has since been back on the rise, reaching 23.7 percent at the end of Q1, 2009. However, NLV has a relatively nascent and small office market — the area accounts for only 1.9 percent of the valley's spec office space. Accordingly, NLV vacancy rates are susceptible to wide fluctuations from quarter to quarter.

The average monthly office asking rent for the valley at the end of Q1 was $2.33 psf FSG, down 7.5 percent (or -$.19) from $2.52 in Q1, 2008. This marks the fifth consecutive drop from the $2.69 peak in Q4, 2007.

The average rent in NLV was $2.22 at the end of Q1, down 11.2 percent (or $.28) from the $2.50 recorded a year ago. The five-year trend in rents in NLV has generally moved in the same direction as the valley. However, the average office rent in NLV, on a psf basis, has been below the valley average since Q3, 2007.

Retail

Vacancy in the valley's anchored retail market has been rising for the past six quarters, reaching 7.8 percent at the end of Q1. This was driven by the closing of several national big box retailer stores (i.e., Circuit City, Mervyns and Linens 'N Things, The Sharper Image, Levitz), along with numerous grocery and drug store locations (Albertsons, Vons, Rite Aid, Longs Drugs). Overall, anchored retail project openings since 2008 have been restrained with much of the new space preleased before completion. Projects completed in 2008 and Q1, 2009 were, on average, 5.8 percent vacant.

NLV's retail market makes up more than 9 percent of the valley's anchored inventory. While average vacancy in NLV has been above the valley estimate since Q3, 2006, the gap between the two rates has narrowed in recent quarters. Retail vacancy in NLV was just above the valley average at 8.4 percent vacant in Q1.

The average monthly asking rent for the valley's retail market fell for the third straight quarter to $1.91 psf in Q1. Rents were $2.03 psf in Q1, 2008. Rents in NLV had been higher than in the valley for the past several years, until Q1.

Demand

Industrial

Net absorption in Q1, 2009 was nearly -461,000 sf, the fourth consecutive quarter of negative absorption. This is in stark contrast to the 1 million sf absorbed in Q1, 2008, but a slight improvement over the -547,800 sf of net absorption recorded in Q4, 2008. In comparison, the valley's five-year net quarterly absorption average was a little more than 1 million sf. NLV posted positive demand with 523,400 sf being absorbed, while the remaining submarkets all saw negative absorption in Q1.

Office

Net absorption fell further to -236,400 sf in Q1, 2009, which is now the fifth straight quarter of negative demand in the valley's spec office market. Quarterly absorption averaged 485,600 sf during the past five years. NLV saw -10,300 sf of net absorption in Q1, due to tenants vacating and downsizing of Class B space (-12,100 sf) and medical space (-2,900 sf). Class C saw 4,700 sf of positive absorption. (There is no Class A space in NLV as RCG defines it.).

Retail

Tenant move-outs drove retail net absorption into the red in Q1, totaling -416,200 sf valleywide. By contrast, average quarterly net absorption of anchored retail during the past five years was 406,300 sf. We do not track activity in nonanchored centers; however, discussions with industry players indicate that this sector is continuing to weaken at a faster pace than the anchored sector, and we expect that this will negatively influence the anchored market as the economy continues to contract into 2010. Demand for retail space in NLV was -84,800 sf at the end of Q1, most of which was in community center space (-3,300 sf) and the remaining in neighborhood centers (-11,500 sf).

Supply

Industrial

The 739,000 sf of valley completions in Q1, 2009 were well below Q1, 2008's 2.1 million sf. New space was divided between light distribution (429,500 sf), light industrial (206,900 sf) and R&D/flex (102,700 sf) facilities, and was concentrated in the Southwest. No new industrial space was completed in NLV during Q1.

The amount of forward-supply continued to drop in light of reduced demand and heightened vacancy. This supply declined to 3.3 million sf in Q1 from last quarter's 3.8 million sf. Of this amount, 19.5 percent (644,000 sf) was under construction, a mere .6 percent of existing industrial inventory. In contrast, the five-year (2004-2008) quarterly average was 3.2 percent. The remaining 2.7 million sf of forward-supply was in planned projects, concentrated primarily in warehouse/distribution in NLV.

Office

Valley office completions in Q1 totaled 712,100 sf. While this new space was higher than Q4's 377,500 sf and Q1, 2008's 216,000 sf, most of these new projects broke ground before the plunge in confidence by developers, investors and lenders about the local economy and the office market. New completions during the past five years averaged 695,700 sf per quarter. New space was delivered in just two of the valley's eight office submarkets: Northwest (446,500 sf) and Southwest (265,600 sf). Class C space led (190,100 sf), followed by Class A (187,400 sf), medical (175,600 sf) and Class B (159,000 sf).

At 1.2 million sf, forward-supply continued to drop in Q1 as under construction projects progressed to completed status and many planned projects were canceled or delayed. More than 61 percent of this space was under construction, representing nearly 2 percent of the existing office inventory. In comparison, the five-year quarterly average was 5.6 percent. The remaining 400,600 sf of forward-supply was in planned projects.

No new office space has been completed in NLV since Q2, 2007. At the end of Q1, five projects were under construction in NLV, with a total square footage of 22,000 sf: one warehouse distribution project, one incubator project and three in light industrial.

Retail

During Q1, one anchored center was completed in the valley — Desert Marketplace, a 427,250-square-foot community center in the Southwest. For the past five years, quarterly completions of anchored center space averaged 460,000 sf.

Forward-supply at the end of Q1 totaled nearly 4 million sf, of which half was under construction and the other half was in the planning stages. Power centers composed 35 percent of this future space, 49 percent for community centers and 16 percent for neighborhood centers.

Two projects currently are under way in NLV: Deer Springs Crossing, a 312,099-square-foot neighborhood center and Deer Springs Town Center, a 687-713-square-foot power center. Also, a 351,300-square-foot community center (Las Flores) is in the planning stages.

Sublease Space

An important indicator of an economic downturn is the rise in sublease space. It reflects budget cutting associated with downsizings and other operating cost reductions. Given the lead time required for businesses to assess their labor and space needs, in order to downsize and relinquish space, it can take several quarters before these changes show up in the vacancy numbers.

For the industrial market, sublease space spiked (+140 percent) from 499,400 sf in Q1, 2008 to nearly 1.2 million sf in Q1, 2009. When the 992,600 sf of vacant sublease space is added to the direct vacant space in existing projects, the total industrial vacancy rate in the Valley rose to 12.7 percent in Q1 from the 11.8 percent noted previously.

Speculative office sublease space jumped (+167 percent) from 279,200 sf last year to 744,500 sf in Q1. Factoring in the 675,000 sf of vacant sublease space at the end of Q1, the Valley's office vacancy rose to 22.3 percent from 20.6 percent mentioned above.

For the valley's anchored retail market, there was approximately 107,100 sf of anchored space available for sublease in Q1, 2008. At the close of Q1, 2009, this number had risen to 269,900 sf (151 percent surge). Adding the 244,300 vacant sublease space to the directly vacant space, the valley's retail vacancy moved to 8.3 percent from the 7.8 percent noted above.

At the end of Q1, sublease space in NLV accounted for 43 percent (504,500 sf) of the valley's industrial market, .4 percent (3,000 sf) for office and 6.2 percent (16,800 sf) for retail.

Further Thoughts

While we are seeing some slight improvements, or at least "declines in the rates of decline " in the national economy, a return to prerecession long-term trends is still some time away. As we noted in the May issue of our *Economic INsight™*, economist Paul Krugman recently put it best: "In some sense we may be past the worst, but there is a big difference between stabilizing and actually making up the lost ground." Unfortunately, he is right, because the breadth and depth of the economic turmoil in formally superheated markets like Las Vegas (let's not forget Phoenix, Miami and Southern California) will slow the overall economic recovery here.

The recession is doing a job on the Southern Nevada and national commercial real estate markets. For example, Real Capital Analytics recently reported in its June 2009 report that there are almost $10 billion in troubled real estate in Las Vegas, comprising apartments, hotels, industrial, land, office retail and miscellaneous properties. According to the firm, that number puts Las Vegas in the lead position nationally (The properties covered by RCA are typically valued $2.5 million-plus.). This should come as no surprise to anyone, and until the job market sees a sustained (at least six months of growth) improvement, this situation is likely to worsen.

Real gross domestic product in Q1 dropped at a yearly rate of 6.1 percent, according to the U.S. Commerce Department, almost as severe as the 6.3 percent drop in Q4, 2008. This two-quarter contraction was one of the worst declines since World War II. While consumer spending saw a bit of recovery during Q1, the collapse of business spending was the primary reason for the GDP drop. Let's see what happens in the second quarter.

According to the Bureau of Labor Statistics, "Nonfarm payroll employment fell by 345,000 in May, about half the average monthly decline for the prior six months. The unemployment rate continued to rise, increasing from 8.9 to 9.4 percent. Steep job losses continued in manufacturing, while declines moderated in construction and several service-providing industries." Accordingly, at the national level, the contraction of the economy appears to be slowing. However, recovery could be hampered by certain core indicators. Companies are likely to start hiring again at a snail's pace, causing the unemployment rate to stay above recent historical norms for some time, even after GDP growth returns. That said, consumer confidence definitely improved considerably since March, as reported by The Conference Board (54.9 in May, 40.8 for April and 26.9 in March). Also, according to The Conference Board, the May number is the highest since September 2008 (61.4).

What does this mean for Nevada — and Southern Nevada — in particular?

1. Our resort industry appears to have avoided the major restructurings in 2009 that initially were expected at the beginning of the year, but it is still struggling.

2. The rates of new home and resale closings have been improving each month since March 2008, and we expect this to continue through 2009, because of historically low interest rates. This will go a long way in stabilizing falling home prices, but we still need more primary homeowners.

3. As noted above, the wave of commercial foreclosures in Southern Nevada is imminent. It is starting to be eerily reminiscent of the Resolution Trust Corp. days of the late '80s to mid-'90s.

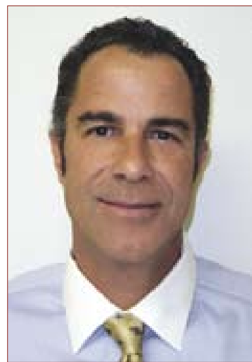
4. As we repeatedly have written, Las Vegas and Nevada will not see a "V"-shaped recovery this time around. Again, it's all about job growth. And a sustained recovery is not likely to be seen in Southern Nevada until sometime in 2011 — assuming the job market improves dramatically. <

Home to such familiar names as Target and Toys R Us, Deer Springs Town Center offers about 450,000 square feet of retail space, of which 80 percent currently is leased.

Deer Springs Town Center gives minor boost to Valley's retail absorption rate

Deer Springs Town Center is doing its part in making horrible retail absorption numbers almost look respectable, according to John Stater, the research manager for Colliers International brokerage in Las Vegas. At a recent conference, Stater indicated a year-to-date negative net absorption of retail space to the tune of 176,000 square feet valleywide. But without the opening of Deer Springs Town Center at the corner of North Fifth Street and the Clark County 215, that number would have been in the negative by more than 600,000 square feet.

"They helped to sort of juice up the power center market a little. Take that project away, and the numbers are very weak," Stater said, while adding that the opening of Deer Springs Town Center is positive but still a risk in a very troubled commercial building environment. "You've had a lot of people moving into the Aliante area and into the northwest. It (stores opening their doors in the northwest) could be a matter of retailers trying to follow the population. … But, oftentimes, you also find retailers trying to get to an area before much of the population growth has arrived. … It all comes down to how long the retailers are willing or able to take a loss while things are slow."



Paul Loubet

Deer Springs Town Center is home to Target, Babies R Us and Toys R Us, as well as a few smaller retailers. The first phase, in which buildings are going up and contractors are doing tenant improvements, encompasses a little more than 450,000 square feet and is about 80 percent leased, said Mike Leonard, a vice president of investments for Deer Springs owner Regency Centers, a real estate investment trust with 440 grocery-anchored or community centers around the country. Regency also owns Anthem Highlands Shopping Center in Henderson and Centennial Crossroads Plaza in northwest Las Vegas.

Leonard remains optimistic about a growing daytime population in the area, with the Veterans Affairs hospital under construction up the street and other medical centers coming online, in addition to jobs created by the million-plus square feet of retail in the area.

Home Depot, Ross Dress for Less, PetSmart, Staples and other tenants will be coming online in the fourth quarter of this year. The second phase of the 65-acre parcel, which will bring the total leasable space to 700,000 square feet, should open in late 2010 and early 2011. The hope for the second phase is to find a grocery store anchor, along with more restaurant and smaller retail offerings, said Paul Loubet, who is also a vice president of investments for Regency.

"We almost have three centers within one center out there," Loubet said. "You have home improvement and home furnishings with Home Depot, soft goods components with Ross and then a department store in Target. … But we can still have parts of the center be more of a neighborhood center, as opposed to a regional draw. You want the sandwich shops, nail salons, the things that serve the demographic base that's closer to the center."

While leasing has been strong at the center, finding a grocery anchor for the second phase has been a challenge, Loubet said.

"The grocers have definitely been feeling the economy, too, and are really cautious about expanding," he said.

In a unique twist for a retail center, Regency is seeking a Leadership in Energy and Environmental Design certification from the U.S. Green Building Council on the project. It is one of six sites Regency submitted for LEED certification companywide. LEED certification is more common for office buildings, added Loubet.

"We're partnering with the USGBC on trying to get a retail LEED certification. We're going in and taking some of the LEED components established from the office (sector), and we're using things like high-efficiency equipment; low-flow, zero-flush urinals; very efficient heating and air-conditioning systems; drought-tolerant landscaping … a whole litany of things our architects have incorporated," Loubet said. <

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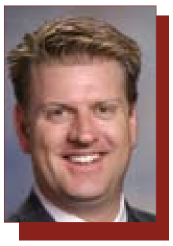
Scot Marker, Senior Vice President, Colliers International – Las Vegas

Short-term leases a long-term trend for Southern Nevada



In every economic downturn, a silver lining usually appears that marks recovery, or at least promise for the future. While cash-heavy investors have not begun gobbling up widespread bargains and turning around the current economy — nor is the stimulus package working wonders with job creation — we are seeing some bright spots that provide hope for economic rebound. One example is short-term lease agreements, which have gained popularity in the current downturn and likely hold the key to offsetting rising commercial vacancy rates across Southern Nevada.

As is typical of tighter real estate markets, short-term leases were next to impossible to find in recent years, especially in prime locations. Landlords locked tenants into agreements with terms of five to 10 years on average, and they offered little room for tenants to negotiate lease concessions, such as free rent and allowance from the landlord to improve their space.

Ironically, these agreements weren't favorable for landlords, either, since they were unable to renegotiate lease rate increases as property prices skyrocketed during the boom's peak in 2006-07. This irony provides a lesson that economic uncertainty exists even when times are flush and should be provided for when making long-term plans.

With the equally uncertain (bad) economic climate, the short-term lease trend has spread on a national scale. *The New York Times* ran an article recently on Manhattan's rising vacancies and what it meant for lease terms. The story cited brokers and landlords providing examples of the transactions they had seen, and an increasing number were substantially shorter lease terms. But the situation is actually to benefit both parties. The article quoted Charlie Malet, executive vice president of San Francisco-based Shorenstein.

"Landlords don't want to tie up space for what they perceive to be a low rent," he said. "And if the tenants are a little uncertain about the long-term business environment, they don't want to lock themselves into a 10-year deal."

This trend is taking hold in the Southern Nevada market. Today, as more properties come online and others come up for lease in the valley's retail sector, both landlords and tenants are adjusting expectations. In general, we're seeing leases with terms of three years or less and renewals between 12 and 18 months. Both parties are now looking to sign shorter-term leases, and it is equally in their favor.

For example, the current market has allowed for certain operators in the Las Vegas Valley, commonly referred to as "mom and pop" stores, to become an important part of the retail landscape. Short-term leases are primarily the best bet for an untried retail concept in the market, because it allows for a tenant to focus on operating the business — not worry about the burden of a long-term lease — during a tough economic climate. Further, if the business can succeed in tough times, chances are it will grow once the downturn corrects itself. Mom and pop tenants are seeing opportunities that vanished during the boom a couple years ago. This is truly a great chance to tenant good real estate in the market. The relationship that has developed between the landlord and tenant in this time easily could become long-term, if the business flourishes. If the outcome is positive, tenants will no doubt get a lease term extension or, quite possibly, good references, if they desire to expand. For landlords, a short-term lease allows for renegotiation at a higher rate once the market rebounds and the startup retailer has evolved into a seasoned operator.

While on the surface this new trend might seem a depressing sign for landlords — they can't sign longer-term leases — in fact, it is positive. In a market of decreasing rents and increasing concessions, landlords aren't tied to low-profit leases once the market rebounds. Landlords still can increase their occupancy factor and generate revenue, which allows for reducing their existing debt. In many instances, the landlord will give the space to the tenant in as-is condition, with no allowance. This is usually the case with a vacant restaurant space that was left behind by a failed operation. The new tenant will save time by leasing the space that is already built out and ready to open. It truly can be a win-win situation in some special situations.

Consistent with long-term leases, landlords and tenants in short-term leases must maintain realistic expectations. Landlords will ultimately lease to good business people who pay rent timely, offering products and services needed by consumers. Tenants are looking for a rentable space that is in operational condition to conduct a successful business. New leases, whether long- or short-term, need to be beneficial to both landlord and tenant.

The benefits of short-term leases notwithstanding, some landlords still are pursuing long-term contracts with enticing discounted lease rates. However, new retailers should be cautious when faced with such a decision. With vacancy rates escalating, it would be easy to assume that a 10-year lease seems to be a sound decision. But the landlord will be locked into a low market rate for the remainder of the lease term.

It is becoming increasingly common for landlords to move forward with a five-year lease at a discounted rate for the first three years of the lease term and then increase to a much higher rent on the fourth or fifth year of the lease term. However, there are some qualified operators out there who are looking to expand and are willing to be realistic in proposing a lease rate.

Flexibility is a great asset to have when planning for future fluctuations in the business climate — and we all know how volatile these could be. If you aren't strategically bound to a location, minimize your risk. The current economic state could persist much longer than we might hope. <

BIM technology grows with building industry's demands

Building Information Modeling, or BIM, as it's commonly referred to, means little to those not working in the development arena. But today, most contractors will tell you, anyone trying to build out a project without BIM software is in for a rough road.

AutoCAD (Computer Aided Design) took the pencil out of architects' hands in the 1980s, replacing it with a computer program. From there, AutoCAD evolved into BIM, which took AutoCAD's two-dimensional construction drawings and brought in 3-D drawings, then added fourth and fifth dimensions, such as the integration of job scheduling, cost control and other features. This technological evolution took on the BIM acronym in the mid-'90s.

Today, BIM has been used heavily in the design-build process, in which architects, contractors and site owners work together from the design phase of a project all the way through to the project's completion. And now BIM is being used even in traditional design-bid-build developments as well. It's ability to make one change on multiple drawings in a few key strokes is one big selling point.

"All the information and data is linked. That way, if I move a door in the floor plan (document), it'll be moved in the elevation (drawing)," said John Darin, an architect with the Korte Co. "It also keeps track of supply changes and costs, as well, whenever you make those changes."

Darin personally has worked with BIM as it has evolved through the years, seeing firsthand the days of hand drawings going by the wayside, while 2- and 3-D drawings took over. Today, he added, BIM allows building owners and contractors to take a virtual tour of a project before ground is broken. But he also emphasizes that the virtual tour's ability to see what's happening behind building walls is one of the biggest assets BIM brings to the development equation.

"BIM will tell you where colliding happens. You can see where two things are hitting each other," he said. "You can look at, say, a drain line that's running at a 12-inch slope and realize, at some point, it may be going through a piece of mechanical duct. This way, contractors can come together and talk through a solution."

But while BIM has come a long way from its 2- and 3-D simplicity, local BIM professionals say there is a new wave in the product's evolution occurring.

Cliff Cole, a project engineer with Penta Building Group, said BIM operators are now working more and more with building suppliers to use actual dimensions of specific fixtures or building products — toilets, furnaces or other fixtures — in a drawing.

"It helps to know the shape or size of that particular supplier's product when you're designing a building," he said. But Cole also said he doesn't see closer working relationships with suppliers influencing the choosing of one supplier over another. He also said using specific suppliers' products in designs allows architects and engineers to factor in product availability and delivery times, a key piece in a successful project's puzzle.

"It helps us make those decisions early, so that we don't have to worry in the middle of a project if something's going to be here when you need it," he added.

Both Darin and Cole agree, above all, BIM technology has become a channel for communication between all parties involved in a job.

"The biggest thing it has helped is with the collaboration of the multiple stakeholders in the project to help the job run smoother," Cole said. "There's really no ceiling on what you can do with BIM, in my opinion. It's really a case of where your imagination can take it. <

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United Construction, a mainstay in the Las Vegas construction industry, has handled such projects as the building of Southern Wine & Spirits of Nevada in Las Vegas (left) and CDW distribution center in North Las Vegas (right and below).

Contractors fight lenders, developers and selves to stay alive

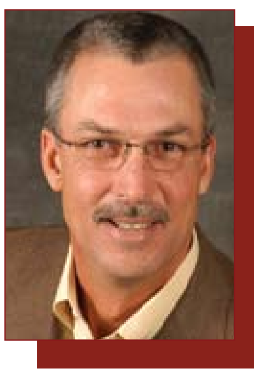
Craig Willcut could have built a $500 million contracting firm a few years ago. But to him, a fifth of that volume was just fine. Some of his sales and marketing staff at United Construction, which has been doing work in the valley for 20 years, skeptically eyed him for not chasing every hip condominium project being announced almost weekly during the "boom" years.

But those same associates are thanking him today.

"We don't go after everything that's out there," Willcut said, indicating that's still the case, even in the current dismal economy.

George Ogilvie

Willcut isn't proud of the fact that his company may not hit that $100 million figure this year, and that he, like many other contractors in town, has had to lay off employees. But he knows that survival is the name of the game in this market.



Craig Willcut

"I came here from a $350 million company that's no longer in business," he said. "Looking at our five-year plan, we knew something (in the way of a downturn) was going to happen. We decided: Let's work to keep the structure the same."

United divides its work relatively evenly among public works, negotiated design-build, and bid or design-assist projects. The mix hasn't changed much, but Willcut admits that looking for work out of state has also been more of a focus than ever.

Following some existing clients out of state is also a move local general contractor Danoski-Clutts Building Group is entertaining.

"By the end of this year, we should be licensed in three surrounding states," said Shawn Danoski, chief executive officer of Danoski-Clutts Building Group.

It's a move the construction executive planned all along, hastened by the current economic climate.

The "sub" factor

For Willcut and Danoski, prequalifying subcontractors for jobs has become more of a focus than ever before, as some low-bidding subcontractors are closing doors, even mid-project. Both company leaders have experienced this firsthand.

"We've always prequalified our subs and watched the financial side, but now we're being extra careful," Willcut said. "We also have a lot of residential subs (contractors) coming into the commercial market, and it's a challenge to qualify them. … Some are very qualified to do both. Some are biting off more than they can chew, and it's going to catch up with them."

Cindy Creighton, executive director of the Nevada Subcontractors Association, said her members are primarily residential contractors, and taking on "light commercial" is a means for survival in this environment. Some of her subcontractor members, she added, had as many as 500 employees only two years ago and are now staffing a 10th of that number.

"The real key to making it through this is finding the opportunities," she said. "I think it's the entrepreneurial spirit that will weather this storm."

Contractors still coming to town?

Perhaps one of the most shocking aspects of this construction downturn is that actual contractor licenses are still on the rise in the Silver State, according to Art Nadler, public information officer with the Nevada State Contractors Board. There were 488 new licenses issued in the fourth quarter, 2008, Nadler noted. Meanwhile, in the first quarter of 2009, amid one of the most dismal economic performances in the nation's history, 507 new licenses were issued. The statewide license total has climbed to more than 17,700 today, up from 16,363 in the second half of 2006, when the valley started to experience the first effects of the slowdown.

But a recent surge in "money owing" complaints also may be a sign of the times, Nadler said, with 690 in the fourth quarter of 2008 compared to 379 in the prior three-month period.

"Workmanship doesn't seem to be the issue. It's money," he added.

As far as the rise in the number of actual licensees, Willcut speculates that contractors are coming into town from out of state in hopes of gleaning the work of subcontractors losing their businesses.

Protests

With the immense slowdown in private sector development, more and more contractors are opting for public works projects. Danoski said his company's past workload was only about 5 percent in the public sector. This year, it has climbed to 25 percent, and he expects that to reach 35 to 40 percent by 2010.

Shawn Danoski and Bryce Clutts

"For a firm our size ($20 million to $25 million per year), that's a significant jump," he said, adding that the profit margin for a 2009 public works job is about 75 percent of his 2008 private sector jobs. Danoski also is candid about losing a couple of public jobs to bid errors, a learning curve many primarily private-sector contractors have to overcome when getting more involved with public-sector bidding.

George Ogilvie, a managing partner and construction law attorney with McDonald Carano Wilson, has seen a spike in bid protest work for his firm. Before the start of this year, he said, it had been two years since he was involved in a protest; he has done five since January.

"There are a lot of hungry bidders bidding these jobs, and when the bids are opened, the contractors are scouring each others' bids to see if there is a chance to get a lower bid than theirs thrown out," Ogilvie said. "It's all a function of contractors, who normally do private work, not necessarily being familiar with public works bidding statutes or specs and maybe making a mistake because of unfamiliarity."

The future

But Danoski is a bit of a rare breed — a Gen Xer with one eye on his pocketbook, the other on opportunities about to surface. He said he's always been conservative with his financial decisions and has ample cash on hand to weather a crisis marked by a 20-plus-percent jobless rate locally.

"It's important to note," he said. "We're still profitable this year, and we believe we'll maintain that through 2010."

What Danoski shares with perhaps a select few right now is the view that this crisis may be good for his sector's long-term health.

"When we emerge, I believe our industry will be improved," Danoski offered. "I think efficiency makes you creative and innovative with how you do a project. … I believe an organization can be a few steps in front of the competition in an economic environment like this …. It's in the efficiencies of how an organization is run, the strategies of how you bid a project and how a project is built. … You have to look at it all very differently now."

And we all do. <

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FOCUS ON

NORTH LAS VEGAS

Northern Exposure

Territory Inc. finishes north valley developments

It's getting harder and harder to find a successful commercial development these days. But Territory Inc. is finding a way to muscle through the tough times with a few north valley projects.

Just south of its mammoth 1-million-square-foot Centennial Center, Territory is finalizing leases and adding tenants to Centennial Gateway, a 350,000-square-foot retail center near Ann Road and U.S. 95. Included in the center is a 24 Hour Fitness, Fresh & Easy Neighborhood Market, Cafe Rio, LaptopXchange and others. During phase one, about half the total square footage was completed in early 2008, and the second phase is finishing up this summer. About 70 percent of the site is pre-leased, said Nick Hannon, senior vice president with Territory Inc.

Territory Inc., a Las Vegas-based real estate and development company, finds its silver lining in North Las Vegas.

"Leasing activity is pretty good for that area, because we're right off the off-ramp," Hannon said.

The executive also contends that leasing has been solid overall in the Centennial area, partly because of the Centennial Hills master plan, which condenses all commercial development into four quadrants that span 900 acres and branch out from the Clark County 215 and U.S. 95 interchange.

"When you look in that area, you don't see the retail sprawl that you see in other areas of town," Hannon added. "It's all compressed into that commercial loop of Centennial Boulevard that feeds all the commercial in the area. … It keeps the residential areas up there more preserved."

Centennial Gateway is Territory's last foray in the area, according to Hannon, as much of the retail space is completed. Up Centennial Boulevard to the north is Territory's Centennial Center, which opened about seven years ago and is home to large retailers such as Home Depot, Wal-Mart, Ross Dress for Less and Petco. Outside of a few vacancies, the largest coming from the empty Circuit City location, the site is predominantly full.

Territory also had a fourth-quarter 2008 opening for the 335,000-square-foot Cannery Corner, located on the northeast corner of Craig and Losee roads in North Las Vegas. The site, catty-corner from the Cannery Casino & Hotel, includes the anchors Lowe's and Sam's Club, in addition to smaller tenants such as Mexican restaurateur, Chipotle, Jamba Juice, Winchell's Pub & Grill, Frazee Paint and others.

"The unique thing about that location is that the daytime population is really strong," Hannon added. "There are very few places in town, with the exception of the Strip and downtown, that have very good daytime numbers."


Nick Hannon

Hannon said Territory's 16-plus years of focusing on anchor-driven retail is paying off during these tough times. With a portfolio of more than 2 million square feet of retail, the firm is still able to run at 90-plus-percent occupancy rates.

"I think the advantage we have is we're a unique portfolio builder. We have long-term partnerships with lenders and tenants. We tend to be a little less aggressive. Our partners stay with us deal after deal," he added.

While Territory Inc. serves as developer and manager of its projects, the company's principals are the actual landowners for the retail centers, Hannon clarified. He added that company principals are currently eyeing the market for land-buying opportunities.

"We've never been the leading payer. Our land base is in much better alignment with what the retailer can pay, and ultimately, the consumer can pay," he added. "We're very much an opportunity buyer. We'll get in, if there's something incredibly well-priced. So far, pricing hasn't come down to where we'd be interested in it." <

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GETTING TO KNOW

INTERVIEWED BY BRIAN SODOMA

Larry Bender

Redevelopment Manager, City of North Las Vegas

cre What are your responsibilities as North Las Vegas' redevelopment manager?

The responsibilities of the redevelopment manager are very simple. (It's to) revitalize downtown and eliminate blight, and you do that by working with private sector developers and creating public-private partnerships. That's a buzzword we like to use. A city and agency doesn't have enough money to revitalize on its own, so what you do is use resources and (work to) interest developers in taking on private sector projects in blighted areas. … We're the ones that have to go out and initiate things and make things happen.

cre Tell us about the city's redevelopment plans. What are some of the major pieces?

Los Flores is really important to us. It's a 350,000-square-foot regional shopping center, a $100 million investment. The other big pieces are the city hall and the 250,000 square feet of office buildings in that area; and also the potential expansion of Jerry's Nugget once Fifth Street gets completed, and also the potential expansion of the Silver Nugget, when the economy improves. … We're also looking for a major developer to do retail, office and possibly some residential on what we call the "Lake Mead Island." It's on Lake Mead (Boulevard), right off the I-15 interchange, and finally, the expansion of North Vista Hospital.

cre How has the recession impacted the city's redevelopment efforts? How have you had to adjust plans?

Los Flores still wants to move forward, but it's on hold until retailers come back to the table. … We've had the Silver Nugget slow down on expansion plans. … Those are probably the two main areas where we've taken a step backwards.

cre Tell us about the North Las Vegas you envision 25 years from now?

A thriving regional retail environment, where people all over the valley come for specific retail offerings we have in North Las Vegas. Las Flores is the keystone to that. The government sector will be consolidated and compacted into one location. The new city hall and the administrative functions, along with the nearby justice complex, will be in place. (There will be) a large medical community anchored by North Vista Hospital and a lot of medical offices used as an adjunct to that medical community. And finally, revitalized and upgraded housing in downtown, particularly owner-occupied residences and condominiums. We envision, in this downtown, that people will be able to live by and walk to well-paid jobs in the legal, government and medical fields. With those kinds of medical, legal and government jobs, we feel the residential neighborhood will be revitalized. <

Briefly

Larry Bender has made a career of seeing potential. The economic development and redevelopment professional has worked for a variety of agencies around the country, including Virginia, Pennsylvania and Ohio prior to arriving in Las Vegas in 1985, where he oversaw the city's redevelopment efforts for a decade. In 1995, he started his own redevelopment consulting and commercial real estate business. But in 2005, Bender seized the opportunity to become redevelopment manager for the city of North Las Vegas.

"I was very happy in the private sector, but … with all the things going on over here, it seemed like a real opportunity to do what I do best, which is redevelopment," he said. "They were starting from the ground up and hadn't done many redevelopment projects. It was just a great opportunity.

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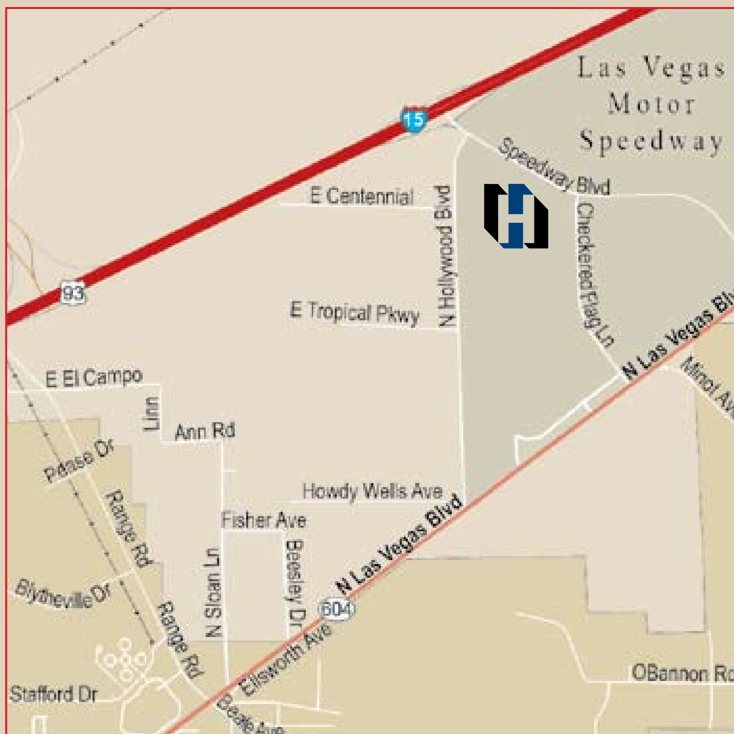

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