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THE MAGAZINE FOR SOUTHERN NEVADA COMMERCIAL REAL ESTATE

MAY 2009

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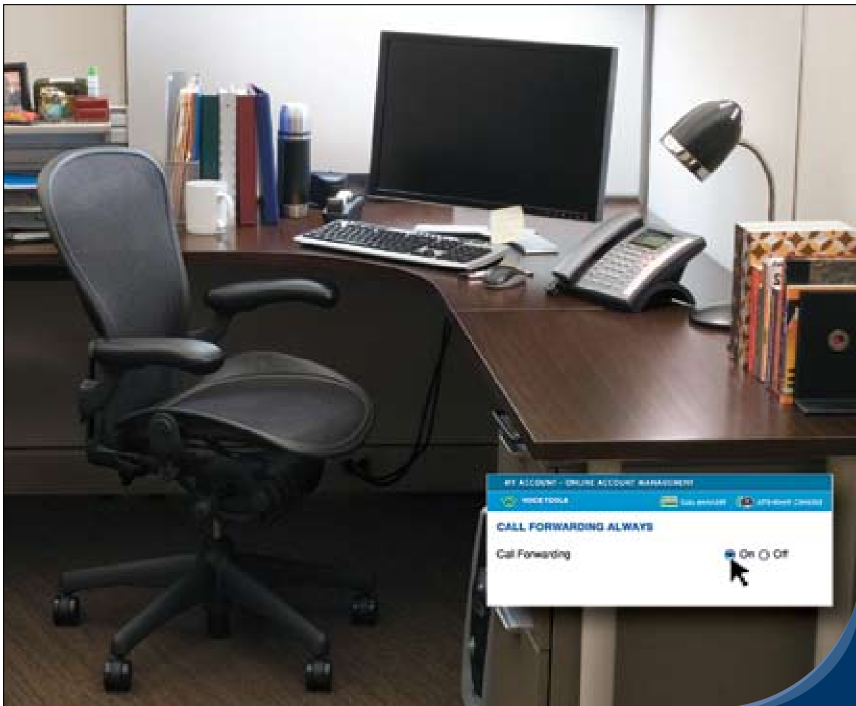

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THE MAGAZINE FOR SOUTHERN NEVADA COMMERCIAL REAL ESTATE

May 2009

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Meet the Experts

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JOHN RESTREPO
Principal — Restrepo Consulting Group

John Restrepo has provided economic consulting services in Nevada for 20 years. Restrepo Consulting Group is based in Las Vegas and is the oldest and most established economics and public policy research firm in Nevada. The firm's clients include many prominent private and public organizations concerned with land use and growth. Restrepo also has been preparing detailed quarterly market surveys that track the Las Vegas Valley's industrial, office and retail markets since 1990.

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KIT GRASKI
Senior Vice President – Voit Real Estate Services

A retail expert with 24 years of experience working in one of the strongest and most prosperous retail markets in the country, Kit Graski's extensive client list boasts well-known retailers, including The Home Depot, Bed Bath & Beyond, Borders, Famous Footwear, Sports Chalet, Food 4 Less, JCPenney and Men's Wearhouse. He is one of the top-producing retail brokers in Las Vegas and in the country. In 2008, Graski was the top producer at Voit's Las Vegas office and the second-highest producer companywide. Despite 2008's soft market, he closed 16 transactions totaling $28.5 million, which included more than 645,000 million square feet of product.

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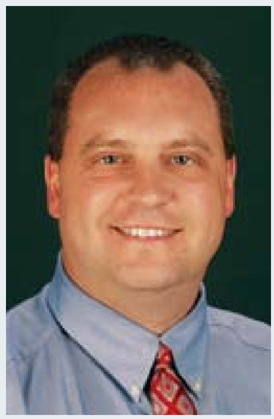
FROM THE EDITOR

The largest retail real estate conference in the world is coming to town next week.

More than 25,000 shopping center professionals from around the world will converge on Las Vegas for RECon — The Global Retail Real Estate Convention. The International Council of Shopping Centers holds its spring convention annually at the Las Vegas Convention Center, and this year, it runs May 17-20.

RECon gives the world's top shopping center owners and developers, financial companies, brokers, retailers and public sector companies the opportunity to network, discuss strategies and, simply, do business. More than 1,800 exhibitors will set up across about 2 million square feet in the trade exposition and leasing mall.



Plus, there will be about 150 exhibitors in the "Green Zone" this year. That area focuses on the growing trend of sustainability.

Attendees will have plenty of deal-making opportunities, as well as the chance to shop for the latest products and services and attend educational sessions taught by industry experts.

For more information on the convention, visit www.icsc.org.

This edition of *CRE* places a focus on the state of the retail industry in Southern Nevada. You'll get updates on projects that have opened during the past year, such as Town Square, The Shoppes at The Palazzo and the retail aspects of Encore and Wynn.

Additionally, you'll get a sneak peak at some of the latest retail developments planned here. You'll find stories about Tivoli Village at Queensridge, Fontainebleau and Crystals at CityCenter.

Check out our popular "Realty Check" columns, too. This is where we showcase the viewpoints of some of the top real estate experts in the city. If you are looking for insight from some of the industry's top local names, you can find it here.

Enjoy learning about the future of the retail market in the Las Vegas Valley. We have some of the world's greatest shopping centers right here in our backyard. Join the people worldwide who already know it's a great place to shop.<

Rob Langrell
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FROM THE SPONSORS

Dear *In Business Las Vegas* reader,

This month, the International Council of Shopping Centers will be in town for RECon — The Global Retail Real Estate Convention. It's a wonderful opportunity to show national tenants the spaces we have and how our business model has shifted with the changing times.

Retail now represents about one-third of our company's commercial real estate portfolio. Everyone saw the office-market vacancy rise, and retail is following. It's alarming to see established tenants that have been in this market for years — national credit tenants — vacate or go out of business.

We're bringing together tenants, landlords and lenders for candid conversations about the economy and the positions they hold in the commercial real estate industry. We see this as an opportunity to facilitate a strategy where all three components are able to cooperate, compromise and work through tough economic times together.

We've also taken the opportunity to enhance our services in the following areas:

- New cost segregation division and services. Cost segregation is the IRS-approved method for accelerating the depreciation of nonstructural components and improvements of a building, which reduces tax liability and increases cash flow.
- New focus on providing services for bank-owned properties and properties in receivership. We have about 200,000 square feet of commercial space in this new area, and with recently added activity from receiverships, our portfolio is now at 7 million square feet. With the structure of our company offering maintenance services in-house, we are staffed to handle all aspects of management in a very cost-effective manner, which is proving valuable to lenders unfamiliar with property management.

It's important to note that, although times are challenging, deals are still being made. Opportunities abound, and we are still seeing investor interest in our market. Our focus remains on building relationships for future opportunities.

Best personal regards,

Frank Gatski, CPM, CCIM
President
Gatski Commercial Real Estate Services
www.gatskicommercial.com

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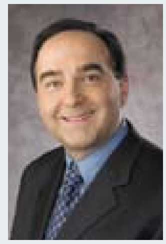
Dear *In Business Las Vegas* readers:

Cox Business is proud to be a continued sponsor of the In Business CRE supplement, and we value the opportunity to reach out to businesses in our local community. Now, more than ever, smart telecommunications systems are crucial to managing your business' efficiency, productivity and success. More than that, it's about determining what your custom telecommunications needs really are and then finding specific solutions that are as flexible as they are effective. To meet that expectation, Cox Business is pleased to introduce VoiceManager — a new phone product that gives you greater control and customization.



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With Cox Business VoiceManager, you have new options in managing your phone traffic. And, as the case with all our services, VoiceManager is maintained locally 24/7/365 with the award-recognized customer support you expect from Cox Business.

Every time the phone rings, your employees are one step ahead. Now, with Cox Business VoiceManager, you are in greater control of exactly how that phone will ring to your advantage. Visit www.coxbusinessvoicemanager.com to learn more. We look forward to contributing to the continued success and growth of the Southern Nevada business community.

Steve Costa
Vice President of Sales & Marketing
Cox Business Las Vegas

COX Business®

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

Valley's anchored market falls victim to economic downturn

The Las Vegas Valley's economy remains in the midst of one of the most severe downturns in U.S. history. The culprits are the collapse of the local housing market, massive job losses and the frozen credit markets. Consequently, the valley's anchored retail market, such as the office and industrial markets, has not been able to avoid the turmoil.

For many years, the region's anchored market was one of the most vibrant and strongest in the region, if not the nation. That has now changed. The housing market crash, combined with the drop in consumer confidence and spending, has caused the valley's anchored retail centers to see a steady rise in vacancy and a downward trajectory in rents. A look at our local economy should shed some light on where the valley's anchored market is headed in 2009.

Total Job Change

In February, the Nevada Department of Employment, Training and Rehabilitation reported that Clark County lost 41,400 establishment-based jobs compared to February 2008, dropping 4.5 percent to 880,000. Additionally, February's jobs were 1,400 less than this January's numbers, making the January-February decline a vast improvement over the 18,300 December-January drop, and while this is an encouraging sign, it is not a trend. Since the beginning of 2009, 19,700 residents of Clark County have lost their jobs.

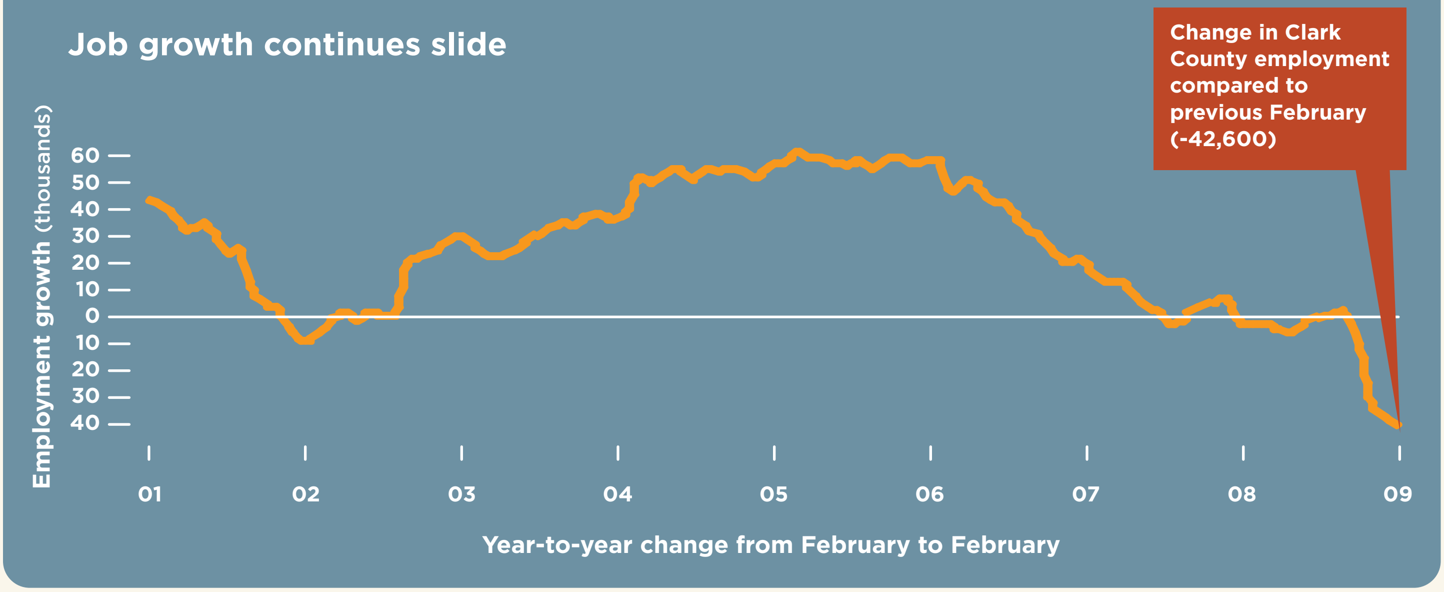
Regarding Clark County's unemployment rate, the official report estimate was 10.1 percent in February, a near doubling of the 5.1 percent recorded in February 2008, or a jump of 98 percent. At the same time, Clark County's labor force grew by 4.3 percent, from 971,900 to 1,013,700. The reasons: college graduates entering the job market, retirees returning to work because of financial need, nonworking spouses seeking work and population growth.

Job Change, By Industry

The DETR reported the loss of 44,800 jobs in eight of the 11 major employment sectors (Other Services saw a gain last month) compared to February 2008. As noted, this is a slight decline compared to what we saw in January versus January 2007. Once again, most of the losses were in Leisure and Hospitality, followed by Construction; Professional and Business Services; Trade, Transportation and Utilities; Financial Activities; and Manufacturing and Information Services. Natural Resource jobs remained unchanged.

There were 3,400 jobs added in two of the 11 sectors, year-over-year. The largest gains were in Education and Health, followed by Government. As mentioned, the result was a net job loss of

Figure one



41,400 jobs versus February 2008. In the case of Education (including private colleges like the University of Phoenix) and Health employment, there were 2,600 additional jobs compared to February 2008, representing 76 percent of the job gains.

Unemployment Claim Filings

The state of Nevada recorded almost 101,000 initial unemployment claim filings in Clark County during the 12-month period ending February 2009. Southern Nevada is now in uncharted waters, with annual unemployment claims exceeding 100,000 in February. This reflected the highest, largest, rolling year-over-year change (70 percent) in the last seven years. Additionally, the same-month, previous-year change in February was 75 percent above the February 2007-2008 period (the change this January was 70 percent). Until this indicator shows a persistent decline of at least six months, the state and local economies will remain in recession.

Again, the significant problems facing the Southern Nevada resort industry that emerged in February do not bode well for a steady decline in monthly unemployment claim filings in 2009 and probably into the first half of 2010. Time will tell, and we continue to monitor this indicator very closely each month.

Hopefully, the rates of monthly filings we saw in 2008 and into February will not be repeated for the remainder of 2009. However, at this point, we are not seeing a decline in the rate of increase each month.

Median New Home & Resale Price

Recent numbers released by Home Builders Research show a 38 percent drop in the median resale home price and 19 percent in the median new home price in Clark County, when comparing February 2009 to February 2008. As noted previously, until this essential indicator shows an upturn of at least six months, the housing market will remain troubled, prolonging the recession. That said, it is good news that the decline in new home prices is starting to moderate. This is largely due to the dramatic decline in housing starts.

As noted, the one bright spot in this God-awful mess, is that housing affordability has improved considerably. February's median new house price of $220,700 is back to just below the March 2004 level of $225,000. In the case of resales, January's price of $145,000 is now near the $145,900 recorded in April 2002. Essentially, five to seven years of equity, some of it real and some of it paper, has been wiped out by the housing crash. In the long-term, a return to some level of affordability is vital to the region's quality of life. However, in the short to intermediate terms, it is very traumatic to consumer and business confidence — crucial prerequisites to Southern Nevada's recovery.

HBR reported 2,606 resale home closings this February versus 1,529 in February 2008, the same rise as January (70 percent). However, according to Salestraq, 63 percent of home sales were bank-owned in February. That's why we continue to see a decline in the median price. In the case of new home closings, there were 375 units sold in February 2009 versus 786 in February 2008, a 52 percent drop. This is largely a sign of the significant resale inventory and commensurate dramatic drop in new home construction.

Additionally, total home sales for the 12 months ending this January were 40,882 compared to the 37,361 during the 12 months ending February 2008, a healthy rise of 9.4 percent. The burning off of inventory is critical to the return of price stability, as long as we recognize that not all closings are created equal. In other words, purchases by investors and speculators are not what are needed. What is needed are purchases by homebuyers, and that only will occur in any meaningful way when the job market improves.

Las Vegas Valley Anchored Retail Market

The valley's anchored retail market is being significantly challenged by a number of factors: The principal one being significant job losses, which has led to plunging consumer confidence and spending. For example, the nation's aggregate savings rate (as a percent of personal income) was .3 percent in February 2008. By comparison, this February's rate was 4.2 percent. Clearly, consumers are conserving cash to rebuild savings and retirement plans devastated by the recession. Additionally, Clark County has seen a sharp fall in taxable retail sales. Moribund consumer confidence and spending are the causes. That is why taxable retail sales in Clark County dropped to $2.3 billion, or by 13.2 percent, in January 2009 from $2.7 billion in January 2008.

Retail Space and Vacancy

Our research shows the valley closed Q1, 2009 with an anchored retail inventory of more than 42 million square feet in 258 shopping centers. Of this amount, 3 million square feet stood vacant, resulting in a direct vacancy rate of 7.2 percent. This represents a more than doubling of the 3.4 percent recorded for Q1, 2008.

At the end of Q1, 2009, Neighborhood Centers (usually anchored by supermarkets and providing convenience shopping for day-to-day needs) had the highest vacancy at 7.9 percent and comprised 36 percent of the valley's total retail inventory (in square feet). Community Centers (generally anchored by supermarkets and discount department stores selling apparel, home improvement, furnishings, toys, electronics or sporting goods) followed with a 7.3 percent vacancy. This group accounted for 42 percent of the valley's anchored retail inventory. Finally, Power Centers (dominated by several large anchors) had the lowest vacancy at 5.8 percent and comprised 22 percent of the remaining inventory.

Demand

The steady rise in vacancy was driven by the drastic drop in absorption. Leasing during Q1, 2008 was at a record high with 1.2 million square feet of space absorbed that quarter (just short of completions). Since then, tenant demand for retail space has been in free fall, with three of the past five quarters recording negative net absorption, including the -367,300 square feet recorded for the first quarter (see chart).

In Q1, 2009, the only submarket to witness positive absorption was the Southwest (364,000 square feet). The remaining submarkets saw negative net absorption, with the largest amount being in Henderson (-195,000 square feet), followed by Northwest (-133,400 square feet), West Central (-83,800 square feet), University East (-66,000 square feet), Northeast (-53,800 square feet) and North Las Vegas (-15,260 square feet).

Community Centers were the only product type to see positive net absorption in the first quarter (394,700 square feet). However, this is attributed to the leasing up of space in one submarket — the Southwest — which was enough to offset the declines in the remaining areas of the valley. Power Centers had -188,700 square feet of net absorption for the quarter, while Neighborhood Centers experienced -211,300 square feet.

Supply

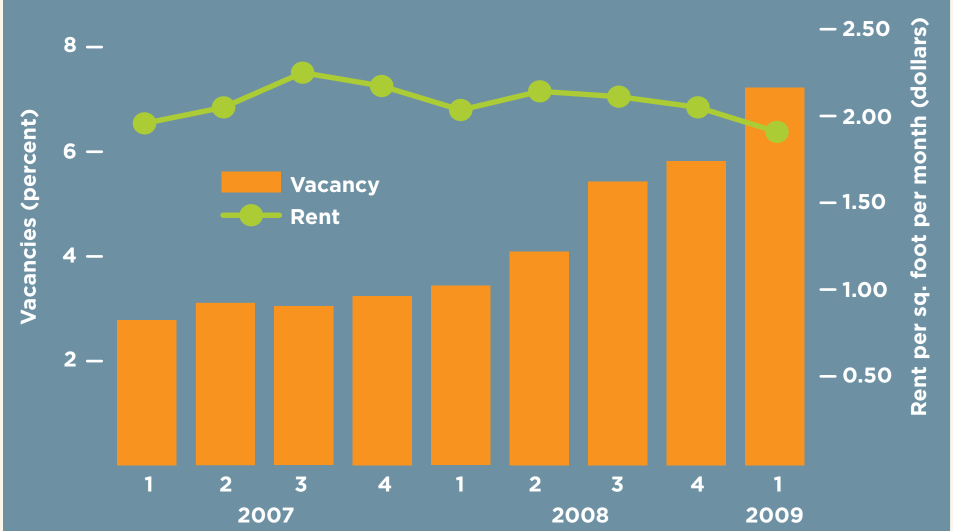
The only new project completed in the Q1, 2009 was the 427,000-square-foot Desert Marketplace community shopping center in the southwest portion of the Las Vegas Valley. Despite bleak economic prospects for the remainder of the year, the amount of forward supply (under construction and planned) in the valley remains relatively significant. At the end of Q1, almost 1.9 million square feet were under construction, with an additional 2 million square feet in planned space. Of the under-construction space, half is slated to be in community centers (49 percent), and is concentrated in the North Las Vegas and Northwest submarkets. Much of the planned space recorded in the Southwest submarket in previous quarters either has been canceled or delayed during the past few months, because of ongoing weak consumer demand and the inability to get financing.

An important measure of the near-term health of the commercial markets is the potential number of years of inventory. We calculate this amount by comparing the amount of vacant space in existing projects plus forward supply to average quarterly absorption. The average quarterly absorption during the past 16 quarters was used to account for the ups and downs of the market between 2005 and 2008.

As mentioned previously, there were 3.1 million square feet of vacant space in existing projects and nearly 1.9 million square feet of under-construction space at the end of the first quarter, 2008. Comparing these figures to the past 16 quarters' average absorption of 416,900 square feet results in a three-year supply of anchored space. Factoring in the prospect of another 2 million

Figure two

Valley Anchored Retail Vacancy vs. Rents (Q1, 2007 - Q1, 2009)



square feet of planned space, the absorption period potentially grows to 4.2 years. The big question is, how much of this space will actually come online considering the health of the economy and the unwillingness or inability of lenders to lend? It is highly possible that many of these projects will either be foreclosed on, canceled or delayed until economic conditions improve. This will lessen the cannibalization that is already occurring, as centers compete for tenants.

Retail Space and Rents

Anchored retail rents reported by RCG are based on information provided by owners and brokers about available vacant space in specific projects. Las Vegas recorded an average monthly retail rent of $1.91 per square foot NNN at the end of Q1, 2009, down $0.13 from Q4, 2008 and down $0.12 from Q1, 2008.

Based on the age of projects at the end of Q1, 2009, retail centers completed between 2005 and 2008 had an average asking rate of $2.45 per square foot, 8 percent below the $2.66 per square foot that was recorded in Q4, 2008. Projects built between 2000 and 2004 averaged $1.99 per square foot, 3 percent below Q4, 2008's rents of $2.06 per square foot. Projects built between 1995 and 1999 averaged $1.58 per square foot, representing a 10 percent drop from the $1.76 per square foot reported the previous quarter. Those built prior to 1995 averaged $1.57 per square foot, which is 3 percent below the $1.61 per square foot in Q4.

Rents dropped in all of our submarkets, with the biggest decline in North Las Vegas (12 percent from $2.30 per square foot in Q4, 2008 to $2.03 in Q1). The Southwest had the highest rent at $2.34 per square foot, followed by Northwest ($2.19 per square foot), while the lowest was in Downtown ($1.21 per square foot) and West Central ($1.44 per square foot).

The U.S. consumer price index reported by the U.S. Department of Labor for March 2009 has risen by 20.8 percent since 2001. Adjusting the first quarter's average monthly rent for inflation resulted in a rent of $1.58 per square foot. Comparing this rent with the asking rent in 2001 ($1.47 per square foot), results in a change is $0.12 per square foot or 7.5 percent over the eight-year period.

Moving Forward in 2009 and 2010

While the recession continued to worsen in February, there was a dramatic slowdown in the rate of job losses compared to what was recorded this January. Even though employment change is a lagging indicator, we continue to believe that we will not see a sustained recovery in our local economy until the job market improves, most likely in late 2010 or early 2011. The issues currently facing our resort industry, and the imminent wave of commercial real estate defaults (that we think will peak in 2010) in Southern Nevada, are very worrisome.

Deutsche Bank recently reported that commercial delinquency rates, nationally, rose to 1.8 percent, four times the rate seen a year ago. The firm also thinks the numbers could get as high as 6 percent by late 2010. Moreover, according to Real Analytics, there are almost $19 billion in commercial loan defaults, along with properties in foreclosure or bankruptcy around the country.

The U.S. economy has lost nearly 4.5 million jobs since the recession began in December 2007. 1.2 million of these jobs have been lost in 2009 through the end of February. In February alone, U.S. employers shed nearly 651,000 jobs, and the unemployment rate reached 8.1 percent.

What is our forecast for Southern Nevada in 2009?

1. The resort industry is likely to see one or more major restructurings before the end of the year.

2. Deflation, not inflation, continues to be a very real concern, because of the disintegration of consumer spending and business investment globally.

3. Whoever thinks that Southern Nevada will escape the national tidal wave of commercial real estate loan defaults will be disappointed . . . very disappointed. On the other hand, 2009 is a great year to be a tenant or a buyer (assuming you can get the capital).

4. The rate of new home and resale closings has 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 home prices.

5. Oil and other commodity prices will continue to remain low, because of the worsening global economic outlook, functioning as a tax cut for Nevada residents.

6. Nevadans could see the greatest tax increase and greatest spending cuts in its history when the Legislature convenes.

7. As we've repeatedly written, Las Vegas and Nevada will not be a V-shaped recovery this time around. Think an elongated Nike "swoosh" instead.

As to the impact of these trends on the valley's anchored retail market, in our opinion, the market will see growing vacancies and declining inflation-adjusted asking rents throughout 2009 and into 2010. The three key factors driving this expectation are: little if any population growth, a very weak job market and a severe lack of consumer confidence and spending. <

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John Restrepo is Principal of the Restrepo Consulting Group LLC.

Strip retailers find ways to work with change in consumer spending habits

Once thought immune from economic problems, the famed Las Vegas Strip has shown its vulnerability in the past year, and the area's retail component hasn't been an exception.

But with 30 million-plus annual visitors still the norm even in tough times, Strip retail centers are less likely to have large vacancies, like the many seen in today's suburban centers, said George Connor, senior vice president of Colliers International's retail division.

"There's still a lot of demand. The tourists are here, looking for things to do. They're just spending in different directions. … A lot of retailers are just having to stick it out," he said.

"We still had 35 million visitors coming to Las Vegas during the past year. That's a significant number of consumers. The question is, how much are they spending now? … Taxable sales are down. Certainly retailers are feeling that," said Brian Gordon, a principal with the Southern Nevada economic research firm, Applied Analysis.

Anecdotally, Connor has heard Strip retailers claim 25 to 30 percent sales drops in the past year. While Strip retail center owners are tight-lipped when it comes to talking about tenant incentives, lease rates and sales, Gordon said concessions are likely on the negotiating table between prospective and even current tenants at Strip retail outlets.

"Showing vacancy can create a snowball. I'm sure they are working with tenants now more than ever," Gordon added.

Below are some brief snapshots and updates of the Strip's big retail players.

Miracle Mile Shops

With its transition from the Desert Passage shops nearly complete, the Miracle Mile Shops at Planet Hollywood Resort has taken on a slicker image and fresher look. And, according to vice president and general manager, Russ Joyner, the newly branded site is enjoying 93 percent occupancy, traffic levels of 22 million people for 2008 and a 5 percent climb in traffic for the first quarter of 2009.

"We've added 16 new tenants since the same time last year, about 40,000 square feet of space," Joyner said. "We're staying busy, and we're staying relevant. … It feels good to be in the position we are in."

Some of the new businesses that recently opened or are coming soon include Volcom, DC Shoes, Club Tattoo and several others. Five new stores have opened in the first quarter of the year, said Joyner. Management also recently installed a water feature in place of the street entertainment found near the site's V Theater.

"The entertainment had a hefty price tag annually. We were able to put together a compelling automated system for a couple million dollars and, in turn, reduce operating costs," Joyner added.

The Forum Shops at Caesars

The early Strip retail entrant that helped launch the city's first Wolfgang Puck restaurant, Spago, brings 160 luxury and upscale shops and 13 restaurants to Las Vegas. After adding 175,000 square feet in 2006, along with its famed curved escalator, the site grew to 634,000 square feet.

The center's director of marketing, Maureen Crampton, said a few new names are coming onboard this year. But some of the movement at the site also will involve existing retailers eyeing more suitable sites for their businesses.

"Different brands appeal to different areas of the shopping center. It's kind of like pieces of a puzzle. You're constantly moving them into the right spot," she said.

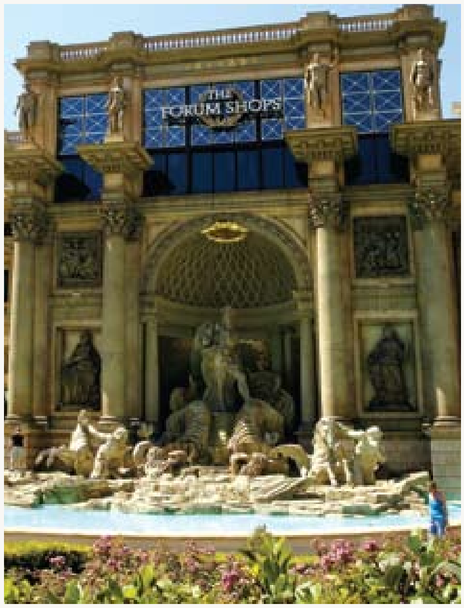
Recent and future additions include: Y-3, an Adidas-influenced active and casual wear shop; the jeweler Pandora; Oro Gold Cosmetics; Kush Fine Art Gallery; and jeans maker 7 For All Mankind, which replaced the closed Kate Spade shop. Crampton said several new operators signed longer-term leases, despite the tough economy.

Mandalay Place

With 100,000 square feet and almost 40 stores, the recently rebranded shops at Mandalay Place will see a few new retail faces this year. Flip Flop Shops will complement the Beach at Mandalay Bay well, MGM Mirage spokeswoman, Yvette Monet, said. The shop offers "every type of beach accessory and every style of flip-flop under the sun," she added.

The Minus 5 Ice Lounge, which opened late last year, has hit its stride, and locals- and tourist-favorite Burger Bar is entering its sixth year of operation.

"Burger Bar continues to be enormously popular, and we are exploring other unique food and beverage opportunities," Monet said.



A Disney kiosk also was recently built to sell products and tickets for the new *The Lion King* show that is staged in Mandalay Bay's theater. Declining to give specifics, Monet said traffic levels at Mandalay Place have been "healthy." On deck is a new fine art gallery, and management is still looking for a replacement for the recently departed confection-maker, The Chocolate Swan.

Fashion Show

At 1.9 million square feet, the largest shopping destination on the Strip continues its popular run for locals and tourists alike. With its owner General Growth Properties mired in one of the largest bankruptcies in history, Fashion Show still boasts about 250 stores and one of the top sales volumes in the industry.

"Although Fashion Show is not immune to the current economic downturn, our sales and traffic numbers remain relatively strong," said Laurie Paquette, the mall's general manager. Paquette said Fashion Show will continue to serve as a gathering place for locals and tourists through the upcoming hot summer months.

Some of the new leases recently signed at Fashion Show include Kenneth Cole, Vans, Rockport, Lids and Aristo Clothing, all of which will open before August.

Fashion Show was originally constructed in 1981 and remodeled in 2003, reflecting its current size. Anchors at the store include Dillard's, Nordstrom, Saks Fifth Avenue, Macy's, and Neiman Marcus, which is the chain's only location in the state.

The Grand Canal Shoppes at The Venetian

The Grand Canal Shoppes almost immediately hit its stride when opening with the adjacent Venetian hotel-casino in 1999. The gondoliers heard echoing throughout the property's indoor canals offered a distinguishing characteristic every tourist and local was sure to tell a friend about after leaving the upscale 500,000-square-foot center.

In late 2008, The Grand Canal Shoppes welcomed Paige Premium Denim, the shop's first boutique in Las Vegas, and jeweler Ben Gioielli & Co., which also opened its first Las Vegas location.

Another General Growth Properties site, company spokesman James Graham insisted bankruptcy proceedings will not have an effect on day-to-day operations for the popular shopping destination.

"Despite the fact that GGP has filed for Chapter 11 protection, that process should be invisible to the visitors," Graham said. "We think, that given the shortcomings with the economy, these properties (Fashion Show, The Grand Canal and General Growth's other Las Vegas asset, The Shoppes at The Palazzo) are holding up well."

The Shoppes at The Palazzo

Opening in early 2008, The Shoppes at The Palazzo will likely take some time to get its retail legs, as it steers through a parent company bankruptcy and the weight of an immensely troubled economy.

The 450,000-square-foot luxury retail destination boasted nearly 30 "firsts" for Nevada when it opened an 85,000-square-

foot Barneys New York. With more than 60 retailers onboard, the center also recently opened jeans manufacturer 7 For All Mankind, which also is expanding into The Forum Shops at Caesars. Additionally, The Shoppes at The Palazzo soon will unveil First Food & Bar, another New York concept opening its first location in the Southern Nevada.

Other designer boutique shops at The Palazzo are Salvatore Ferragamo, Victoria's Secret, Bauman Rare Books, Bellusso, Billionaire Italian Couture, Michael Kors and others.

Wynn/Encore

When Encore opened in December, the challenge on the retail side was to create a set of shops that would appeal to the Wynn customer base without siphoning business from merchants at the adjacent Wynn Las Vegas resort.

Keri Frame, director of stores for Wynn Resorts, said this was accomplished by giving the shops at Encore a distinct identity.

"Encore retail is like a hipper, younger-mentality sister of Wynn," Frame said. "Not necessarily for a different customer, but just in what he or she wanted to express at that time."

Customers who need a more traditional handbag, she explained, might first check the Wynn Esplanade shops. If those same customers were in need of a more casual outfit, they might consider Rock & Republic at Encore Esplanade.

Rock & Republic merchandise is available at high-end department stores and boutiques, but the store at Encore is unique.

"This is its first and only free-standing store that we actually own and operate for Rock & Republic," Frame said. "It's really taken that brand to a whole new level for us."

Another store that has been popular is the Homestore, which features a room that replicates an Encore suite. Frame said Wynn customers often compliment the furnishings and inquire about how to purchase them, so offering the items at the Homestore just made sense.

Encore Esplanade has 12 shops and 27,000 square feet of retail space, positioned in a corridor between the two resort properties. The uniform look of the Esplanade belies the individuality of the stores' interiors. By focusing signature interior design elements within view of passers-by and altering exterior panels, the designers successfully merged symmetry and individuality.

While the Esplanade shops at Wynn are a little older, its roster of high-end retailers is impressive. The list includes Manolo Blahnik, Chanel, Dior, Louis Vuitton and Cartier, just to name a few.

Frame says there was some risk that there may not be enough business to sustain two upscale retail offerings so close together, but it has worked out well.

"If anything, we are walking more people through the property now, because they have two areas to explore," Frame said. "We've been very happy with how we made that happen."

Bellagio

Everything about Bellagio says luxury, and retail is no exception. The resort offers 85,000 square feet of retail shops, including the exclusive boutiques of Via Bellagio, as well as other options, throughout the property.

Via Bellagio, the shopping arcade at the Bellagio, is easily accessible from the pedestrian bridges on Las Vegas Boulevard and Flamingo Road.

"For visitors, our location in the heart of Las Vegas offers the ease of convenient access — whether by foot or by car," said Catherine Opsomer, director of retail stores.

"Bellagio's diverse staff of attentive and knowledgeable sales professionals, as well as our dedication to providing extraordinary guest experiences, have always set us apart from the competition."

The upscale shops at Via Bellagio include Fendi, Yves Saint Laurent, Prada, Hermès, Giorgio Armani, Gucci, Tiffany & Co., Dior, Bottega Veneta, Chanel and Fred Leighton jewelers.

Outlining the Bellagio Conservatory & Botanical Gardens are the Via Fiore shops that include the Chihuly Gallery, which features works by renowned artist Dale Chihuly; Essentials, offering signature Bellagio merchandise; and Giardini Garden Store.

Other Bellagio shopping includes the Cirque du Soleil store; The Lobby Shops, multiple boutiques that feature designer accessories and gifts; and Capri, a women's designer sportswear retailer.

CityCenter

Strip retailers will soon have some high-profile company. Crystals, the 500,000-square-foot retail, entertainment and dining district at CityCenter is scheduled to open in December.

CityCenter is located on 67 acres between the Bellagio and Monte Carlo. The project cleared a major hurdle last month when financing to complete the $8.5 billion complex was secured, virtually ensuring it will be finished and ready to open by year's end.

The spectacular glass-front Crystals will have an entrance on Las Vegas Boulevard, continuing a trend among recently opened Strip resorts to place the retail in a prominent location.

"At Crystals, we've joined two preeminent architects, Studio Daniel Libeskind and David Rockwell, to create an international gathering place that combines art, design and experience," said Bobby Baldwin, president of CityCenter. "Our incredible array of luxury retailers and dining destinations, coupled with a spectacular design, will make Crystals a must-see shopping destination."

Among the high-end retailers already announced for Crystals are Louis Vuitton, Tiffany & Co. and Ermenegildo Zegna.

Chef Wolfgang Puck will introduce two restaurants: Wolfgang Puck Pods, which will be centrally located on the iconic Crystals staircase, will offer light American and Mediterranean fare; the other restaurant will be a contemporary interpretation of a traditional French brasserie.

Other retailers will include clothier Marni; Mikimoto, which specializes in pearl jewelry; and classic wristwatch dealers Tourbillon and Rolex presented by Hyde Park.

Fontainebleau

The opening date of Fontainebleau, another Strip resort with a significant retail presence, is less certain.

Recent developments have the opening date for the project, which is on the north end of the Strip and well on its way to completion, up in the air. Construction has slowed as a result of a dispute over funding to complete the project.

When done, Fontainebleau will add another major retail venue to the Strip.

The 300,000-square-foot enclosed shopping destination, the Runway, is envisioned to employ imaginative lighting, music, and architectural and sculptural artistry to create a distinctive presence. The retail offering is expected to feature a mixture of high-style boutiques, designer fashion stores, jewelers and youthful brands.

Fontainebleau also is expected to feature 27 bars, restaurants and lounges.<

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It pays to be a tenacious tenant in Las Vegas retail market

Commercial real estate markets across all property types have changed from a landlord's market to a tenant's market, but the retail market has recorded the greatest change.

For the past 25 years, high demand for retail space has allowed landlords to set lease terms and rates. However, as a result of today's economic conditions, demand for retail space has dropped, as retailers have been forced to downsize and consolidate in the wake of shrinking consumer spending. As a consequence, tenants rather than landlords are taking the lead in lease negotiations, demanding lower rents and greater concessions.

All commercial real estate markets follow the residential real estate market, but the retail market is the most influenced by residential trends. The location and size of new retail developments are planned on the projected residential development for an area, because retailers are directly dependent on a local consumer population. As a result of this close alignment, the declining residential market has directly impacted retail centers located within Las Vegas' external submarkets. As residential vacancy rates have risen, so too have retail vacancy rates, as the local communities that were intended to serve the retailers have shrunk.

After such a prolonged period of sustained economic growth, some retailers became complacent and overstretched themselves, committing to one or multiple additional ventures at properties located within these outer submarkets. As the economy contracted, these additional stores folded, as their consumer base dissolved. In some cases, the collapse of these additional stores in outer submarkets across the country may have been enough to bankrupt the whole company. These bankrupted companies have been forced to vacate all of their properties, including those located within the central core markets, pushing up vacancy rates across the country.

Coupled with the decline of the housing market, the drop in consumer spending also has heavily affected retail vacancy rates. Not only are retailers now serving a smaller population of consumers, because homes have either foreclosed or were never filled, but the consumers that remain have dramatically reduced their spending. People, today, are no longer spending money on what they want; they are only buying what they need. Rising unemployment and a growing fear to invest, created by the continued economic decline, has caused people to curtail their spending. Retailers are, therefore, serving a customer base that is not only smaller but also thrifty. Most have seen their sales figures sharply decline, forcing some of them out of business.

As a result of the across-the-board rise in vacancy rates, tenants are negotiating low rents on new leases. What's more, tenants are even negotiating lower rents on existing leases, a trend that the market rarely has seen before.

In the past, landlords would have ignored any attempt by tenants to renegotiate an existing lease, because high demand allowed them to quickly fill space at market rates. However, the scarcity of alternative retailers in the current market has forced landlords to listen to negotiations and set leases that tenants can afford to pay. Landlords that refuse to do so risk being stuck with hard-to-fill vacant properties that may generate no income for many months.

For other tenants, the decision to renegotiate existing leases may not be driven by necessity, but, rather, opportunity. As retailers across-the-board are witnessing a drop in sales, the sales figures that were forecast in 2007 and 2008, upon which lease rates were set, have been drastically less than anticipated. As a result, retailers are demanding that their lease rates also be adjusted to current sales figures in order to retain sufficient profit margins.

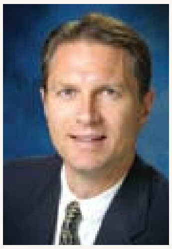
Though office and industrial landlords can remain relatively resilient against the renegotiation of existing leases, the same cannot be said of retail landlords. Office and industrial landlords can choose from a large selection of companies spread across a variety of business types to fill a vacant space. However, for retail landlords, the tenants that surround a vacant space will directly impact the types of retailers that can occupy it, because they don't want to be in direct competition with each other. This problem is then further compounded by the fact that there are fewer retailers to choose from, because many retailers have gone out of business due to bankruptcy. As a consequence, retail landlords may be having a harder time filling vacant property in today's economy than their industrial and office counterparts. Consequently, retail tenants seem to have developed the greatest negotiating power.

As a result of this extra bargaining power, some retailers are expanding. The opportunistic retailers include large, strong companies that are utilizing the current market conditions to negotiate more space and lower rent rates in preparation for when consumer spending increases. The other expanding retailers are those whose sales have actually grown in recent months as a result of the decline in consumer spending. In today's price-conscious climate, eating out has become a luxury. However, certain low-cost fast food restaurants are actually growing their businesses as customers look to eat out without overspending. These types of retailers are able to take advantage of the exceptional lease rates being offered and are expanding.

Other investors have not been so fortunate. Sales activity remains stagnant, as sellers continue to set their prices well above what buyers are prepared to pay.

By the first and second quarter of 2010, we may see sellers lower their prices as the inventory of available product continues to increase. This, coupled with the loosening credit markets, should lead to a resurgence of sales activity, which in turn will work to heal the market. When demand does return, it will be an exciting time, as an influx of new businesses will sprout up to take the place of those that have fallen.

Until then, tenants with the necessary capital can lock in exceptional lease rates and terms, in order to capitalize on what will once again be a flourishing retail market. <



Kit Graski is the Senior Vice President VOIT CommercialBrokerage.

City loses big box, anchor tenants

Businesses crucial to the success of retail properties

The increased retail vacancy rate in the Las Vegas Valley during the last year has included an alarming rise in the loss of big box and anchor tenants. These businesses are crucial to the success of retail properties, because they are often the traffic generators that feed customers to other merchants.

The recession has been the primary cause of the increased vacancy rate, but other factors, such as changing shopping habits and a shift in the region's population base and demographics, also are to blame.

Experts say the exodus of national retailers from the Las Vegas market, such as Circuit City, Linens 'n Things, Rite Aid and, most recently, Sportsman's Warehouse, helped spur the increase in vacancies.

The reasons for the departures vary, but all are linked to economic problems.

"There are between 45 and 50 big-box vacancies that were formerly occupied by national tenants," said Rob Moore, managing director of investment sales and leasing for Gatski Commercial Real Estate Services. "In early 2000 and 2001, a lot of the national retailers were in a major expansion mode, and we got more than our share of that. Now we are on the other side of it because of the recession."

Gatski Commercial handles a portfolio of nearly 7 million square feet valleywide, about 30 percent of which is retail.

Moore said the stated retail vacancy rate — between 8 and 10 percent by most estimates — is actually on the low side. The projections are based on different formulas, Moore said, so spaces where a valid lease is in effect, but the tenant has moved out, might be listed as occupied.

Vons, for example, continued to pay rent on a grocery store in West Las Vegas for more than four years after it closed.

"The numbers might actually be significantly higher, maybe double," Moore said.

There are some bright spots on the local landscape. Fresh & Easy Neighborhood Market, a subsidiary of the British grocery giant Tesco, has opened 25 stores since it entered Las Vegas in fall 2007.

Although the grocery chain has experienced the same struggles as most other merchants because of the recession, company officials say it is committed to its neighborhood market concept and is opening another store in Las Vegas in the next few weeks.

Fresh & Easy also seized an opportunity to acquire some locations that were a good fit for its business model, snatching up 10 sites formerly occupied by Rite Aid.

"The main thing for us in our site selection is finding a spot that fits for our expansion plans," said Brendan Wonnacott, a spokesman for Fresh & Easy. "We can fit into a variety of locations, due to our size of about 10,000 square feet for the sales floor."

Although a tenant of that size is not a huge anchor, grocery stores traditionally generate a lot of traffic and provide a stable presence in strip malls. The stores also occupy spaces that otherwise would have been difficult to fill.

Local experts say anchor spaces can take anywhere from six months to two years to fill, maybe longer in this economy. The absence of a traffic generator for an extended period might be a death knell for other merchants in those strip locations.

Although not every potential tenant has the flexibility of Fresh & Easy, Tami Lord, a vice president with Voit Commercial Brokerage, said it is essential for merchants and landlords to adapt to available opportunities.

"Landlords are certainly being more aggressive on their rent structures and the types of deals they are negotiating," Lord said. "I think as a whole, they are being more receptive to a variety of retailers that perhaps, in the past, wouldn't have been attractive to them at their centers."

A classic example occurred at a recent International Council of Shopping Centers reception in Las Vegas.

Nick Hannon, a senior vice president at Territory Inc., was one of the speakers.

Another speaker made the comment that Territory could probably get a Savers into one of its locations at any time but wasn't interested because the store would not be a good fit.

Territory specializes in bringing nationally recognized anchor tenants to premium locations, and Savers is a thrift retailer.

"Don't be so sure about that," Hannon said somewhat jokingly.

Although it's unlikely that a Neiman Marcus will be next to a Goodwill store anytime soon, it's clear that the recession has caused some changes in traditional thinking among landlords and consumers.

The failure of some big-box retailers to recognize the shift in where and how people shop, Moore said, has caused some high-profile companies to struggle or go out of business.

"The average buyer is far more price sensitive right now than at almost any other time in history," Moore said. They are also looking for convenience."

It's the reason companies such as Wal-Mart continue to do well, and it's also why Internet shopping is increasingly popular.

Internet companies have been refining their process, delivery and distribution methods. As people have gained confidence in online shopping, which better fits busy lifestyles, the scale has tipped in favor of this method.

Another shift that went almost unnoticed for a time was the change in the population demographic.

As more upscale properties were developed outside of the city's core, and the population demographic began to shift, fewer target customers of some stores, such as Dillard's at The Boulevard mall, were in the area. And although such closures are painful, Lord says, they are also necessary.

"It's an opportunity for retailers to reposition their market strategy and for new retailers to enter the market. It's also an opportunity for just an overall freshening of the real estate." <

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Lifestyle center concept works

Town Square draws locals and visitors, continues growing

There may be something to the lifestyle center concept after all. As valley strip retail centers battle vacancies and big box-anchor failures, Town Square, near the intersection of Las Vegas Boulevard South and the 215 beltway, has now topped 90 percent occupancy for its 1.15 million square feet of retail and restaurant space.

Opening its doors in November 2007, Town Square has grown from 38 tenants to more than 100 today. Some of the big and small names include Borders, Whole Foods Market, Rave Motion Pictures, Apple Store, California Pizza Kitchen, Guitar Center, Crabtree & Evelyn and many others.

Town Square's general manager, Mike Wethington, said: "People are starting to get the vision for what Town Square was built for."

Open-air lifestyle centers like Town Square have become a preference for consumers in the past five to seven years, said Erin Hershkowitz, spokeswoman for the International Council of Shopping Centers. She said the last enclosed mall that was built was in 2006 in Arkansas.

"But even that mall is more of a hybrid, with storefronts on the outside," Hershkowitz said. "I don't look at the enclosed mall as dying, and the lifestyle center as taking over, but a lot of enclosed malls are reinventing themselves to include more lifestyle center components."

In the case of lifestyle centers like Town Square, anchors can vary from a movie theater to a gourmet grocery, but all are complemented by plenty of boutique shops, usually surrounded by aesthetically pleasing landscapes with gathering spots, such as parks and sitting areas.

"It becomes a place to go for everyday items, not just when you want to go on a shopping spree," Hershkowitz noted. "These centers are positioned really well, especially in an economic downturn. People still patronize them."

Themed as the downtown of decades past, Town Square is, indeed, as it was billed, becoming a gathering place for families and friends. Streets can be accessed with motorized vehicles, and, if walking, the old-town concept feels homey, to say the least.

Wethington said management will encourage the gathering place nature of the site this summer by organizing wine walks, summer movies in the park and other events. Earlier this year, Town Square hosted two 5K runs. The site has a children's park for families and plenty of shade for the summer heat, Wethington said. And even more misters are being added.

But Town Square also is proving to be more than just for families.

"If there's anything that's surprised me, is that we've also become a meeting place for nightlife," Wethington added.

With 11 restaurants and more coming, such as Anthony's Coal Fired Pizza and Johnny McGuire's Deli, patrons can enjoy a wide array of dining options before hitting the clublike venues, such as Blue Martini or the recently opened Cadillac Ranch, which features mechanical bull riding. Also, coming soon will be a dueling piano concept, as well as a murder-mystery-comedy theater establishment known as Sheer Madness Theater.

"It's not like you're just coming here to go to one entertainment venue, one club. You're able to visit different establishments," said Wethington.

Wethington also said cross marketing between retail tenants and restaurants slowly is becoming the norm. He gives the example of Grape Wine Bar holding an event at the recently opened ElevenSpa Vegas.

"It's a case where two merchants within the same center can help drive traffic and cut down on advertising costs doing it. … It's a much more viable option now than maybe when times were a little better," he added.

Some tenants are even able to feed off of different types of businesses and amenities in the complex.

"I think the biggest feature for Town Square, as it affects my business, is the children's park," said Dean Austin, general manager of the Borders at Town Square. "We cater to customers who want to get out and spend an afternoon and enjoy the environment of a bookstore. And that's what you have there (with park patrons)."

Austin, who said the store is seeing year-over-year increases in sales from last spring when it opened, also said even those businesses that may seem like a conflict to his are a benefit, i.e., the events at Blue Martini or even a big movie opening at Rave Motion Pictures that brings "additional footsteps to our doors."

Kenna Warner, general manager and managing partner for Brio Tuscan Grille, said all tenants are "getting smarter about marketing together." Brio will be getting involved with summer wine walks, and Warner is constantly on the lookout for retailers with whom she can partner for promotions or events.

"None of us benefit from (anyone) not being successful," Warner added.

Developed by Turnberry Associates and Centra Properties, Town Square is working to fill its 350,000 square feet of office space, of which only about 50,000 square feet is leased today. While office space has struggled throughout the valley, with vacancies topping 20 percent in many submarkets, Wethington said another 30,000 square feet is currently under contract, and interest is piquing as more restaurants and retail tenants are added.

A couple of recent additions at Town Square are English Laundry and Beauty Lounge. Other tenants coming onboard later this year include Caña Tapas Kitchen and Bar, and Arleccina Gallery of Fine Art and Sculptures. <

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Cadillac Ranch

Cadillac Ranch, which opened last month at Town Square, is billed by the owners as an all-American bar and grill. The décor of the 12,000-square-foot restaurant is a mixture of rock 'n' roll and country, and includes a mechanical bull.

The eatery is open for lunch and dinner, but transforms into more of a nightclub later in the evening, with live entertainment and the doors open until 4 a.m.

Aaron Christensen, Cadillac Ranch's marketing and promotions manager, said the restaurant caters to locals, with events such as service-industry night and a second-shift happy hour.

"We still want to get some of the tourist crowd, but we know locals are going to be our bread and butter, so we really want to take care of those people," Christensen said.

Cadillac Ranch is headquartered in National Harbor, Md., and has locations in Cincinnati; Cleveland; Nashville, Tenn.; and Tempe, Ariz.

The menu is all-American with a Southwest flair and includes Cadillac Ranch Angus beef burgers, a house specialty, and hickory-smoked barbecue ribs, wings and steaks. Salad combos, soups and specials are available daily.

The well-publicized grand opening last month had crowds lined up for hours waiting to get a first glimpse of the ranch.

"Cadillac Ranch will make a big splash in the Las Vegas market because of its mainstream concept and universal appeal," said Eric Schilder, Cadillac Ranch's marketing director. "We brought the concept to Town Square because of its ideal location on the south Strip, its combination of a local and tourist audience and its growing tenant mix, which will drive new and existing traffic to the center and entertainment court area.

The spacious interior includes plenty of dining space and a large, well-centered main bar. The décor of posters of rock 'n' roll and country stars is highlighted by, of course, a classic 1959 Cadillac. The mechanical bull is adjacent to the bar, providing convenient viewing for customers. Rides are $3.

The restaurant features two outdoor patios, one of which has a Strip view and more than 30 plasma TVs.

Cadillac Ranch is located on the second level, across from the Rave Motion Pictures theaters and next to Blue Martini. <

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Johnny McGuire's Deli

A deli that has been a fixture in Aspen, Colo., for years is coming to Town Square. Johnny McGuire's Deli, which will feature a full menu of sub sandwiches, salads and breakfast items, is expected to open this month.

Johnny McGuire's will offer a casual dining experience and will be located above The Grape and adjacent to Blue Martini, in the restaurant-focused center of Town Square.

"Town Square and this concept are a great fit," said Jason Baratta, the deli's owner. "We have a great following among locals and visitors in Colorado, and Town Square draws from those groups as well."

Parker Scaggiari, a local interior design and architecture firm with projects that include Globe Salon, the Elton's shops at Mandalay Place and The Palazzo, and Coffee Bean & Tea Leaf, is designing the space, which is under construction.

The fare will include mostly deli items but will have a few surprises, such as steaks. Customers can order from the menu or create their own variation of a sandwich. Some of the more unusual menu offerings are the product of customer requests and are sometimes named after those customers.

In Aspen, for example, a sandwich that includes grilled ham, bacon, cheddar cheese, green Tabasco sauce, avocado and mayonnaise is called a Julian; and the turkey, bacon, Swiss cheese, sprouts and honey mustard is called an Emma.

Although people don't have to be famous to get a sandwich named for them, Baratta hopes some local celebrities will become regulars and create sandwiches that can be added to the menu.

"We would love to have a sandwich called an Oscar Goodman or something like that," Baratta said. (It should probably include a generous portion of ham).

Deviations from traditional offerings also are given creative names. In addition to a regular Reuben, there is the Reuben Carter, which includes a "hurricane" of roast beef in place of corned beef, honey mustard instead of Thousand Island dressing, onions and peppers.

The deli will offer soft drinks and beer but no Bombay Sapphire Gin or other hard liquor, which might make it a little tougher to get those regular visits from Goodman.

The expansion into Town Square might be just the beginning for Johnny McGuire's, which is pursuing franchise agreements in Las Vegas and other markets. <

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No pressure on Tivoli Village

Developers slow pace, take methodical approach

The developers of Tivoli Village at Queensridge are taking a methodical approach to the project's completion.

Rather than rush to meet the initial completion date later this year in a soft market, developers have pushed back the opening until the local economy recovers.

The mixed-use project on Rampart Boulevard and Alta Drive is now expected to open in fall 2010, and construction continues, albeit at a slower pace.

Patrick Done, executive vice president at Tivoli Village, said that when leaseholders were polled last year, all but two agreed it was a good idea to delay the opening until at least next spring.

"We now are in a place where the retailers and restaurateurs have said, 'Let's push this out until the market comes back, and we'll be flexible with it,'" Done said. "They like the project and want to stay with it and will continue to do so as long as they know it's real. We've been able to assure everyone that it's real, and it is going to happen, but we're obviously committed to opening it in the right way with the right level of occupancy and the right merchandise."

Martin Yan, a celebrity chef known for his "Yan Can Cook" show on PBS, is scheduled to open his inaugural 9 Dragons restaurant at Tivoli Village. He said waiting for the economy to recover is a good call.

"I have been waiting a long time to come to Las Vegas," Yan said. "I can wait awhile longer."

Yan was among several prospective Tivoli Village tenants who participated in a preview last year at One Queensridge Place, the residential development across the street.

The sneak peek at some of the tenants included 9 Dragons, Tres Agaves Mexican Kitchen and Tequila Lounge, Ritual Spa & Salon and Townsend, a lounge that will feature small plate dishes and wine by the glass.

Other tenants at the 1.4 million-square-foot project include fashion retailer BCBG-MaxAzria, which will open a 4,089-square-foot boutique, and the restaurants Grand Lux Cafe, Mastro's Steakhouse, Taro's by Mikuni and Zeffirino.

The $850 million, 29-acre project also will feature a 33,552-square-foot luxury DavidBartonGym; the Village Roadshow Gold Class Cinemas, a deluxe movie theater; and Kidville, an upscale preschool.

Additionally, a 10,000-square-foot grocery store is planned for the project. Done said it would be an upscale first-to-the-market store with a name people would recognize.

Phase 1 will include office space, 42 residential units, a streetscape and park. The below-grade parking structure will have 3,400 parking spaces and run the length of this development phase. Parking will be completely integrated, so each section will have direct access to the retail shops above it. Some aboveground parking spaces will also be available.

Construction will begin on the final phase, which will include the remaining residential units, after Phase 1 is completed and will be dictated to some extent by the market. The developer has added flexibility with Tivoli Village, because other projects in the valley have been delayed or canceled.

Summerlin Centre, a development by General Growth Properties, which recently filed for bankruptcy, has been shelved indefinitely, and the $2 billion City Crossing planned in Henderson seems unlikely to ever be built.

"I think it's fair to say, we are the only new, pure retail development that continues to build," Done said. "So within all of this negativity, it continues to create a positive for us, because we're the only ones standing."

One reason tenants have been so supportive of a delay is that these are tough times for retailers. With unemployment rates in the double digits and the credit markets still tight, people aren't spending as much, and banks are reluctant to lend.

Done is optimistic that there is a change on the horizon, and the market will be ripe for new projects next year.

"I do sense that things will turn, and the credit markets will loosen up marginally this year," Done said. "Obviously, the capital has to be there for the retailers and restaurateurs to expand. As long as the project has quality and has a good trade area, which is the situation we have here, we won't lose anybody who continues to be solvent."

Because Tivoli Village was financed with cash reserves, there is no pressure from lenders to complete the project. Partners in the venture include Executive Home Builders and IDB Development Corp.

Executive Home Builders is one of the valley's premier custom home builders, renowned for its craftsmanship and stonework. IDB Development is one of Israel's leading and largest holding companies.<

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Costco delivers ...

Goods, services to business community

It was a Costco location for the past 20 years. Now it's a, well — Costco — but different. The Costco Business Center, located at 222. S. Martin Luther King Blvd. in Las Vegas, has been open since February and is setting itself apart from other retailers and even its sibling locations by catering to the needs of local business owners.

"It's going great. A lot of business owners come in here, particularly restaurants and convenience stores," said Scott Sims, the store's general manager.

"We've become the most profitable division in the company. ... and with that, we'll probably be expanding more aggressively in the future." -Scott Sims, General Manager

The multimillion-dollar transformation from the old Costco location means the café and its inexpensive pizza slices and chicken bakes are gone, along with the apparel and cosmetic products. But the 135,000-square-foot site certainly isn't short on food. It's just sold and prepared differently. Business owners can buy items in bulk but also can find them individually wrapped for resale. There are about 50 Gatorade flavors (a typical Costco may have three or four), massive racks of meat, sunflower seeds, snacks, large packs of individually wrapped baked items and "everything from a three- to four-thousand-dollar stove top to an 89-cent spatula," Sims added. "That was our goal, to service those businesses (restaurants and convenience stores)."

Since opening, the Costco Business Center, which is open to all Costco members, also has served office-related, hospitality and other businesses as well. It houses a full-service copy center that Sims says is 50 percent cheaper than Kinko's, third-party credit through HSBC Bank and next-day delivery when an order is placed by fax, phone or online prior to 3 p.m.

"We wanted to give added value to our business members and get down to the nitty-gritty of what you buy to run a business," Sims added. "Before, (our business members) would have to buy what they could from us, then have to get other things delivered from somewhere else. We wanted to become a one-stop shop."

Sims and his staff have had a ready ear for customer needs. In a few short months, the store has added 200 to 300 new items as a result of member requests.

"We have our own team of buyers. It makes it a lot easier (than traditional Costco stores) for us to get new items," he said.

The business behind the business center

The business center concept started in Los Angeles in 1992. Costco has added six more locations since then, an additional center in Los Angeles, two in Seattle and one each in San Diego, the Bay Area, Phoenix and now Las Vegas.

Nowhere near the grow-at-all-costs approach made popular during the past two decades, the business center model has taken the slow road for good reason, said Sims. From the outset, the idea was to build the traditional Costco brand and membership base in a particular market, then take a central location, such as the Martin Luther King Boulevard site in Las Vegas, and convert it into a business center. Las Vegas has more than 300,000 Costco members and is ready for the business center offering.

"We already have a successful core business here now. And we figured if we tap into the business side with a centrally located (property), it's almost a perfect setup. ... It makes sense, when you have a cluster of successful Costcos, to put one business center in the middle," Sims added.

But the slow-growth approach may not last long.

"We've become the most profitable division in the company. ... and with that, we'll probably be expanding more aggressively in the future," Sims offered.

The manager said a typical business center sees about half the foot traffic of a traditional Costco location, while taking up about the same amount of space. But each client spends about four times the amount of a normal Costco customer.

"Those are the types of customers you really want to keep," Sims said.

With this model, it seems Costco is effectively keeping them all. <

By Brian Sodoma
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McCarran Marketplace brings lift to established neighborhood

Development is sometimes a tough sell, even in a good economy. And no one knows that more than McCarran Marketplace developer, Marnell Properties.

In the early part of the decade, the county began relocating residents out of a 75-acre neighborhood at the southwest corner of Russell Road and Eastern Avenue, making way for future Terminal 3 expansion plans at McCarran International Airport. While the move was met with some resistance at the time, it was met with plenty more when the county decided to explore a ground lease agreement with Marnell Properties on the site, splitting revenues generated from the future development of a big-box retail center.

Brad Schnepf, president of Marnell Properties, saw McCarran Marketplace as an opportunity to create a "buffer" between the established nearby neighborhoods and the airport.

"We explored a lot of different ways to handle this, and one of those ways was a big-box retail center. ... Those types of projects weren't around in that area at the time. When this large parcel became available, retailers saw an opportunity to come back and serve a submarket (that was) a bit underserved for years."

Neighbors complained. Marnell listened, then made design changes after getting input from the local Cannon Middle School Parent Teacher Association, Del Sol High School administration, concerned area residents and others. Eventually, the project slowly made its way from drawing boards to wooden concrete forms.

"It didn't happen overnight. That's for sure," added Schnepf. "We had to take a lot of input and kept redesigning things."

Brian Gordon, principal with Applied Analysis, a Southern Nevada-based economic research firm, said the center serves as a positive for the underserved area.

"It just seemed like a unique opportunity that came up in an area that was fairly well built out," he added.

With $20 million in site improvements needed to replace old residential infrastructure, the $40 million center officially began coming out of the ground in 2005, said Schnepf. McCarran Marketplace officially became a reality in early 2007, when Wal-Mart Supercenter and Lowe's Home Improvement opened their doors. The center today also has a PetSmart, Office Depot and Ross clothing store as junior anchor entries.

Currently, about 600,000 square feet of space is built out on the site, more than 80 percent of which is leased. The site has a self-standing Bank of America, Carl's Jr. and Del Taco, along with four pad sites configured for smaller retailers. Those pads range in size from 7,000 square feet to 28,000 square feet. Schnepf said leasing is "not as robust" as it once was, but he notes that there are still plenty of interested parties.

There are still five more pad sites planned, which could add up to another 100,000 square feet to the site. But Schnepf said firm details on who may occupy them or when they will be built are not in place. Some of the smaller tenants in place today include: Starbucks, Gyro Time, Sbarro, Partell Pharmacy and Port of Subs.

At full build-out, approximately 50 stores will occupy the power center, which also has 3,000 parking spaces, as well as an eight-acre soccer park, with two fields run by the Clark County Parks and Recreation department.

Tami Lord, who, as vice president of the retail division at Voit Commercial Brokerage, is in charge of leasing for the property, sees a different approach with leasing to smaller operators today. She said evaluating a prospective tenant for McCarran Marketplace has as much to do with business experience as it does funding.

"We're looking a lot more toward the experience these days. We'll give a lot of weight to a guy who comes in and has run a pizza shop for 40 years, who may not be quite as well capitalized but knows how to run a business, and we think will be there in five years," she said.

Schnepf said concessions always have been a part of the Marnell leasing approach. He sees them less as giving away rent and more as opportunities to help a business get its footing early on by not being overburdened with high expenses in the early stages of its operations.

"What's happened is, you're seeing concessions are getting a little more creative today," he explained. "You're seeing things like graduated rents, along with relaxing some of the common-area maintenance charges on the front end of the deal to allow (the patron) to ease into the business." <

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INTERVIEWED BY BRIAN SODOMA

Penny Mendlovic | Senior Associate CB Richard Ellis Retail Services

cre When did you start in real estate?

I started in 1994 in Chicago. I moved back here in 1996, and I've been full-time locally in commercial real estate since February 1997, specializing in retail.

cre What made you gravitate toward retail?

My background always was retail since I was 14 years old. … My mother was a clothing designer; I ran a boutique in California. I was a buyer for a manufacturer. When I moved here in 1992, I was working at The Forum Shops (at Caesars) when I met a developer from Chicago. … (Then) I sold high-rise condos on the Magnificent Mile and (Chicago's) Gold Coast.

For personal reasons, I came back to the West Coast. As fate would have it, NAI (Horizon) was starting a new internship for commercial brokers. … They were looking for interns for retail, office and industrial. They noticed my retail experience on my résumé and thought I would be a good fit. I interned for Kathy Campbell and Janet Goldstein for a year, then I went out on my own. I've always done retail, because of my background in the clothing industry.

Briefly

Her colleagues refer to her as the "retail diva," and local media sometimes call upon her for her local retail market expertise. With more than a decade of retail leasing experience in the valley, Penny Mendlovic has represented higher-profile landlords and tenants, such as Whole Foods Marketplace, Italian restaurant concept Buca di Beppo, Harsch Investment Properties and the Merrill Group of Cos., to name only a few.

But Mendlovic, a senior associate with CB Richard Ellis' Retail Services division, points to her early years in the fashion apparel industry in New York and Los Angeles as the building blocks for a successful real estate career.

cre Is there a certain area of town or retail product in which you specialize?

The valley is not big enough to work on just one portion. I really do the whole valley and all the trade areas. But I've always specialized in retail landlord and tenant representation. … The way CB Richard Ellis is set up, our private client group takes care of assets, say, if an owner wants to sell. Then our team of three (Retail Services) do landlord and tenant representation.

cre We're starting to hear more about a coming commercial foreclosure wave. What does this mean for the consumer, business owner and the time frame for economic recovery?

Our private client group is tracking this in a really aggressive way right now. The majority of this (distressed) product will hit by mid-July, when it will be more transparent for owners and tenants. … Certainly, foreclosures will bring the opportunity for new investors to come into the market, and they're going to reset the market, because clearly we could not sustain 3- and 4-dollar (per square foot) rents for the long term. It will create a better momentum for tenants and owners to get into the game at more realistic rental rates, where they should've been in the first place.

cre What is the retail leasing climate like today, as opposed to only one or two years ago?

It's clearly challenging right now. There's no doubt that everyone is feeling the slower activity, especially the mom-and-pop-type centers. A lot of these operators could open on lines of credit or with home equity. Since that's not there, leasing has definitely taken a big hit. Activity in the mid- to junior-box sites is a little stronger. … When the market is trying to right itself, tenants know. So (owners) have to factor in aggressive lease rates, tenant improvements, concessions and discounts. … We're busy and working harder than ever. … I was always a person that believed customer service is the only way to make it in this business. You put your clients first. I built my whole business on my own personal reputation. Now, more than ever, it's back to basics. That's the most important thing that's happening right now. <

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