



Las Vegas' job market: Focus on construction & development

At the risk of being accused of having a firm grasp of the obvious — the health of the national economy is the primary driver of the health of the Southern Nevada economy. Being essentially export-based—we export experience and entertainment — our economy is very tied to the health of consumer confidence and



discretionary spending, not only in the United States but globally as well. The next several paragraphs cover some of the national economic indicators that most influence the performance of the Las Vegas economy:

- The U.S. Bureau of Labor Statistics recently reported that, “Nonfarm payroll employment fell by 216,000 in August, and the unemployment rate rose to 9.7 percent. Since the recession began in December 2007, payroll employment has dropped by 6.9 million, and the unemployment rate has increased by 4.8 percentage points. Job losses have moderated in many industry sectors in recent months.” The good news — national employment data have shown a general slowdown in the rate of decline. The August drop is one-

third of the drop seen in March 2009, the peak month of losses.

- According to the Federal Reserve, the household Debt Service Ratio declined slightly from 13.45 in Q2, 2008 to 13.11 in Q2, 2009 (the latest data). The DSR is an estimate of the ratio of debt payments to disposable personal income. Debt payments consist of the estimated required payments on outstanding mortgage and consumer debt. Additionally, the Financial Obligations Ratio dropped slightly from 18.28 in Q2, 2008 to 18.05 in Q2, 2009. The FOR adds to the DSR car lease payments, rents on for-lease dwelling units, homeowners insurance and property tax payments. These are positive indicators that consumers are slowly paying down debt.

- Fox News recently reported that credit card defaults spiked by 63 percent between July 2008 and July 2009. This is a very worrisome leading indicator of the possible tsunami of potential defaults that has been frequently discussed by analysts and the media in the past 12 months.

- The Institute of Supply Management recently reported that, “The year-and-a-half decline in manufacturing output has come to an end, as 11 of 18 manufacturing industries are reporting growth when comparing August to July. While this is certainly a positive occurrence, we have to keep in mind that it is the beginning of a new cycle and that all industries are not yet participating in the growth. The August

Chart 1

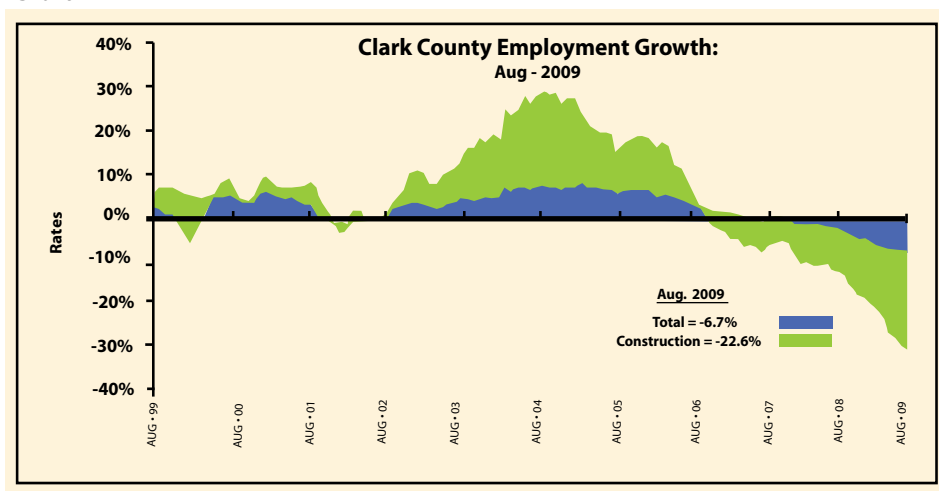
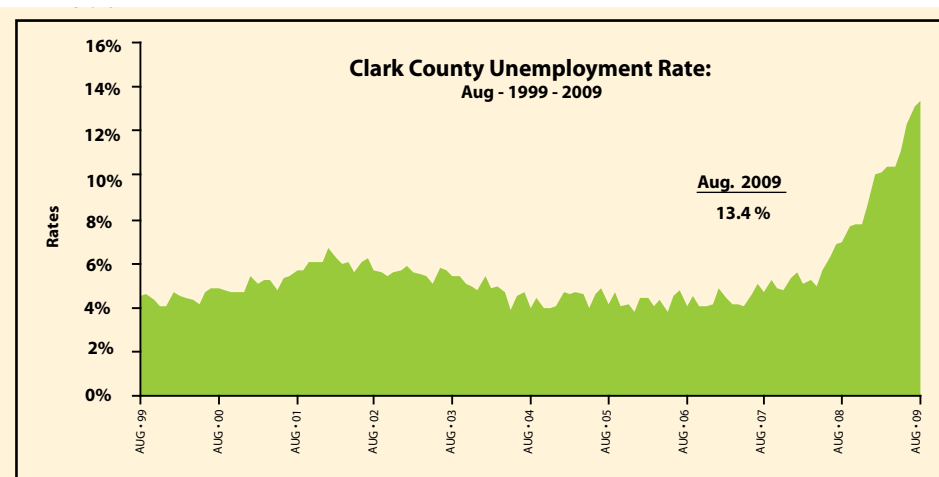


Chart 2



index of 52.9 percent is the highest since June 2007. The 4 percentage point increase was driven by significant strength in the New Orders Index, which is up 9.6 points to 64.9 percent, the highest since December 2004. The growth appears sustainable in the short term, as inventories have been reduced for 40 consecutive months and supply chains will have to restock to meet

this new demand.” An index above 50 percent suggests the manufacturing sector is, by and large, expanding.

- In other good news, the ISM just reported that its August services index climbed to 48.4 percent, two points above the July index of 46.4 percent. An index above 50 percent means that the services sector is expanding.

Continuing on this track, according to Reuters and the University of Michigan, “The Index of Consumer Sentiment was 73.5 in the September 2009 survey, up from 65.7 in August, reversing the entire decline since last September and rising to the highest level since the start of 2008. The Index of Consumer Expectations, a closely watched component of the Index of Leading Economic Indicators,

conditions improved slightly in August. Those claiming business conditions are “bad” decreased to 45.6 percent from 46.5 percent; however, those claiming conditions are “good” decreased to 8.6 percent from 8.9 percent. Consumers’ appraisal of the job market was more favorable this month. Those saying jobs are “hard to get” decreased to 45.1 percent from 48.5 percent, while those

worked by county, it does so by state. The BLS recently reported that the average number of hours worked in Nevada during July (latest data) was 35.8, compared to 37.6 in July 2008. Until we see at least six months of 40-hour workweeks, Nevada companies will not be hiring new employees in any meaningful way. Rather, companies will just increase hours of existing employees, many of whom have had their hours cut.

Nevada, because of the nature of our discretionary spending-based economy. The damage to consumer confidence and spending during this recession is unprecedented. Both of these indicators must be considerably “repaired” before the local economic recovery begins. Hopefully, the federal government’s second wave of stimulus spending in 2010 will help in this process.

Chart 3

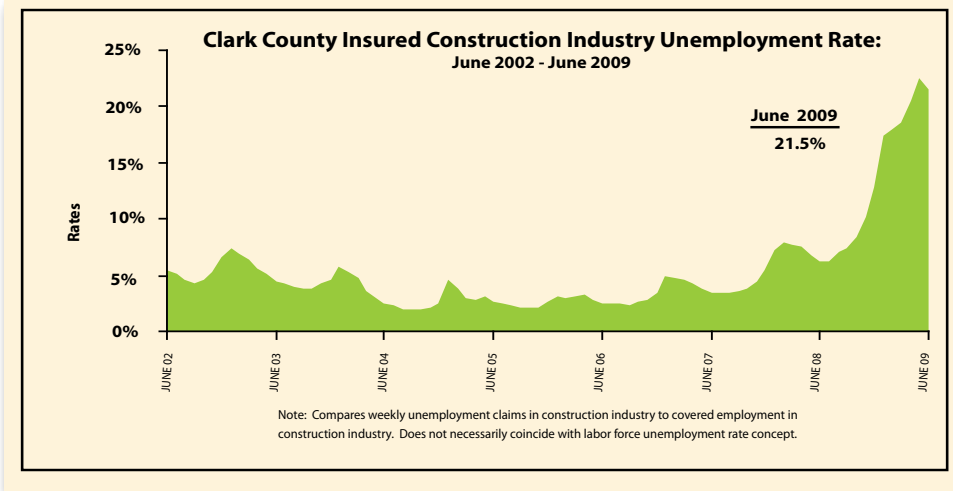
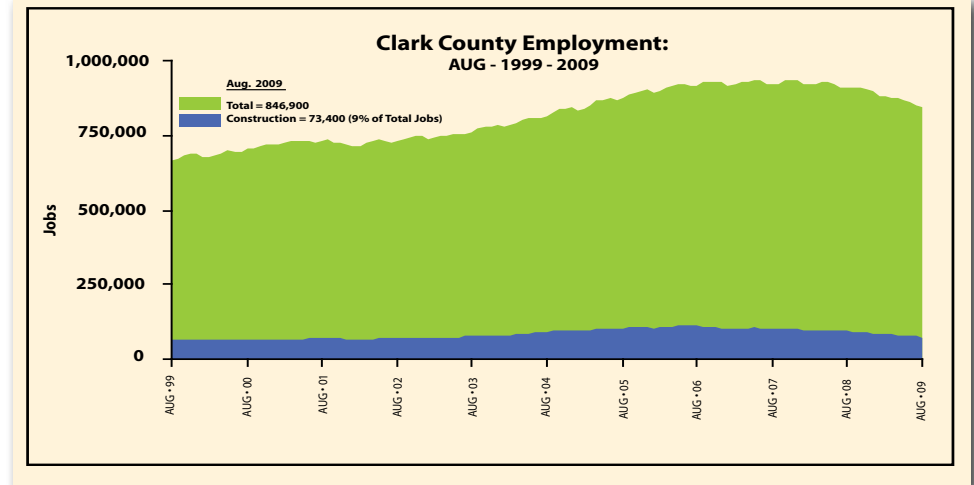


Chart 4



was 73.5 in September, up from 65.0 in August, and the highest level recorded since the September 2007 survey. The Current Economic Conditions Index rose to 73.4 in September, up from 66.6 in August and the highest level since this past September’s 75.0.”

The August Consumer Confidence Index from the Conference Board rose by 14 percent to 54.1 (1985=100), up from 47.4 in July. The Conference Board also noted that, “Consumers’ assessment of current

claiming jobs are “plentiful” increased to 4.2 percent from 3.7 percent.”

The U.S. Producer Price Index dropped by 1.7 percent in August, after declining .9 percent in July, according to the U.S. Labor Department.

AAA recently noted that, “Oil prices fell today mostly driven by fears of a lagging global economic recovery and a stronger U.S. dollar. Oil prices ended the day down \$2.50 dollars to close at \$69.54 per barrel on the New York Mercantile Exchange.” AAA further indicates that opinions are mixed regarding the strength of the nation recovering before the middle of 2010. Accordingly, oil prices will continue to fluctuate.

And last, but not least, the CMBS market remains frozen. This very important source of residential and commercial real estate financing shows no signs of thawing.

Southern Nevada Economy

Moving to the Southern Nevada economy, the local situation certainly presents a different set of concerns and challenges. The underlying issue is that our economic recovery is lagging behind what we are seeing nationally. For example:

In August 2009, the state of Nevada reported that there were 846,900 establishment-based employees (by place of work, includes multiple job holders) in Clark County. In contrast, the December 2007 estimate was 932,900, a difference of -86,000 jobs, or -9.2 percent. Comparing this past August to August 2008 (907,300), the data shows a net job loss of 60,400. However, August saw a significant improvement in number of jobs lost (4,900) versus 11,900 in July. (See Chart 1)

The unemployment rate in Clark County was 5.6 percent in December 2007; it reached 13.4 percent this past August (latest estimate). According to the state of Nevada, the construction industry in Clark County had an unemployment rate of 5.4 percent in December 2007 and a rate of 21.5 percent in August 2009. (See Charts 2 and 3)

While the BLS does not report the average number of private sector hours

Chart 5

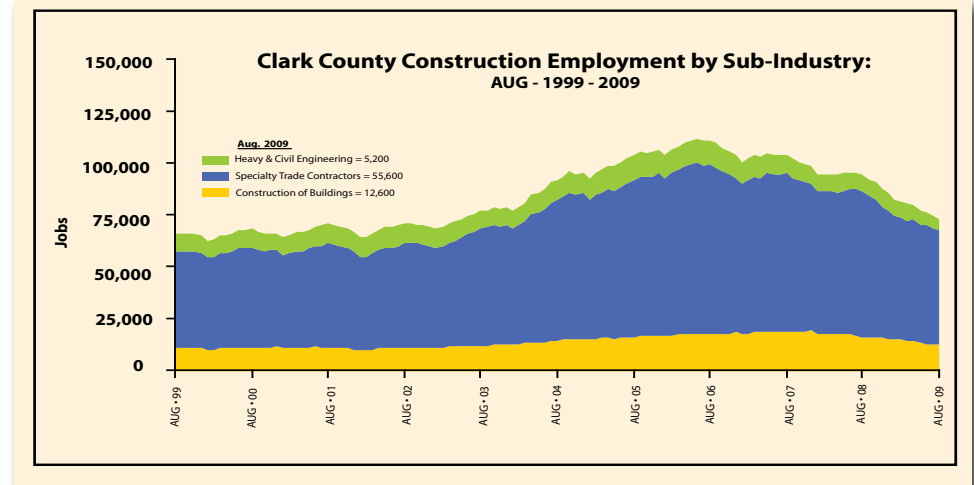
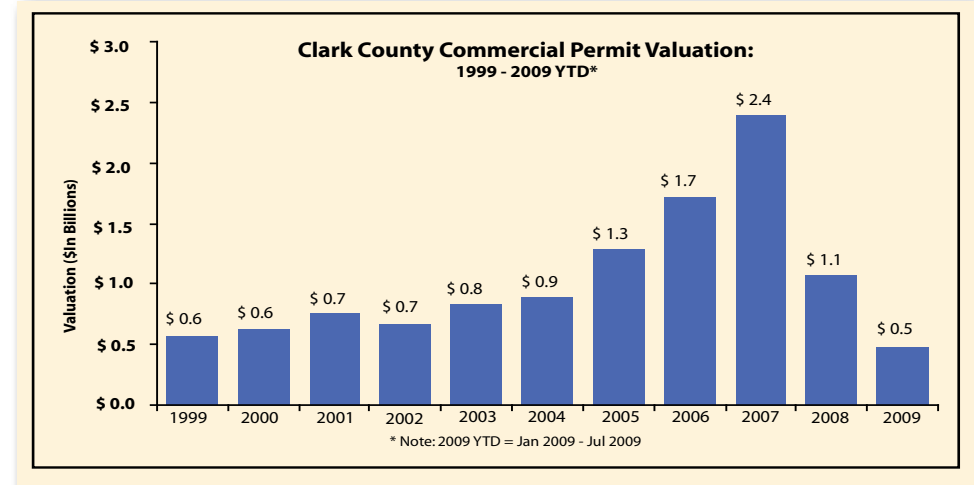


Chart 6



The good news: At least in the short term, gasoline prices in Las Vegas are relatively low. The bad news: It’s largely due to the very weak national economy. According to AAA, the recent (Sept. 25) price of regular gas locally was \$2.72 per gallon compared to \$3.52 last year at this time.

Finally, the housing market, another lynchpin of our economy, is seeing noteworthy improvements in monthly sales rates and some anemic reduction in the rate of price decline, according to recent media accounts.

Nevertheless, a jobless recovery for our region remains a real possibility. Unfortunately, it will take awhile before the improvements we are seeing at the national level will be felt in Southern

The Construction Industry

To say that Las Vegas’ construction industry has been battered by these trends and by the recession would be the understatement of the last two years. Along with the leisure and hospitality sector and the professional and business services industry, construction has seen unprecedented job losses since the “Great Recession” officially began in December 2007. Namely: The difference in construction jobs when comparing December 2007 to August 2009 was a minus 24,500 (-25 percent). Job losses in this industry accounted for more than 28 percent of the net job losses in Clark County, when comparing December 2007 to August 2009.

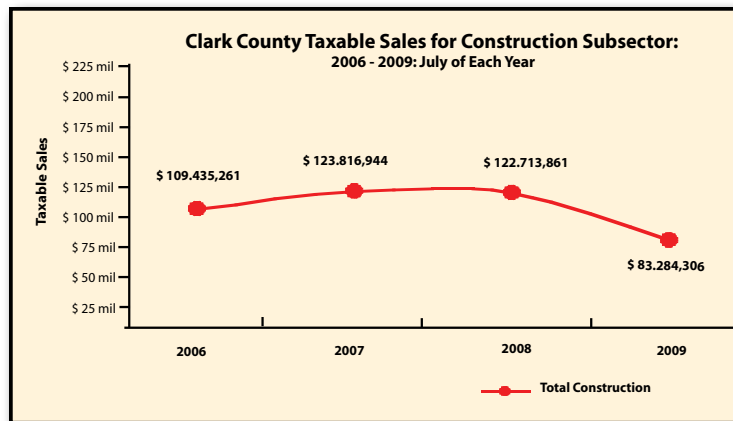
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Chart 7



Construction represented 10.5 percent of establishment-based jobs in December 2007 and has since dwindled to approximately 9 percent this past August. (See Chart 4)

The sector can be broken down into three principal subsector classifications — Construction of Buildings, Specialty Trade, and Heavy and Civil Engineering Construction. Generally speaking, the first segment is comprised of “establishments primarily responsible for the construction of buildings. The work performed may include new work, additions, alterations, or maintenance and repairs.”

Specialty Trade, the second group, ordinarily includes subcontractors or “establishments whose primary activity is performing specific activities involved in building construction (e.g., pouring concrete, site preparation, plumbing, painting and electrical work) or other activities that are similar for all types of construction but that are not responsible for the entire project.”

The third subsector, Heavy and Civil Engineering Construction, contains, “establishments whose primary activity is the construction of entire engineering projects (e.g., highways and dams), and specialty trade contractors, whose primary activity is the production of a specific component for such projects.”

In December 2007, the Construction of Buildings segment had 19,200 employees, and by the end of August 2009, this number had dropped to 12,600, a change of -34 percent. In comparing these two months, workers in the Specialty Trade group went from 70,400 to 55,600, a decline of 21 percent. Finally, the Heavy and Civil Engineering Construction subsector dropped from 8,300 to 5,200, or by 37 percent. So it appears that public works projects have been impacted somewhat less than the private sector construction. This is not surprising, since government is one of the remaining sectors (the other one is the resort industry until major projects, such as Project CityCenter and Cosmopolitan, are completed; and who knows what will happen to Fontainebleau?), which is keeping the local construction industry from completely going into a coma. (See Chart 5)

Another important indicator of the significant dislocation that has occurred in the Southern Nevada construction industry can be found in the value of commercial permit activity. In December 2007, this value in Clark County was \$58,100,156 versus \$22,202,088 in July 2009 (the latest estimate), a remarkable -62 percent difference. When comparing the first seven months of 2007 to the same period in 2009, the numbers are also quite telling:

\$1,376,432,366 in 2007 compared to \$477,339,590 in 2009. This equates to a plunge of 65 percent. (See Chart 6)

Another equally important indicator of the health of the industry and one that is very important to local and state governments is taxable retail sales. According to the Nevada Department of Taxation, there was \$160,293,190 in construction-related

taxable retail sales in Clark County in December 2007. In July 2009, the number had plummeted to \$83,284,306, a decline of 48 percent. The effects of the recession are also striking if you compare this past July to July 2008, which saw \$122,713,861 in taxable retail sales. In this case, the Department recorded a 32 percent drop. (See Chart 7)

Conclusion

Therefore, in looking at all of these indicators, some more technical than others, we continue to believe that the start of a sustained recovery is not likely to be seen in Southern Nevada until sometime in late 2010 or early 2011. In other words, local and state economic indicators, national

trends and the nature of our economy continue to point to the likelihood that we will not see the beginning of at least six months of steady job growth until then. This assumes no additional major crises befall our economy.

We would like to conclude by posing a few pertinent questions: Should Southern Nevada take the opportunity now to reinvent itself, again, both as a community and an economy? What should be the next phase in the evolution of the resort industry considering where the national and global economies appear to be headed? Finally, and most importantly, if now is not the time to take action, considering the depth and breadth of the recession, when is the right time? <

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