

Downtown Las Vegas poised for the recovery



The national economic picture is continuing to see mixed improvements. Recovery has become a two-step forward, one-step back process. The table below contains a partial set of the indicators we track on a regular basis.

Indicator	Period Ending	% Change from Prev. Period	% Change from Prev. Year
1 Non- Farm Employment	Jan-10	0.0%	-3.00%
2 Gross Domestic Product	Q4-09	1.4%	0.1%
3 Manufacturing Index	Jan-10	6.4%	64.0%
4 Non-Manufacturing Index	Jan-10	1.4%	17.0%
5 Consumer Confidence Index	Jan-10	4.3%	49.5%
6 Consumer Sentiment Index	Jan-10	2.6%	21.6%
7 Personal Savings Rate	Dec-10	6.7%	2.0%
8 Semiconductor Index	Jan-10	-12.0%	51.8%
9 Case-Shiller Housing Price Index	Nov-10	-0.3%	-5.3%
10 Private Sector Hours Worked	Jan-10	10.6%	0.0%
11 Consumer Credit	Dec-10	-0.07%	-4.1%
12 Initial Unemployment Claims (SA)	Jan-10	0.43%	-17.8%

As you can see, some indicators are improving, some not. On balance they appear to be getting slightly better at the national level. Unfortunately, the same can not be said for Southern Nevada, especially when it comes to the most important: job creation and median house price.



John Restrepo

As we have frequently noted, the root of the consumption and confidence decline is the loss of wealth from the burst of the housing bubble followed by the credit crunch. There are plans forming to unlock credit to turn around the economy's dismal prospects this year. However, even if credit was readily available, consumption is not likely to rebound quickly, since investment remains significantly below consumption – clearly not enough to offset the decline in consumer demand. Furthermore, an immediate investment boom is unlikely due to overbuilding in many commercial markets around the country.

One of the most important indicators of recovery is job growth. We expect to

initially see a jobless recovery at the national level – a recovery that is not likely to lead to a spike in jobs – despite the pent-up demand by consumers. High debt loads of consumers and businesses are the other culprits – and this fact is continuing to impact the Southern Nevada economy.

Southern Nevada's economy

Moving forward into 2010, the Southern Nevada economy, like the national and global economies, will continue to be battered by the recession. As we have said in several of our CRE articles: Predicting the future with any degree of certainty is challenging in the best of times and extremely difficult today, since all of our historical performance measures can't be used. As noted above, job creation and improving housing prices are critical to the local recovery.

Job growth

The Nevada Department of Employment, Training and Rehabilitation (DETR) recently reported the Las Vegas MSA economy had a net job loss of 66,700 establishment-based jobs in December versus December 2008's 899,700, a drop of 7.4% to 833,000. The last time the local economy was at this level of

jobs was January 2005. December's decline was slightly worse than the year over-year change recorded in November (-6.7%) and reflects a decrease of 10,100 jobs in December.

The average monthly rate of job losses between January and December was 5,560 compared to 5,150 last month. The number of jobs lost during the three months ending in December was 20,700. In November, the three-month loss was 1,800, because of the 9,000-job increase in September. The current three-month change equals 43% of the 48,400 "net" jobs lost YTD. Finally, there were 103,300 fewer jobs in December than existed in December 2007. And, December's jobs were 103,300 lower than that recorded in the 10-year peak month of May 2007 (936,500 jobs).

Also, it would take about three years to return to May 2007's job estimate, had December's employment started rising

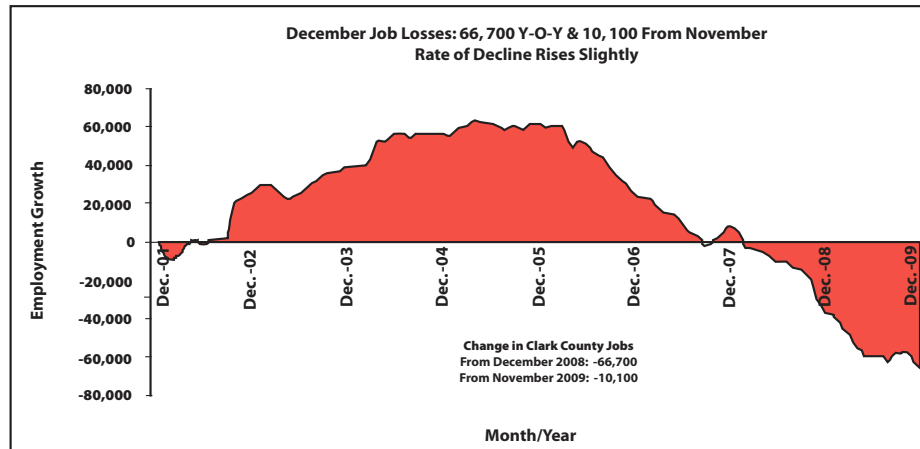
Our research and empirical information indicates that Clark County's actual rate is 6 to 7 points higher, if discouraged and forced part time workers are included.

In December, the Nevada unemployment rate was also 13% and the U.S. rate remained 10%. The state average for the year was 11.8% (11.7% seasonally adjusted). The BLS just reported the U.S. rate dropped to 9.7% this January.

Downtown Las Vegas

Although Las Vegas' downtown has not gone untouched by the recession, revitalization efforts and interest among leaders remain strong. This is because the plans, programs and practices by the City's Office of Business Development (OBD) and the Redevelopment Agency (Agency) were put in place with more than 2009 and 2010 in mind. There is a clear understanding that redevelopment is a long, multi-year process that must

Job Growth



at the 4%± annual growth rate recorded between 2000 and 2007. It's not certain at all that the region will, or should nonetheless, see that rate of growth for sometime. So, in all likelihood the return to the pre-recession employment peak will not be seen for several years.

Regarding Clark County's unemployment rate, the reported estimate was 13.1% in December. This is 1 percentage point higher than November's rate, 51% higher than the 8.7% rate recorded in December 2008 and more than double the 5.6% recorded in December 2007. The average rate for the 2009 was 11.9%.

necessarily include up and down cycles.

Downtown Las Vegas is located within the city's redevelopment area ("RDA"). The RDA encompasses 3,948 acres and roughly includes the area east of Interstate 15, south of Washington Avenue, north of Sahara Avenue and west of Maryland Parkway. It also includes the Charleston Boulevard, Martin L. King Boulevard and Eastern Avenue corridors

According to the OBD's 2009 Annual Report, the Agency's role is to "help turn around the urban decay in downtown Las Vegas by promoting the redevelopment of downtown Las Vegas and surrounding

older commercial districts through working with developers, property owners and community associations to accomplish beneficial revitalization efforts.”

Furthermore, assistance programs provided by the agency for companies located within the RDA include:

- Fast Track assistance program
- Tax Increment Financing
- Visual Improvement Program
- Retail Downtown Las Vegas assistance program”

OBD’s role in this process is to coordinate new development and redevelopment in the City — with an emphasis on downtown — in order to increase and diversify its longer-term economic-base. The mixed-use environment of the RDA serves multiple markets that include tourists, residents and commercial employees, and is a key to the diversification of Southern Nevada.

It continued to help companies through the various programs listed previously. For example, using its Visual Improvement Program, nearly \$2.3 million in public funds have been committed and 56 projects have been approved since the creation of the program in 2005. This year, the OBD assisted the El Cortez Hotel & Casino in the upgrading of the El Cortez Cabana Suites.

The City of Las Vegas has very ambitious

Bonneville Transit Center, would serve as anchors for a five-block, mixed-use, office/retail/civic center complex.

- Continue working with developer Forest City on creating a hotel-casino offering 1,000 rooms and 60,000 square feet of casino floor space, which would be located in Symphony Park.
- Sponsor a land-use feasibility study for 20 downtown acres. The study will be conducted by The Cordish Companies, Inc. and involve two sites: the current Las Vegas City Hall and Stewart Avenue Garage, and 12 acres at the southeast corner of Las Vegas Boulevard and Stewart Avenue. A casino-hotel is being considered for the city hall and garage site, and an entertainment district and arena is a possibility for the other land parcel.”

Major Developments Underway: Symphony Park, New City Hall and the Smith Center for the Performing Arts

In this section, we summarize some of the large-scale projects invested by private and public sectors, and present economic impact benefit estimates to the city and to Southern Nevada from its construction and operations.

Symphony Park

Symphony Park encompasses 61 acres and is located in downtown Las Vegas, east

of I-15 and north of Charleston Boulevard. The site is bordered on the east by the Union Pacific railroad tracks, west and north by Grand Central Parkway and south by Bonneville Avenue.

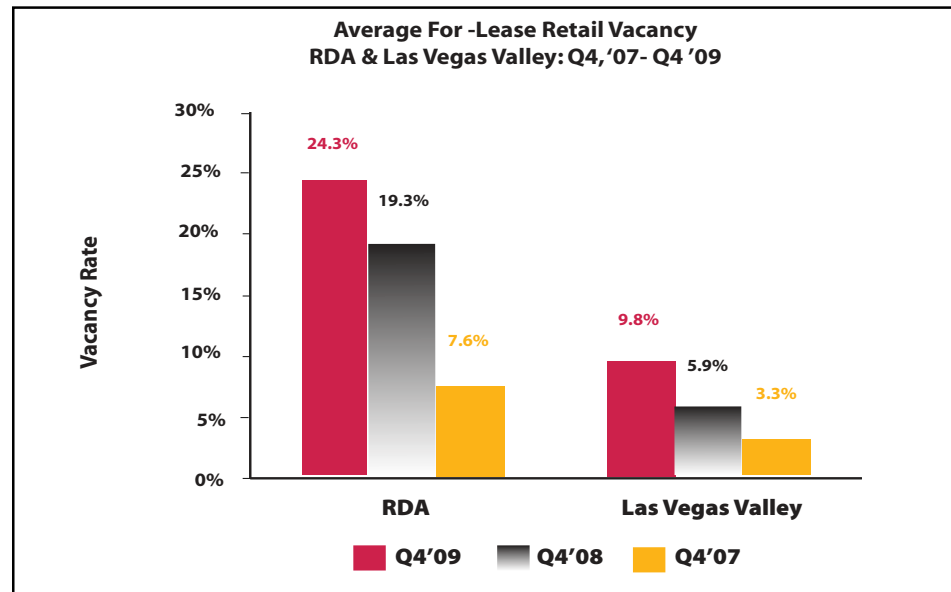
Symphony Park is being developed in a public/private partnership between the city — and owner and master developer; and Newland Communities (“Newland”) — retained by the city in December 2005

to act as project manager, overseeing day-to-day development and management of Symphony Park.

The project is planned to contain an estimated 10 million square feet, making it one of the most important developments in the city, and is noted for its guiding principles of sustainability that have earned it gold certification status through the LEED®-ND (Leadership in Energy and Environmental Design for Neighborhood Development) rating system of the U.S. Green Building Council.

Symphony Park’s civic, cultural and medical facilities will appeal to locals and tourists with its art, architecture, science, business, commercial and entertainment offerings. According to Symphony Park website, the mixed-use center is anchored by the Cleveland Clinic Lou Ruvo Center for Brain Health and The Smith Center for the Performing Arts and will be the future home of:

- The Charlie Palmer, a luxury boutique hotel developed by renowned chef Charlie



Palmer and City-Core Development

- The World Jewelry Center, a centralized marketplace for the international and domestic gem and jewelry trade developed by Probitry International
- A boutique-style business hotel
- A first-class casino/hotel with retail space developed by Forest City Parks and Recreation Abundant street-side retail offerings
- A two-acre park also named Symphony Park
- An estimated total of 2,812 urban style residences

When completed, it is estimated that Symphony Park will represent approximately \$2.8 billion (2009 dollars) in new development, according to Newland. This estimate includes hard and soft costs, and excludes land costs and financing costs.

Additionally, Symphony Park offers potentially very significant Tax Increment Financing (“TIF”) benefits to the city.

- Based on Newland’s proposed development program and construction timeline, Symphony Park’s total assessed property value is projected to increase from an estimated \$31.3 million in the project’s first year (2010) to \$714.1 million in 2031 (16% a year).

• In 2009, the Clark County Assessor’s Office indicated that the assessed value of the land where Symphony Park is developing was \$4.6 million. By the end of the TIF period, Symphony Park is expected to generate approximately \$709.5 million in incremental assessed property value when compared to the base-year.

- On average, Symphony Park will potentially generate approximately \$18.8 million in tax increment per year. The estimated tax increment has the potential to increase from nearly \$875,000 in 2010 to \$23.2 million in 2031 (17% a year).

• Accordingly, approximately \$2.84 billion (hard and soft costs) of private investment would potentially be invested into Symphony Park over its lifetime. Additionally, approximately \$124.9 million of public investment (infrastructure costs, operating costs, and Tech Center swap revenue) is proposed to be invested by the city into Symphony Park. Thus, Symphony Park’s private investment has the potential to be significant compared to the amount of public investment.

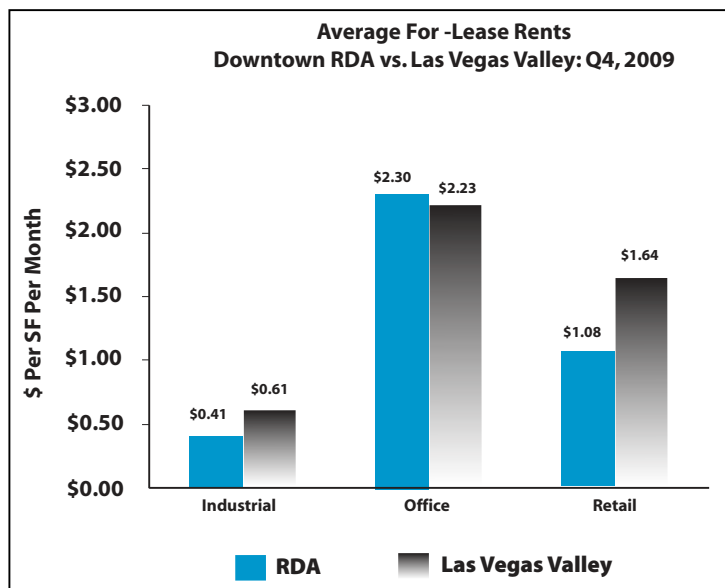
New City Hall

Last December, the Las Vegas City Council approved plans to proceed with

the financing of a new City Hall. Located downtown between First and Main Streets and Lewis and Clark Avenues (the city is exchanging a site it owns in Symphony Park), the eight-story office building will total approximately 310,000 square feet and house about 570 employees.

The project is expected to benefit the economy by creating construction jobs and acting as a catalyst to additional development and investment. Construction on the project is forecast to begin sometime this year and is projected to take about 24 months to finish. Forest City Enterprises of Cleveland will develop the project for the city. The contractor will be Whiting-Turner.

The cost is \$146.2 million, including hard costs of \$109.4 million, and soft costs of \$32.2 million. The soft costs include a 5% developer fee to Forest City



plans to move the downtown area into the future. It has developed an impressive list of priorities for the future. Referring to the OBD report, some priorities include:

- “Work with the Cleveland Clinic Foundation on expanding their medical operations and auxiliary facilities on parcels of land adjacent to the Cleveland Clinic Lou Ruvo Center for Brain Health in Symphony Park.
- Monitor construction of The Smith Center for the Performing Arts in Symphony Park, which is scheduled for completion in early 2012.
- Monitor \$22 million in Phase II infrastructure work for Symphony Park.
- Move forward with plans for a boutique hotel featuring 400 rooms and fine dining, to be constructed by chef Charlie Palmer and City-Core Development in Symphony Park when financing becomes feasible.
- Construct a new Las Vegas City Hall, which will serve as a catalyst for other building in the downtown area. The city hall, along with the under-construction

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of \$6.3 million and furniture, fixtures and equipment of \$11 million. According to the city's agreement with Forest City, the company will be responsible for any cost overruns.

According to an analysis prepared by RCG:

- The proposed City Hall will potentially generate an additional \$70 million of economic activity, or spending, in the local economy by the time the project is completed. The additional spending equates to a "multiplier" of .48 or \$.48 per each \$1.00 spent to build the City Hall.

- City Hall's construction will employ approximately 475 construction workers each year during the two-year construction period. Also, an additional 266 indirect jobs per year will potentially be created in the local economy. This represents another .56 indirect annual jobs per each construction job – all that are sorely needed in Southern Nevada.

- Construction wages and benefits related to building City Hall are expected to be nearly \$33 million per year. This equals about \$69,000 (2009 dollars, including benefits) per employee, per year during the project's construction. The annual community-wide indirect wages and benefits that will be potentially produced total \$13 million. This results in a multiplier of \$.41 in yearly indirect wages and benefits for each dollar in wages and benefits paid to construction workers.

The Smith Center for the Performing Arts

The Smith Center for the Performing Arts is also expected to generate significant economic benefits to the city of Las Vegas and to Southern Nevada.

Construction-phase direct benefits

- \$326 million of direct output (construction spending) activity on the city and Clark County economies. This equates to an annual average of approximately \$122.1 million over the 2.7-year construction period.

- Of the total, it is estimated that approximately \$102.6 million to \$125.4 million would go to the city of Las Vegas' contractors and suppliers.

We estimate that the Center's construction will support around 510 full-time equivalent ("FTE") construction industry jobs on an average annual basis in Clark County. This estimate does not factor in indirect and induced jobs.

- It is estimated that approximately 260-320 of the employees will live in the city.

Each employee will potentially earn an average of \$69,400 (2009 dollars, including benefits) per year.

- An average of \$35.4 million in estimated direct labor earnings (payroll) on an average annual basis would go to employees residing in Clark County, or approximately a total of \$94.4 million in labor income during the 2.7-year period. The city share would be \$20 million a year or \$54 million for the construction period.

Operational-phase direct benefits

The following paragraphs provide a summary of the level of center-related output (spending), employment and wages projected on an annual basis starting in the first full year of the center's opera-

tions.

Because the Center is located in the city, and because direct benefits are defined as the sale of goods and services on-site, the direct benefits of the center's revenue-generating operations in RCG's analysis are allocated 100% to the city on an annual basis on the project is fully operational:

- \$17.4 million-\$21.3 million in direct output (consumer expenditures made at the center) to the city when the project.
- 300-370 FTE jobs at the center.
- Approximately 200-245 of these employees are expected to live in the city.
- \$7.5-\$9.2 million a year (including tip income and benefits) in direct labor compensation in the county.
- \$5-\$6.1 million per year (including tip income and benefits) estimated to be earned by the Center's employees living in the city.

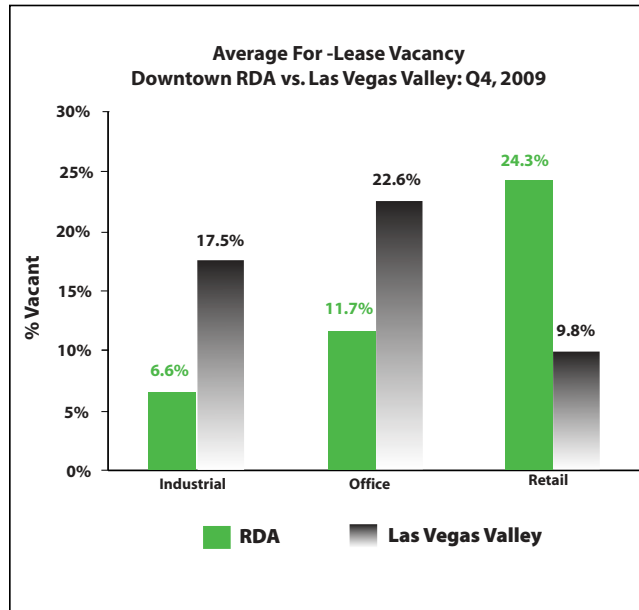
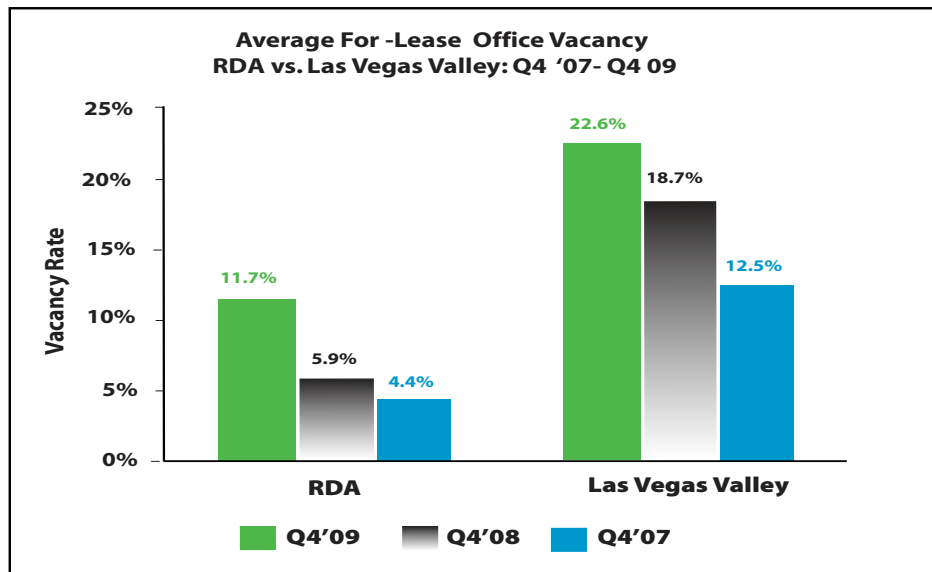
Summary of indirect & induced benefits

Construction-Phase Indirect & Induced Benefits

- \$152.1 million in output (spending) benefits to the County economy.
- It is estimated that construction of the Center will result in \$45.8 million-\$55.9 million in indirect and induced output benefit to the city's economy.
- 490 indirect and induced FTE jobs in the county.
- Approximately 145-180 of these FTE jobs are estimated to be created in the city.
- \$21.6 million in estimated labor compensation per year to the county.
- \$7.5 million-\$9.2 million in labor income per year to the city's economy.

Operational-phase indirect and induced benefits

- \$8.7 million-\$10.7 million per year in indirect and induced output benefit to the county economy when the center is 100% operational.
- \$5.3 million-\$6.4 million per year in indirect and induced output benefits to the city's economy.
- 80-95 indirect and induced annual FTE jobs added to the county economy.



- 50- 65 indirect and induced FTE jobs added to the city's economy.
- \$3.3 million-\$4.1 million indirect and induced annual labor compensation in the county.
- \$2.2 million-\$2.7 million to employees living in the city.

Tourism & gaming environment

Tourism and gaming are an integral part of downtown's character and the Fremont Street Experience remains one of downtown's core activity centers. Gaming establishments on Fremont Street were acquired by new owners in recent years, with many undergoing upgrades, renovations and expansions. Among them, include Lady Luck, Golden Nugget, Four Queens and El Cortez.

The current economic recession had an immediate and significant effect on the Las Vegas hospitality industry in recent years. According to the Nevada Gaming Control Board, downtown gaming revenues declined by 10% in 2009 (\$524 million) over 2008 (\$582 million).

Downtown for-lease commercial market

The RDA has seen its speculative commercial real estate markets struggle during the last year, but has fared somewhat better than the valley overall. This section summarizes the for-lease industrial, office and retail markets' activity for the RDA in Quarter 4, 2009.

Retail: No new anchored retail space was built in the RDA in 2009 and inventory remained at approximately 725,000 square feet in six shopping centers at the end of Quarter 4, 2009. The RDA makes up nearly 2% of the valley's total anchored retail in-

ventory. The average monthly retail rent (NNN) per square foot (psf) in the RDA decreased from \$1.19 in quarter 4, 2008 to \$1.08 psf in Quarter 4, 2009. Over this 4-quarter period, the average retail vacancy in the RDA rose from 19.3% to 24.3%.

Office: No new multi-tenant office space (excluding government-owned buildings) was completed in the RDA in 2009. Inventory remained at 2.5 million square feet in 62 projects. The RDA's office market, dominated by law offices and other professional service firms, makes up over 6% of the valley's total for-lease multi-tenant office inventory. At the end of Quarter 4, 2009, the RDA had one of the lowest office vacancy rates (11.7%) among the valley's submarkets. The RDA's average monthly rent psf was \$2.30 (Full Service Gross) compared to the valley average of \$2.23 psf at the end of 2009.

Industrial: Industrial inventory in the RDA remained at 4.9 million square feet at the end of Q4 with no new industrial projects completed for the year. This accounts for over 5% of the valley's total industrial space. Average vacancy recorded for the RDA's industrial market was 6.6%, compared to the 17.5% recorded valleywide at the end of Quarter 4, 2009. The average monthly industrial rent in the RDA was \$0.41 psf (NNN), compared to a Valley average of \$0.61 psf.

As speculative for-lease projects, these figures do not take into account smaller projects, those that are government owned, etc. Thus, it does not capture all the development activity in the area. The OBD reports a total of 46 major commercial projects in various stages, totaling nearly \$2.1 billion in investment through the end of 2009.

Major commercial projects

Status	Value	Number	% of Total
Completed	\$1,243,513,098	30	59%
Under Construction	\$604,663,000	14	29%
Proposed	\$246,790,000	5	12%
TOTAL	\$2,094,966,098	46	100%

Conclusion

So what is in store for downtown Las Vegas, and for that matter, Southern Nevada during the next couple of years? In our opinion, we will experience a plodding economic recovery locally.

For Southern Nevada, until the employment picture and the median house price improve for at least six months, all bets are off regarding a sustained economic recovery. Certainly, a return to stability would be a welcome sight. But we will have a long way to go yet until stability- in many ways, the local economy and commercial real estate markets are resetting to levels seen in the 1990s. This is very traumatic for a community that became addicted to frenzied growth. But within this trauma we continue to believe are the seeds of a sustained recovery.

As we wrote in last year's CRE, the importance of downtown Las Vegas to Southern Nevada's economic recovery cannot be over stated. Its location at the valley's core combined with it being the center of government; large-scale investment by the private and public sectors; changing demographics; and a growing acceptance of urban living all bode well for the area when the local economy recovers. <