

FEATURE STORIES - JULY 2007

Retail Resurgence

Nevada's Robust Market

by Tony Illia

Nevada's increasing population, economic growth and job employment have created high demand among local and national retailers vying to service the state's ever-expanding population and business base with a variety of new shops, stores and services. State unemployment hovers around 4.3 percent, well below the national average, despite adding 103,884 new residents over the last year. Nevada has led the nation in job growth for the past three consecutive years, most recently adding 63,000 private sector jobs. Clark County, which now accounts for 71.48 percent of Nevada's population, is helping to prime the state's economic engine with 3,500 new residents a month.

"The Las Vegas Valley is still seeing strong economic and population growth, and we anticipate a healthy but supply-constrained market in 2007," said [John Restrepo](#), principal of [Restrepo Consulting Group](#), a Las Vegas-based economic research firm. "We have a vacancy rate that effectively equals full occupancy."

Southern Nevada's retail market had a low 2.7 percent vacancy in the first quarter of 2007, yet still absorbed 940,208 square feet of new space during the same time frame, reports Colliers International Las Vegas and [Restrepo Consulting Group](#). The Las Vegas Valley had 245 retail buildings combining for 38.4 million square feet in the first quarter, or 3.2 million square feet more than last year. There was 543,319 square feet worth of new grocery-anchored neighborhood shopping centers, the most among all product types. Wal-Mart, as of April 2007, had 44 stores, markets, supercenters and distribution centers in Nevada with a combined 14,399 employees. Tesco PLC, meanwhile, Britain's largest retailer, plans to open 15 Fresh & Easy neighborhood stores in the Las Vegas Valley over the next few years. Each 10,000-square-foot store will offer primarily food, both prepared and unprepared, along with a small assortment of general merchandise. The first Tesco store is expected to debut at 8650 W. Tropicana Avenue in Las Vegas during the third quarter of this year.

"As a developing city with great growth potential, one of the commercial sectors that has been ignored is retail. Many developers grab as much land as possible and pack in as many [residential] units as possible," said Zack Hussein, a senior retail associate with CB Richard Ellis Las Vegas. "A lot of these developments have very little retail available for residents, or, if there is any, it's very concentrated. As a result, it has created a pent-up demand for residential services. Many projects are now playing catch-up to these neighborhoods." Yet despite neighborhood market activity, power retail centers still had the valley's lowest first quarter vacancy rates at 1.3 percent. Marnell Properties' 600,000-square-foot McCarran Marketplace, which debuted in February, is Southern Nevada's first new power center to open since late 2003. The 75-acre property is bound by Eastern Avenue and Russell Road, Patrick Lane and Surrey Street. It's co-anchored by a 203,000-square-foot Wal-Mart Superstore and a 170,000-square-foot Lowe's Home Improvement Center, with PetSmart, Office Depot and Ross as junior anchors combining for 90,000 square feet.

"Roughly 387,420 people live within five-mile radius of McCarran Marketplace, earning \$60,021 per household annually," said Brad Schnepf, president of Marnell Properties in Las Vegas. "Yet the area has been historically underserved, with a lack of major retail investment in recent years. This is an upscale, high-end development that complements the surrounding neighborhood."

McCarran Marketplace combines big-box national retailers, with single- and multi-tenant pads, junior anchor space and inline shops divisible down to 1,200 square feet. The initial six buildings, which total 500,000

square feet, are expected to finish construction in December. The remaining 100,000 square feet will be built-out in phases. Plans call for 10 dining venues, from fast-food outlets to family restaurants, as well as shops and pharmacies. McCarran Marketplace will have nearly 50 stores and 3,000 parking spaces upon its completion in 2008.

Other Clark County power retail centers under construction include the 90-acre, 940,000-square-foot Arroyo Market Square at Rainbow Boulevard and Badura Avenue in Las Vegas. The project, which is a joint-venture between EJM Development Co. and Laurich Properties, consists of four big-box retailers, four multi-tenant pads, six stand-alone restaurants and four single-tenant retail shops. "One thing we did differently from other power centers is added a design element," said Kirk Boylston, district manager of EJM Development Co. "We had a specific architectural design that retailers had to commit to." Major national tenants are Men's Wearhouse, Best Buy, Chili's, The Home Depot, Wal-Mart, OfficeMax, Michael's, Sam's Club, Hallmark, Ross, Marshall's, Paddock Pools, PetSmart, Sports Chalet, Dress Barn, Bed, Bath & Beyond and Famous Footwear. Arroyo Market Square is expected to open later this year. Once completed, Arroyo Market Square will be the largest retail power center in the Valley.

Another 1.4 million square feet worth of various retail developments were additionally being built in Southern Nevada during the first quarter, [Restrepo/Colliers](#) reports, including Territory Inc.'s 300,000-square-foot Cannery Corner at Craig and Losee roads in North Las Vegas and Executive Home Builders' 700,000-square-foot Village at Queensridge at Rampart Boulevard and Alta Drive in Las Vegas.

A further 2.5 million square feet worth of projects were planned for future development with Juliet Companies' 725,000-square-foot Lake Mead Crossing at Lake Mead Parkway and Water Street in Henderson, Montecito Companies' 250,000-square-foot Montecito Highlands at Horse Drive and Grand Canyon Drive, and General Growth Properties' 100-acre Summerlin Centre at Interstate-215 and Sahara Avenue in southwest Las Vegas.

One of the area's most anticipated projects is Triple Five Nevada Development's Great Mall of Las Vegas - Southern Nevada's first enclosed shopping center in more than two decades. The \$800 million, 1.575 million-square-foot complex is located on 49.8 acres at Grand Montecito Parkway and Deer Springs Way in northwest Las Vegas. The project calls for a three-level, 250-store mall co-anchored by a Regal Cinema with two unnamed major national retailers. Additionally, the mall will offer 100,000 square feet of office space, as well as 40 restaurants, including a 50,000-square-foot food court and a dozen fine-dining venues. The mall, which has eight acres of open spaces and amenities, features an outdoor portion resembling The District at Green Valley in Henderson. It will have two four-story buildings that form an open-air promenade of lofts above street-level shops and eateries. Plans additionally call for two, 200-foot-tall residential buildings combining for roughly 800 homes.

"We will start infrastructure in July 2007, followed by vertical construction in the last quarter of 2008," said James Grindstaff, Triple Five's vice president of planning. "We'll open in either August 2009 or May 2010, depending on scheduling."

Rising land values, increased construction costs and sluggish rent growth (when adjusted for inflation) is prompting developers like Triple Five and others to veer from traditional single-use shopping centers in favor of mixed-use projects that combine retail with everything from office and residential to theaters and hotels. Vacant property prices averaged \$793,000 per acre in Southern Nevada during the first quarter, reports Applied Analysis, a Las Vegas-based economic research firm. During that period, 887 acres were sold with an average sale price of \$18.22 per square foot, which marks a 13.2 percent year-to-year price appreciation or a 31.2 percent annual gain when Strip resort deals are excluded. Compared to last year, 190 fewer parcels were sold in the first quarter, a 53.7 percent drop, due in large part to a diminishing land supply that is driving prices upward. Construction costs, meanwhile, have risen 12 percent to 15 percent during the last year, despite a slowdown in the housing market. Much of inflation can be attributed to rising prices for raw building materials like concrete, steel and copper, which have been in high demand globally among rapidly industrializing nations like India and China. Furthermore, \$5.9 billion worth of Strip resort construction is planned through 2010, placing a drain on the local labor pool, reports the Las Vegas Convention and Visitors

Authority. Another \$15 billion worth of similar projects is tentatively planned during the next three years, as well. Construction, as a result, is now the state's second largest employer, behind gaming, and the fastest growing employer, reports the state Department of Employment, Training & Rehabilitation. Construction was responsible for 108,300 direct jobs in Clark County in March, DETR reports. The situation has resulted in a workforce crunch, limited contractor availability and high wages.

Lease rates have been unable to offset the rapid pace of rising costs. Average asking rents were \$1.95 per-square-foot valley-wide in the first quarter, just 31 cents more than in 2005, reports [Restrepo/Colliers](#).

"Although rents are going up, it's not at the pace needed to offset the increased costs of land and construction," said Michael Kammerling, senior vice president of Grubb & Ellis' Retail Division. "As a result, developers are being forced to become more inventive. The trend is currently moving toward higher density, mixed-use projects."

Developers are increasingly building "smart growth" projects with strategic site plans, greater densities and more uses in a single master-planned setting. Smart growth components can entail underground parking, taller buildings and public amenities. The strategy creates a greater draw for visitors with multiple features at a single destination. Combining office, retail, residential and other disparate uses enhances a project's synergy and overall performance. Visitors spend nearly double the amount of time per trip at a mixed-use project versus traditional single-use shopping centers, according to the International Council of Shopping Centers, a New York-based industry trade group. A captive audience is highly sought after by both tenants and developers, enabling better leasing activity, higher asking rents and a more fiscally feasible project.

"In order to see the same return on investment from rising land and construction costs, rents will have to go up," said David Grant, vice president of Colliers International's Retail Division. "The market still remains strong with pent-up demand for new residential services, as well as existing tenants seeking expansions."

The new \$750 million Town Square is putting the mixed-use philosophy to practice at the intersection of Las Vegas Boulevard South, Interstate-15 and the I-215 Beltway. The 117-acre mixed-use project is a joint-venture between Turnberry Associates and Centra Properties. The 1.5 million-square-foot development will consist of 150 shops, 12 restaurants and 350,000 square feet of office space. Although the 22-building complex won't open until November, several national retailers have already signed leases, including: Victoria's Secret, Chico's, Lucky Brand, Cache and Tommy Bahama. The project also features an 89,000-square-foot, 20-screen Rave Motion digital movie theater, plus a 24-Hour Fitness, a two-level, 92,000-square-foot Robb & Stucky home furnishings outlet, a 22,000-square-foot Borders Bookstore, and a 50,000-square-foot Whole Foods. Restaurants include the Yardhouse, Brio, Sapporo and Claim Jumper, among others. Town Square incorporates the existing 175,000-square-foot Frye's Electronics superstore at 6845 Las Vegas Blvd. South. Centra/Turnberry paid \$5 million to Clark County for the 16-acre ground lease three years ago. Town Square additionally boasts a 6,000-square-foot children's park, water features and a grand lawn.

"We are creating a one-of-a-kind shopping and entertainment destination for a better visitor experience that will make people more likely to stay longer and return again," said Mike Wethington, Town Square's general manger. "For an office owner and their employees, Town Square will offer an unparalleled level of amenities. If you have a lunch meeting, all you have to do is walk downstairs."

The Plise Companies likewise is building a mixed-use complex at the southwest corner of St. Rose Parkway and Executive Airport Drive in Henderson. The 126-acre development calls for 1 million square feet of office space, 600,000 square feet of retail shops and 2,500 residential units. Infrastructure work on the \$2 billion City Crossing is currently underway, with vertical construction expected to begin in early 2008. The first phase will contain two office towers, seven retail buildings totaling 100,000 square feet, and a 180-unit, five-story residential building with retail below. The site plan also includes a six-story, 160-room boutique hotel, a 9,000-square-foot tavern and three to four restaurants.

The first 50-acre phase is expected to finish by September 2009. It will be followed by a combination of lifestyle and entertainment space ranging from stand-alone pads, inline shops and boutiques. Major national tenants, a movie theater, a fitness center and a spa, along with outdoor plazas, broad sidewalks and lush

landscaping to encourage pedestrian interaction are among the many planned amenities. City Crossing is envisioned as a master-planned, live/work/play campus for baby boomers and young professionals.

"A mix of uses creates a smart-growth project that coincides with the city of Henderson's planning goals," said Jon Field, Plise's general counsel. "It maximizes land-use efficiency, while crafting a high-use, pedestrian-friendly environment that places less strain on public infrastructure. The market is demanding more of these types of projects as land becomes increasingly scarce and the culture moves toward urban neighborhoods."

Other new mixed-use developments include The Gallery Southern Highlands - a 310,000-square-foot live/work/play project at the northeast corner of I-15 and St. Rose Parkway in the southwest Las Vegas Valley. The 100-store, open-air mall is being developed by Southern Highlands Development Corp., an Olympia Group subsidiary.

"I'm not sure how traditional retail development can afford the price of land at this time," said Garry Goett, Olympia's chief executive officer. "Retail malls are going to have to be done in relationship to a mixed-use project in order to be developed."

The Gallery at Southern Highlands will have four restaurants, a 14-screen multiplex theater, 170 loft-style condominiums and 100,000 square feet of office space. Homes and offices will be situated above ground-level retail stores along a pedestrian-friendly main street. The mall will have a two-level underground garage in order to maximize project property. The 14-acre, 10-building complex is scheduled to break ground in the first quarter of 2008, reaching completion by the fall of 2009.

ManhattanWest, meanwhile, is a 20-acre, mixed-use urban complex also located in the southwest Las Vegas Valley. The \$350 million project combines 700 condominium residences with 195,000 square feet of office and retail space. The 12-building development is located at the southwest corner of Russell Road and the I-215 Beltway. It's being built by Gemstone Development, the same firm responsible for the 700-unit Manhattan condominium complex on the South Strip. Plans include 150,000 square feet worth of Class A office space and 43,000 square feet of ground-level retail space, with roughly 30 stores and four restaurants. The first phase, which consists of five buildings (two commercial, three residential), will begin vertical construction in the third quarter this year. ManhattanWest is expected to open in the third quarter of 2008, reaching build-out by mid-2009.

Northern Nevada, like its southern neighbor, is similarly seeing robust retail conditions with new projects migrating to Spanish Springs and other suburbs to accommodate the area's tremendous residential growth. The Truckee Meadows retail market consisted of 13.2 million square feet with an 8.23 percent vacancy rate at the end 2006, reports Colliers International in Reno. Last year 1.2 million square feet worth of retail development was completed in the Reno/Sparks area, including the first phase of the 700,000-square-foot Summit Sierra. The new power center, anchored by a Dillard's, marks the most significant new shopping center in Northern Nevada in nearly 30 years. Another 700,000 square feet of new space was under construction at the end of 2006, with 185,000 square feet worth of expansions at Summit Sierra, Damonte Ranch, Longley Town Center, The Commons and Southtowne Crossing. In northwest Reno, Ridgeview Plaza will complete its 81,000-square-foot expansion in the second quarter of the year along with Las Brisas Shopping Center. A total of 3.8 million square feet worth of new retail projects were planned for the Truckee Meadows at the end of 2006, including the 1.1 million-square-foot Legends at the Sparks Marina and a 150,000-square-foot Cabella's superstore next to Boomtown.

"With the amount of development in the pipeline, we expect the same elevated level of activity in the retail sector to continue throughout 2007," said Roxanne Stevenson, a senior vice president with Colliers Reno's Retail Division. "[We] expect another solid year with steady occupancies and modest increases in rents as families, businesses, retailers and restaurants continue to move here."

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