



May 1, 2007

Las Vegas Hungers for Retail

By Lisa McQuerrey

The high-octane gaming and tourism industries have fueled record growth in the entertainment capital of Las Vegas, creating a booming retail services market that has sparked development, sent retail vacancy rates plunging, and driven shopping center prices to new heights.

The metropolitan population rocketed from 463,000 in 1980 to nearly 2 million in 2006, an increase of more than 300%, according to the University of Nevada, Las Vegas Center for Business and Economic Research. The U.S. Census Bureau ranks the city among the nation's fastest growing. With as many as 6,000 new residents moving to Southern Nevada each month for the past several years, retailers have struggled to keep up with the demand for commercial services.

The Las Vegas retail market ranks No. 4 in the country, with an annual growth rate of 7%, according to the International Council of Shopping Centers. But demand is so great that vacancy rates dipped to 4.2% in 2006, a drop of 60 basis points from 2005. Meanwhile, mixed-use and neighborhood retail projects are popping up like dandelions across the valley.

"There's a tremendous amount of pent-up demand to buy neighborhood-anchored shopping space," says Tom Naseef, president of Coldwell Banker Commercial ETN.

Meanwhile, retailers leasing high-performance locations are generating handsome profits and rarely see a reason to vacate. The lack of available space for prospective new tenants trying to tap into an underserved market is contributing to the current building wave.

Investment sales activity has been brisk. Roughly \$1.26 billion in Vegas retail properties were sold between the end of March 2005 and March 2006, reports Manhattan-based Real Capital Analytics. Only Phoenix and Los Angeles exceeded that volume. And 97% of Vegas retail landlords who disposed of assets in the year ending in March got their asking price or more.

The downside of the boom is that higher prices mean lower yields for shopping center investors, and that has been the case in the casino city. From March 2003 to March 2007, average capitalization rates — or initial yields based on the purchase

price of retail properties — in Vegas fell from 8.35% to 6.52%. By comparison, the average U.S. cap rate for a retail property hovered near 6.75% at the end of March.

What's behind the high velocity of deals? The Vegas economy cha-chinged with nearly 39 million visitors in 2006, an increase of 348,172 over 2005. Tourists are projected to arrive in even greater numbers, reaching 40 million by 2008, according to the University of Nevada.

Casinos generated \$10.6 billion in 2006, an increase of 9.5% over the previous year. What's more, revenues are expected to jump yet another 4.1% in 2007, bringing the total to \$11 billion by year's end. The thriving casino business also requires new workers. Between February 2006 and February 2007, roughly 33,000 new jobs were added in Las Vegas.

Newcomers clamor for stores

The retail services squeeze is especially acute in Southern Nevada's fast-growing neighborhoods and master-planned communities. Grocery-anchored centers, malls, lifestyle centers and single-tenant specialty users are fueling the greatest demand, but every type of retail is needed in newly built areas, says Naseef.

Principal [John Restrepo](#) of Las Vegas-based [Restrepo Consulting Group](#) says 37% of the valley's 37.7 million sq. ft. of commercial retail inventory is located in neighborhood centers, typically anchored by national name grocers. Neighborhood centers boasted the highest vacancy at 3.7%. Power centers, dominated by several large national name anchors, had the tightest vacancy rate at 1.15%. Many fairly well established residential areas of the valley are still viewed as underserved in terms of retail offerings, most notably the northwest and southwest submarkets.

Follow the crowd

In the northwest, Summerlin Centre, a 1.5 million sq. ft. regional retail center, is slated to serve the 22,500-acre master-planned community of Summerlin's affluent population of 95,000. Las Vegas-based Howard Hughes Corp. and General Growth Properties are partnering on the massive project, estimated to cost about \$1 billion, says Tom Warden, a vice president of Howard Hughes Corp.

When it is finished in 2009, the 400-acre Summerlin Centre will offer a pedestrian-friendly "town center" with high-end retailers and four major department store anchors, including Nordstrom.

The Howard Hughes Corp. developed Summerlin's master plan. Warden says it's not uncommon for a residential developer to venture into retail. He points to the synergy created through the General Growth's fairly recent acquisition of the Chicago-based retail REIT Rouse Co. General Growth is one of the nation's largest shopping center REITs.

Another major retail project in the fast-growing area is The Village at Queensridge, a 1.4 million sq. ft. mixed-use urban village development that includes office space, restaurants, a residential component and 700,000 sq. ft. of retail shops. The Mediterranean-themed Village will consist of public plazas, gardens, parks and piazzas.

Comprised of 18 buildings and developed by Baltimore-based Development Design Group Inc., the Las Vegas-based Peccole Family and Executive Homes, The Village is slated for completion in 2008. The project is not designed around major anchors, but will offer a village atmosphere featuring boutique and national-name tenants, according to developers.

Frazzled commuters drive change

In Southern Nevada, high land prices are driving one of retail's most notable trends — mixed-use development and lifestyle centers. While in the past many projects were designed to attract tourists, a large number now target locals.

Chris LoBello, regional manager of Marcus & Millichap Real Estate Investment Brokerage Co., says new residents from the West Coast who are weary of long commutes are helping to shape the trend. "They want to go to one destination and take care of all their business at once."

Town Square, a 1.5 million sq. ft. development scheduled to open Nov. 14, 2007, is designed to capitalize on the trend as a centrally located lifestyle center serving residents and the tourist market.

The property, developed by Turnberry Associates of Aventura, Fla. and Las Vegas-based Centra, is under construction on 117 acres near I-15 and I-215. It will be located on the south end of The Strip, not far from McCarran International Airport. When completed next year, it will feature 150 retail shops, 12 restaurants, more than 200,000 sq. ft. of office space and a cinema and outdoor entertainment complex.

The concept for the \$750 million open-air retail center was so popular that developers began leasing the space in 2004, nearly a full year before the project broke ground. Tenants already signed up include Robb & Stucky Furniture, Abercrombie & Fitch, Hollister Co., J. Crew and Kenneth Cole.

Turnberry has developed more than \$7 billion worth of properties including 20 million sq. ft. of retail. Centra has expertise in regional retail centers and mixed-use properties.

Another central project, the \$400 million East Village, is rising on 44 acres near McCarran International Airport. The 1 million sq. ft. development is targeted for completion in fall 2008.

East Village is being developed by Eighth Wonder, a Las Vegas-based retail and resort development company, and RJM Development, also based in Las Vegas. The

project will offer a mix of regional, national, international and signature tenants as well as dining, entertainment, and banquet and meeting facilities, when it is completed in the fall of 2008.

Las Vegas-based Triple 5 Nevada Development Corp. has proposed another big project, the Great Mall of Las Vegas, a 1.2 million sq. ft. development planned near U.S. 95 and I-215 in northwest Las Vegas.

Situated on nearly 50 acres, the \$1.6 billion project is scheduled to open by 2010. Plans call for the creation of a three-level enclosed mall with 250 stores and shops, 100,000 sq. ft. of office space and 40 restaurants.

While mixed-use developments are becoming more prevalent in Southern Nevada, LoBello of Marcus & Millichap doesn't see the lifestyle center concept taking over big-box and traditional grocery-anchored shopping centers, sporting goods or home furnishing stores. Those uses have typically served as the mainstays of neighborhood retail, he says. LoBello encourages investors and developers looking at Southern Nevada to consider projects with proven track records.

Staying for the long haul

Long-term investors and developers also are investigating opportunities in outlying areas of Southern Nevada that could become the future suburbs of the sprawling metropolis. Communities such as Mesquite, Pahrump and Coyote Springs have master plans on the drawing boards that will require retail components to serve growing populations.

A joint research study by Colliers International and [Restrepo Consulting Group](#) shows that in 2006 Southern Nevada recorded absorption of 1.5 million sq. ft. and completions of 1.3 million sq. ft., nearly a one-to-one ratio, suggesting supply and demand are in balance.

The lowest vacancy rates for neighborhood centers are in the valley's northwest and southwest sectors, and [Restrepo](#) cites future investment hot spots in the Green Valley area of Henderson, a west Las Vegas suburb, and along South Las Vegas Boulevard. In the northwest, [Restrepo](#) notes that the area around Nellis Air Force Base and the Las Vegas Motor Speedway is densely populated with little retail.

Retail investment risks

Local brokers and analysts are keenly aware of the potential risks of massive economic growth. Lofty land costs are one aspect of a booming economy.

"The risk comes in paying too much for the land and in not paying close attention to competitors. The basics of real estate investing stay the same," says [Restrepo](#).

The main risk in retail investment in Las Vegas is tied to housing demand, says Kit Graski, senior vice president of Voit Commercial. If the housing market were to slow, a lot of retail centers anchored by local tenants could be negatively affected.

"The main issue is how we handle infrastructure and traffic patterns," says Naseef, noting that the biggest risk would actually be if some catastrophic event were to occur that affected the global economy and the local tourism industry. "Other than that," he says, "people will continue to come here for jobs, for climate. It's a great place to live."

Lisa McQuerrey is a Las Vegas-based writer.

LAS VEGAS - BY THE NUMBERS

METRO POPULATION:

2.6 million

Source: Nevada State Demographer

UNEMPLOYMENT RATE:

4.0%

Source: Applied Analysis

LARGEST PRIVATE EMPLOYERS:

1. Clark County (government and schools combined)
30,000 employees
2. Bellagio LLC
9,000 employees
3. Wynn Las Vegas
8,500 employees
4. MGM Grand
8,500 employees

Source: Nevada Department of Employment, Training & Rehabilitation

METRO AREA VITAL SIGNS

Office:

11.2% vacancy, 4Q 2006

11.0% vacancy, 4Q 2005

\$20.03 rent per sq. ft., 4Q 2006

\$18.41 rent per sq. ft., 4Q 2005

Source: Reis Inc.

Multifamily:

4.6% vacancy, 4Q 2006

4.0% vacancy, 4Q 2005

\$793 avg. effective rent, 4Q 2006

\$756 avg. effective rent, 4Q 2005

Source: Reis Inc

Retail:

4.2% vacancy, 4Q 2006

4.8% vacancy, 4Q 2005

\$22.32 rent per sq. ft., 4Q 2006

\$21.01 rent per sq. ft., 4Q 2005

Source: Marcus & Millichap

Industrial:

4.9% vacancy, 1Q 2007

4.5% vacancy, 1Q 2006

\$7.37 rent per sq. ft., 4Q 2007

\$5.17 rent per sq. ft., 4Q 2006

Source: Grubb & Ellis

Hotel:

90.3% occupancy, February 2007

90.2% occupancy, February 2006

\$89.24 average daily rate, February 2007

\$83.45 average daily rate, February 2006

Source: Las Vegas Convention & Visitors Authority (LVCVA)

MAJOR PROJECTS:

MGM MIRAGE'S Project CityCenter — This 76-acre, 18 million sq. ft. project will feature a 4,000-room hotel tower, casino and convention center, two condominium towers, two high-end boutique hotels and approximately 500,000 sq. ft. of retail shops, cafes, bars and clubs.

Developer: Perini Building Co.

Completion: November 2009

Cost: \$7 billion

World Market Center is an integrated home and hospitality contract furnishings showroom and convention complex located on a 57-acre campus in downtown Las Vegas. The 12 million sq. ft. facility will include eight buildings and will rank as the largest trade show complex in the world.

Developer: World Market Center LLC and The Related Cos.

Completion: 2012-2013

Cost: \$3 billion

Lofty land costs stymie retail developers

The rock-solid Las Vegas retail market owes much of its success to a residential housing boom, which began in 2003 when a wave of new housing development swept through the city. Home prices soared and demand for new inventory began to skyrocket. According to SalesTraq, a Las Vegas-based real estate research firm, in 1990 the median price of a new home in Las Vegas was \$105,000. The median price had grown by roughly 50% to \$155,000 by 2000. Five years later, the median home price again doubled to hit \$310,000.

In 2005, residential real estate website Realty Times ranked Las Vegas as No. 1 in the nation in terms of real estate appreciation with a 36% average appreciation rate and a five-year average appreciation greater than 84%. By the time the first quarter of 2007 rolled around, the Southern Nevada Home Builders Association reported the median price of a new home in the Las Vegas valley registered \$330,070.

From 2003 to 2005, land prices for both residential and commercial development swelled to unprecedented rates as construction costs rose incrementally. According to Martin-Harris Construction, a Las Vegas-based general contractor specializing in commercial development, land prices jumped from \$200,000 to more than \$700,000 per acre over that two-year span while construction materials costs more than doubled.

With land availability quickly diminishing, retail developers found themselves repeatedly outbid by residential developers at public land auctions. Focus Property Group set a record and established a new benchmark in the local real estate market in mid-2004 when it paid \$707 million for almost 2,000 acres in an auction by the Bureau of Land Management. The acreage had been appraised at just \$310 million.

According to Kit Graski, senior vice president of Voit Commercial Brokerage, plenty of the new retail development in the pipeline or recently completed was constructed on land that was owned before the steep rise in land prices, or on land not zoned for residential, and was therefore quickly absorbed.

"Retailers are finally catching up to housing growth," says Graski. "It's healthy for retail investors as long as the residential markets keep up. Throughout its history, Las Vegas has really not seen much slowdown."

— *Lisa McQuerrey*