

## Real Estate and Development

### Condominium craze cools

By [Brian Wargo / Staff Writer](#)

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The condo speculation boom appears to be over in Las Vegas.

For the first time since the condo boom started in 2003, the number of proposed units in the Las Vegas Valley has declined, according to the first-quarter luxury condominium report issued by Las Vegas-based research firm Applied Analysis.

And the report doesn't include the latest condominium project to fizzle out when the Edge Group announced last week that its W Las Vegas project wouldn't go forward. After months of rumors that partner Starwood Hotels and Resorts had pulled out, the Edge said its Harmon Avenue casino and condo project was canceled.

"I would say the development community is responding to current market conditions, and we have seen fewer new proposals," Applied Analysis Principal Brian Gordon said. "Developer speculation and land price appreciation have subsided. At the end of the day, as demand has leveled off from its peak of 2004 and 2005, developers are seeking to move forward with projects that are financially feasible more so than in the past."

Applied Analysis reported that Las Vegas had a total of 4,214 condominium units at the end of the first quarter and another 13,409 were under construction and 9,546 have begun selling units. In addition, there were 56,302 planned for a total of 83,471 units. That is down from a total of 85,809 existing or planned as of the fourth quarter.

About 2,491 units were suspended and 11,814 canceled, 12 percent of the total.

The days of out-of-state developers buying property and writing up plans on a napkin and issuing press releases to tout sales appears to be over. Rising construction costs, and limited demand, especially with the departure of investors, doomed many projects.

Resort and residential condominiums, however, aren't a passing fad and the long-term outlook is good, Applied Analysis reported, but Gordon said there's insufficient demand to absorb all of the units in the current development pipeline.

"We had a significant number of land owners, speculators and developers entitle property for luxury condo development without a viable business plan," Gordon said. "Developers today are more focused on the feasibility of a project more so than land speculation."

That means focusing on leisure travelers, second-home buyers and future retirees instead of speculators and investors, Gordon said.

Local analyst [John Restrepo](#), principal of [Restrepo Consulting Group](#), said he expects only about 10,000 units of the proposed projects that aren't under construction to go forward over the next five years.

"The market was never as deep as everybody thought it was," [Restrepo](#) said. "While as exciting as Las Vegas is, the one thing that drives high-rise condo sales, if you look around the country, is water views. The Strip is very exciting to look at at night, and certain segments want to be in high-density entertainment environments. But a lot of buyers of high-rise condo units want to be in more urbanized cities with water views."

The market with more potential for Las Vegas residents is mid-rise projects of less than 10 stories in mixed-use settings. That is the more likely evolutionary step than high-rise development, he said.

"While high-rises are being built in Las Vegas, mid-rise projects will be the dominant source of higher density housing for our residents for the foreseeable future," [Restrepo](#) said. "This product offers a variety of benefits that the high-rise market doesn't, not the least of which are pricing, scale and acceptance."

Many observers said the demise of the W project isn't a surprise because many high-end condominium buyers are focused on properties along the Strip if they are going to pay premium prices, said Bruce Hiatt, broker and co-owner of Luxury Realty Group. People want access to the restaurants and other amenities along the Strip, which puts the Harmon Avenue corridor at a disadvantage, he said.

None of the analysts puts Project CityCenter in the same category with the rest of the softening condo market since its amenity-driven project on the Strip has created its own demand.

That success is evident by MGM Mirage reporting there are more than \$1.1 billion in sales out of \$2.7 billion in units it has on the market. Some 205 of the 227 residences at Mandarin Oriental have been sold. The Vdara condo hotel has sold 452 of its 1,543 residences and the two Veer Towers have written deals for more than 220 of its 670 condos, said Tony Dennis, executive director of CityCenter's residential division.

Since the mixed-used project that includes a casino, restaurants and retail won't open until November 2009, Dennis said sales are well ahead of expectations. He said CityCenter is even picking up clients of the former W project since its announced cancellation last week.

"What happened with the W is not a function of the condo market but their financial struggles and relations with Starwood. Not all supply is the same, and CityCenter is a different animal."

As many as 60 percent of the buyers at Project CityCenter are based in either California or overseas, Dennis said. That demand is prompting the opening of sales offices in Beverly Hills and Hong Kong with the next month. About 15 to 20 percent of the buyers are locally based.

"The investor-speculator has gone," Dennis said. "That is sobering to the market but a good thing for us, but we are looking for real buyers. We are building a community."

In a sign of investors leaving the market, Applied Analysis suggested in its quarterly report that as many as 60 percent of all condo units closed in Las Vegas may enter the market during the next 36 months as resales.

At the end of the first quarter, Applied Analysis reported there were 754 luxury units on the market with an average asking price of \$803,900 or \$622 per square foot. Units that sold during the first quarter averaged \$764,500 or \$537 a square foot, the firm reported.

By the end of the year, Hiatt said he expects an 18-month to 24-month supply of condos. That oversupply will eventually decrease because with few new projects planned for the market, that will enhance the value of the existing units, he said.

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