

As Las Vegas grows, local residents fret, Lied study suggests Report says developers, educators challenged by swelling population

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Rapid growth in Southern Nevada continues to be a major concern for local residents, a report from the Lied Institute for Real Estate Studies at the University of Nevada, Las Vegas said.

"While growth is in many ways positive for any community, the rate of growth undergone by metropolitan Las Vegas in recent years has created its share of problems as well," authors of the 25-page white paper, "The Future of Office and Industrial Development in Southern Nevada," wrote.

The Las Vegas Valley's growing population, which has doubled to nearly 2 million people in the last 12 years, presents continuing challenges to real estate development, local governments, environmentalists and educators, the report said.

The report resulted from roundtable discussions in 2006 with more than 50 developers, planners, architects, contractors, real estate analysts, brokers, public officials and bankers.

"I think it was a thoughtful analysis of where the market's been and where it's going and how we need to be mindful of decisions on planning for future development," Lied Institute Executive Director Debra March said. "We've got to be looking at sustainable communities and we need to address transportation. How do we move through the city each day when our roads are gridlocked?"

An overview of issues included population and employment forecasts for Clark County; gaming revenue trends; completion and absorption of office and industrial space; and rents and vacancy rates in those commercial sectors.

Industry analysts such as Moody's Rating Service feel that Clark County is oversupplied with offices. Statistics from [John Restrepo](#) of [Restrepo Consulting Group](#) showed office completions (supply) outpaced absorption (demand) by 1 million square feet over the last five years. The absorption-to-completion ratio was 0.89 in 2006, compared with 1.33 in 2005.

However, office vacancy rates have declined by nearly 4 percentage points in the last two years and rents have increased 10 percent to 15 percent.

"This indicates that if the Southern Nevada market is indeed oversupplied, the effects are not yet being seen in the numbers as would be expected," the report said. "Also of note, the amount of land available for office development is experiencing an issue of pronounced scarcity and appears poised to continue doing so moving forward."

Commercial-zoned land is running at \$30 to \$38 a square foot in the southwest valley and \$20 to \$22 a square foot in Henderson.

Rising construction costs are another major office-market concern. Material costs have increased by 45 percent since 2004 and subcontractors are overbooked by as much as 20 percent because of projects such as MGM Mirage's \$7.4 billion CityCenter.

"The cost of construction is ridiculously high," one roundtable participant said. "We've become victims of our own success."

Brad Schnepf, president of Marnell Properties, said it's becoming increasingly difficult to develop office space in Las Vegas.

"One of the concerns I have is we can always build it, but how far can we push the rent and balance the rent with the product type and continue to attract quality tenants?" Schnepf said.

Marnell recently completed a five-story, 112,400-square-foot Class A office building at Marnell Corporate Center. The office park near McCarran International Airport added 470,000 square feet to the market in three years of development.

Rents are about \$3 a square foot for full service.

"It used to be that we were very competitive in the region, if your options were Las Vegas, Phoenix or Southern California. Las Vegas' advantage for a long time was that it was relatively affordable both in office and housing product and our quality of life. As we move forward and become more sophisticated, prices go up and we're not as competitive," Schnepf said. "I still see myself as being very bullish on Las Vegas in that our amenities package is still very good. We have Broadway shows, the best restaurants in the world, new schools. It's a good place to live."

Although overabundant supply is a concern of the office market, the issue is reversed in the industrial market, the report said.

A key issue affecting the supply of industrial space is the lack of available land. Some estimate that the valley only has 1,000 acres of industrial land.

The Southern Nevada chapter of the National Association of Industrial and Office Properties has championed the need for municipalities to set aside industrial-zoned land for the last several years. The area is undersupplied, data suggest, with vacancy running at 3 percent to 4 percent. Absorption has exceeded completions by 1.26 million square feet over the past five years.

Addressing the need for industrial space gets back to planning decisions such as zoning changes, March said.

"If we change zoning from industrial to residential, we need to make sure we're protecting industrial centers to have a place for industries that are being recruited here so they have a place to be housed," she said. "We need to look to the future, to the south to Ivanpah, and I think we're going to have to look at infill sites and density for mixed-use development, where it's vertical or horizontal."

The consensus of the roundtable groups was that if the gaming industry -- the economic engine in Las Vegas -- does not see how it can be financially affected by problems with industrial development, nobody will pay attention.

"The gaming industry has never been interested in anything more than the gaming industry," one participant said. "When we talk about diversifying our economy, they don't participate because they see any diversification as being to their detriment."

March said the next white paper from the Lied Institute, coming in August, will focus on economic diversification and how to implement the plan from the regional economic study led by UNLV economics professor Alan Schlottmann.

Attracting corporations and large companies to Las Vegas emerged as a conversation topic at the roundtable. At the core of this issue, the group agreed, is that the school system cannot provide prospective employers with a well-educated or technically adept work force.

"Our lack of decent schools is an incredible barrier," a local businessman said. "The overall poor quality of our schools impedes all recruitment, but especially in the white-collar sector."

Other factors such as housing affordability, our "Sin City" image, air and water quality and perceived lack of cultural arts combine to reduce Las Vegas' appeal.

"Our cost of living is currently at 110 percent of the national average," a panelist said. "Housing is more expensive than 40 other markets and we don't offer anything in the way of cultural amenities, which makes us far less attractive to businesses."