

BUILDING NEVADA - JULY 2007

Nevada's Industrial Demand Fuels Growth

by Kathleen Foley

Users of industrial space have discovered the advantages of locating in Nevada, from national companies utilizing Reno/Sparks as a distribution hub for the western U.S., to resort-related enterprises serving Las Vegas' casinos and conventions. However, this popularity comes with a price, as increasing demand for industrial facilities, coupled with a shortage of available land, has raised lease rates in both ends of the state and caused some concerns about the future of the market.

Expansion and Infill in Northern Nevada

"The Northern Nevada market is strong," stated Scott Beggs, director of financial analysis at DP Partners and president of the Northern Nevada chapter of NAIOP (National Association of Industrial and Office Properties). "We're now on the national radar screen for industrial and distribution companies." DP Partners is developing two large projects north of Reno near Stead; the facility at Silver Lake measures 255,000 square feet, and the project at Sage Point includes 231,000 square feet. At the Tahoe Reno Industrial Center (TRIC), 13 miles east of Sparks, DP is building the 300,000-square-foot LogistiCenter East Reno.

The vacancy rate for industrial buildings in Northern Nevada rose from 5.43 percent in the fourth quarter of 2006 to 6.73 percent in the first quarter of 2007, chiefly due to two large buildings being vacated. "Most developers would consider that a healthy vacancy rate," said Paul Perkins, senior vice president for NAI Alliance in Reno. "We showed a negative net absorption of 352,000 square feet during the first quarter, which represents the change in actual occupied space. However, leases have been signed for 1.7 million square feet, so this is a temporary condition reflecting a disconnect between the time leases are signed and the date of move."

At the beginning of 2007, NAI Alliance announced that 3.5 million square feet of spec buildings were underway in Northern Nevada, which represented a record for that market. ProLogis, the world's largest developer of industrial properties, is building a 600,000-square-foot spec building at TRIC and Panattoni Development recently completed a 429,000-square-foot building at the 1.4 million-square-foot Lear Industrial Park at Stead. According to Perkins, most of the space in these projects was leased prior to completion. Panattoni also broke ground in May for a 390,000-square-foot spec building in the Lear Industrial Park Doug Roberts, a partner in Panattoni, said his company is also building two large build-to-suit projects in Northern Nevada, one for H&E Equipment in Reno (20,000 square feet) and another in Fernley for the Pacific Gateway Industrial Center (340,000 square feet).

The success of this market has encouraged two developers to enter the Northern Nevada market for the first time. Union Property Capital, based in the Bay Area, is building a 500,000-square-foot spec building next to the ProLogis building at TRIC, and Seattle-based Tarragon Development is constructing a 407,000-square-foot building in Spanish Springs, north of Sparks.

Most of the new construction in the Northern Nevada industrial market is due to the expansion of existing companies. Of the total 2.3 million square feet of planned projects announced at the beginning of 2007, 2.2 million square feet represented expansion. PetsMart is enlarging its facility from 200,000 square feet to 873,000 square feet, Parts Unlimited is doubling in size and The Tire Rack is expanding by 50 percent.

Dynamic Isolation Systems, a manufacturing firm, is constructing a new building. "It speaks well of our market that companies that have been here awhile have decided to stay and expand," said Perkins.

As in most urban areas, industrial land is becoming scarce near the city center. Although most of the industrial activity is stretching east from Reno along I-80 because of the transportation benefits offered by the highway and the proximity of rail service, opportunities still exist for development north of Reno and Sparks.

However, Roberts said Panattoni Development is also looking at older, centrally located projects in need of redevelopment. "As a company, we're focused on buying existing buildings and rehabbing them," he explained. "In-fill projects can be very successful. We bought a vacant 169,000-square-foot building on Parr Boulevard in Reno, and leased the entire building to the American Red Cross before the rehab project was even completed." Roberts said the main concern in redeveloping older properties is making sure clear-height ceilings are high enough to meet today's standards. Adding T-1 lines and other high-tech upgrades presents less of a problem.

"It is certain that 2007 will see record net absorption and record construction," said Perkins.

Land Scarce in Southern Nevada

While Northern Nevada's industrial market is expanding in response to demand from distribution and manufacturing companies, Southern Nevada is experiencing growing pains caused by a lack of reasonably priced industrial product. Developers are willing and able to build more facilities, but there simply isn't enough land in the right locations at the right price. Although the housing market cooled in 2007, homebuilders consistently outbid industrial developers for land during the previous boom, leaving very few large parcels, and raising the prices for remaining acres to a level that put them out of the reach of industrial developers. "Developers [of industrial products] are used to paying \$3 to \$4 per square foot for land, but if an acre costs \$1 million, which some of them do now, that amounts to \$23 per square foot," said [John Restrepo](#), principal of [Restrepo Consulting Group](#).

A report issued by UNLV's Lied Institute last summer noted the industrial market in Southern Nevada is facing "a potentially crippling shortage of available land" and stated that the Las Vegas Valley contains only about 1,000 additional acres suitable for industrial development.

[Restrepo](#) recently estimated that the supply of industrial land in Southern Nevada would be enough to satisfy demand for a little more than two years. At the end of the first quarter of 2007, he reported that 4.1 million square feet of industrial space was vacant, 2.8 million square feet was under construction and another 5.3 million square feet was planned. Considering that net absorption in 2006 ranged somewhere between 4.5 million square feet and 5 million square feet (depending which company provided the statistics) it is easy to see that the 12.2 million square feet potentially available will be absorbed quickly.

"I agree that our industrial inventory won't last very long, due to the inavailability and high price of land," said Tim Snow, who recently retired as president of Thomas & Mack Development Group (TMDG). "Land is currently selling between \$8 and \$11 per square foot in the Speedway area, and in the southwest along the I-215 Beltway, it's pushing \$20 per square foot. There has been a leveling off in the rate of increase, but not one of the persons with whom I spoke with at a recent SIOR meeting was expecting prices to drop anytime soon. For the next three or four years, I feel industrial land inventory will be very constricted, especially for large distribution and warehouse facilities that need thousands of square feet of space."

[Restrepo Consulting](#)'s figures showed the vacancy rate for industrial properties at the end of the first quarter of 2007 at 4.3 percent, while CB Richard Ellis estimated it at 3.8 percent. Both companies listed warehouse/distribution space with only a 2.7 percent vacancy rate. "We consider 8 percent to 10 percent to be a healthy, sustainable vacancy rate," [Restrepo](#) said. "The market now is much too supply-constrained. In the long run, that's not good because it can dampen economic growth." Donna Alderson, senior vice president of CB Richard Ellis in Las Vegas, said, "My bigger concern is further down the road. The more expensive the land, the more the lease rates go up. Rents have risen between 15 percent and 20 percent in the last 18

months. I don't anticipate lease rates going down - they should hold steady - and there's still some room for moderate increases, but if the current rate of increase is sustained, [Southern Nevada] will no longer be competitive."

[Restrepo](#) agreed, "If you are leasing industrial space and you need to be located in Southern Nevada because your clients are hotels or conventions, then you'll just have to hold your nose and spend whatever it takes to stay here. The cost of real estate is definitely part of your business plan in deciding where to locate, but so is your customer base."

Alderson and [Restrepo](#) both noted that companies with no ties to the resort or gaming industries could move to the Inland Empire in Southern California, to Phoenix, which has an abundant supply of land, or even to Texas or Colorado.

Developers may also migrate to other markets where land prices make it easier to "pencil out" a project. "Another option for industrial developers is to convert to building higher-density projects like mixed-use or office," said [Restrepo](#), "but that can be a difficult transition if your specialty for many years has been industrial development."

One creative way to solve the problem of scarce, expensive land would be to go back 60 years in a time machine and buy land when it was cheap. Of course, you'd also have to pick just the right location, preferably where two major highways intersect. The Thomas & Mack Development Group did the next best thing by cashing in on an investment made in 1946 by the father of Jerry Mack, one of the company's founders. According to Tim Snow, the elder Mack was expecting Nellis Air Force Base to expand, so he paid around 25 cents per square foot for a 100-acre parcel of land north of the base in North Las Vegas.

That parcel is now located at the intersection of I-15 and the northern leg of the I-215 Beltway, in an area near the Las Vegas Speedway that is ideal for industrial development. Northern Beltway Industrial Center LLC, a company specifically set up to develop the project, is building a 100-acre master-planned industrial park consisting of 10 buildings totaling 1.9 million square feet. Although TMDG owns most of the company, it also includes minority partners, such as Tim Snow, who is assisting with development.

Phase I of the project consists of two concrete tilt-up buildings at Range Road and El Campo Grande Avenue. One will contain 188,950 square feet and the other 234,836 square feet, with space divisible to nearly 25,000 square feet and clear-height ceilings between 28 feet and 30 feet. General contractor Martin-Harris Construction tilted-up walls for this phase in May. Another 140,000 square feet is planned for the next phase and scheduled for completion by the first quarter of 2008. An additional 600,000 square feet should be finished by the end of 2008.

Kevin Higgins, senior vice president of Voit Commercial Brokerage, leasing agent for the Northern Beltway Industrial Center, said, "We've received inquiries from local and regional distribution companies looking for spaces from 60,000 square feet to 500,000 square feet, and even some regional manufacturers. If you're looking for space today and need between 60,000 square feet and 100,000 square feet in North Las Vegas, you have only three choices, including ours. If you need more than 100,000 square feet, you'd have maybe two choices. Availability is very tight, especially for large users. Buildings under construction now are leasing up quickly."

The North Las Vegas Market

One of the other large developments in the North Las Vegas market is DP Partners' LogistiCenter, a 102-acre business park that will eventually contain more than 2 million square feet. DP plans to complete the fourth of seven buildings at the site in the third quarter of this year, a 513,000-square-foot big-box project. At the Golden Triangle park, a 190,000-square-foot building is scheduled for completion in September and a 500,000-square-foot building nearby will break ground in the third quarter. Panattoni will soon complete the 492,000-square-foot Cheyenne Industrial Center, and Doug Roberts reported that all five buildings are either leased or sold.

Since North Las Vegas is one of few places in the Las Vegas Valley with large parcels of land suitable for industrial uses, it has been on developers' radar screens for several years. However, as Mike Majewski, director of economic development for the city of North Las Vegas, pointed out, having infrastructure like roads, sewer and water lines in place makes land even more attractive to developers. During the past year, the city has been organizing property owners in the Speedway area, where there is about 900 acres of land suitable for industrial big-box uses is located south of the I-215 Northern Beltway, north of Las Vegas Boulevard and Nellis Air Force Base, west of the racetrack and east of Range Road.

City officials are working with landowners in this area, including owners of small parcels as well as the Northern Beltway Industrial Center, to form a Special Improvement District (SID). "By placing a tax burden on the parcels, the SID will have the funds to construct the needed infrastructure, for example, adding an interchange off the I-215 and bringing sewer lines in several miles," explained Majewski. "The private sector wants to get things out of the ground quickly, but the city doesn't want a hodgepodge of small projects. If property owners cooperate, we'll have things ready to go with zoning and infrastructure in place over the next 18 to 24 months. This should enable us to build enough industrial inventory to fill demand for the next five years."

Majewski was also confident that the city would be successful in getting the federal Bureau of Land Management (BLM) to release more land, which could be earmarked for industrial development. "The city of North Las Vegas is pursuing an extension of the BLM disposal boundary, and this land will all be zoned for industrial uses because it's in the flight path of Nellis Air Force Base," he said. "It might be suitable for manufacturing, as well as less dense uses, such as open storage. This will come online within five years, assuming Congress can get approval to extend the boundaries. That would give us an additional five to 10 years of inventory."

Keeping an Eye on Government

Although economic development agencies like Majewski's are cooperating with industrial developers, that's not always the case in other branches of government. Scott Beggs said the newly formed Northern Nevada chapter of NAIOP was greatly interested in proceedings at the recent session of the Nevada Legislature. Representing business interests at local, state and national levels is one of NAIOP's main objectives, and both Nevada chapters closely monitor any legislation that could negatively impact the market.

"My main concern is that legislative and governmental issues may impact development in Nevada," explained Beggs. "The weight-distance tax proposed in the last legislative session would have charged trucks over a certain weight 15 cents for every mile they drove on Nevada highways. I understand that legislators were looking for ways to bridge the gap in the transportation infrastructure budget. However, they may not have realized that the burden would be borne by the tenants in our industrial properties. A razor's edge of difference - even a quarter of a penny per square foot - may be the difference between a distribution center locating in Nevada or choosing to go somewhere else, and a very small price increase may convince current facilities to move. We need to make people understand the downstream effect these laws may have, and that's where NAIOP comes in."

Beggs said the need to fund infrastructure should be balanced by a realization that many industrial and distribution companies come to Nevada because of its pro-business environment. "Companies fleeing California are coming here because of our low costs and also, the quality of life available here," he said. "We need to intelligently manage growth. Yes, we are experiencing a certain amount of growing pains, but legislative issues might impede growth, and could even turn us into another over-regulated state like California."

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