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## In Business Q and A

### John Restrepo, Principal of Restrepo Consulting Group

 Interviewed by [Brian Wargo / Staff Writer](#)

He's the man behind the numbers.

Former New Orleans resident John Restrepo runs the oldest Nevada-based economic consulting firm in the region. Restrepo Consulting Group, formed in 1997, works on behalf of local governments, developers and the resort industry to study the feasibility of projects and what their economic effect would be. It also tracks trends in the office, industrial, land, retail, and housing and condo market.



John Restrepo, Principal of Restrepo Consulting Group.

SAM MORRIS / STAFF PHOTOGRAPHER

Restrepo's firm has had clients such as Howard Hughes Corp., American Nevada Company, Las Vegas, Henderson, North Las Vegas, Clark County, MGM Mirage, Boyd Gaming, the Regional Transportation Commission and Southern Nevada Regional Planning Coalition.

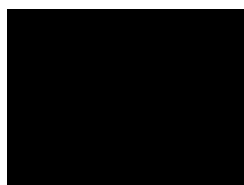
Restrepo is president-elect of the Las Vegas chapter of the National Association of Industrial and Office Properties.

The 55-year-old economist moved to Nevada in 1988. He was the former director of the local office of Coopers & Lybrand, now known as PricewaterhouseCoopers.

Restrepo has a master's degree in economics and Latin American studies from Louisiana State University. He is chairman of a UNLV economics department citizen's advisory committee.

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**How have your studies and tracking trends changed over the years?**

What has changed more than anything else is the availability of computer technology to do more and more accurate forecasting models than we used to do in the past and the availability of information on the Internet. The strength of a good consulting firm is not so much a financial model or computer-based model. Anyone can buy those on the Internet or design one themselves. Nor is it the availability of data. Everyone has access to data now. The critical thing that made us successful is the ability to provide proper interpretation of the data. That only comes from one of two things. One is being educated to understand the data to interpret them properly. Second is years of experience. A lot of this work can't simply be learned in school or off the Internet. You have to have years of experience to understand trends and interpret them properly. It is no different than learning a language in many ways. We are learning a language of economics, gaming and real estate.

**What work are you proud of?**

I think the thing we have done in recent years that has been great for us, that we are very proud of, is the work we have done for the Regional Planning Coalition on the workforce housing issue. We released a study a couple of years ago on the issues, trends and concerns we were seeing in the workforce housing market. A lot of those concerns we brought up two years ago have happened.

**What about the study was important?**

We were asked by the Regional Planning Coalition to look at whether we were having a workforce housing problem — was there a mismatch between the price of housing and incomes and were we having problems housing our workforce population? That study was commissioned in 2005 at the peak of the housing market. At that time, we identified some serious issues relative to the disconnect between income and wealth and rapidly rising housing prices. We provided a couple of hundred pages with tables, text and analysis that have been used as a strategic planning document by the Regional Planning Coalition and its members. We looked at this issue and said we no longer have a community where we can say housing is affordable. Things have changed in the last few years, and let's look at the reality of the statistics and develop some strategies on how to address these issues. It is a complex issue. No city in the country has solved the problem. But at least in Southern Nevada we are looking at workforce housing as an important issue for a variety of reasons, not the least of which is workforce housing and housing affordability are closely tied to economic

diversification and economic development.

### **How is Las Vegas diversification going?**

We have diversified slowly but steadily. If you look at it by industry, it is not dramatically different now than it was in 1990. We are slowly diversifying — not at the rate some of us would like to see — but we are making progress. The challenge for us now is that in the past we were seen as a low cost, moderate cost of living community. We can no longer say Southern Nevada is a low-cost community because of the housing.

### **Other than your workforce housing report, what else are you proud of?**

The second thing is the economic impact analyses we have done. That has to do with what is the benefit to the local economy and local government of some of the large-scale projects we are building. We often forget building large-scale projects such as Project CityCenter, which we worked on, or the M Resort in Henderson, have huge economic and fiscal benefits to a community. That kind of work has been very rewarding to us. We have been able to show our public-sector clients and private-sector clients that this development provides a huge number of jobs and economic activity.

### **Why do they want these studies?**

Partially, they want to show the local agencies they are dealing with and negotiating with for entitlements that we are providing economic benefits to your community and tax benefits. No. 2: The local agencies want to know about the benefits of the projects they are about to approve — zoning approvals and entitlements and those sorts of things — what benefit they are providing. Third: A lot of our clients want to know for themselves. They build a project like Project CityCenter, a project like Summerlin Town Center or The District, they want an independent third party to quantify it.

### **You work with sustainability as part of a study with the Southern Nevada Regional Planning Coalition. Are you involved in the formation of a think tank on sustainability at UNLV?**

We are not officially involved. They called us, and we provided them some information and data. The whole issue of sustainability is incredibly important to us. We talk about a sustainable environment — the land resources, water resources and air resources,

but we also have an important component of that: the sustainability of the economy and what does it mean to have a sustainable economy? It involves what kind of economic growth and economic development should we target. What kind of tax policy should we have to support a sustainable economy? The whole issue of sustainability is pretty broad, and we tie into that as the president-elect of (the National Association of Industrial and Office Properties). We are talking about economic sustainability as well because it is important to our members, and we think it is important to the future of Southern Nevada, obviously.

**What is the focus of the association going to be when your term starts in January?**

The focus for this coming year for NAIOP and my approach, and the board is on board with this, is focusing on four areas: the whole issue of land availability for commercial development, green building, infrastructure as it relates to transportation (rail and road) and ... providing more educational opportunities for our members.

**What are you focusing on with land availability?**

We will look over time if the Southern Nevada Public Lands Management Act is working as it should in providing land opportunities for commercial development. We have had an issue with that. Part of the issue is how the (Bureau of Land Management) appraises land. It sets a minimum from the appraisal and sometimes it discourages people from bidding and sometimes you pay a little more. Maybe it needs to be a more open auction process, and no minimum is established, and let the market set the standard. We are looking at how we can work with the jurisdictions and the BLM to maybe designate certain land during the auction process for commercial development only to provide a jobs-housing balance. This goes back to how do we balance land uses in a way that promotes economic sustainability.

**What is the concern about land?**

That there is not enough commercial land out there to support economic development. That has cooled off because the residential markets have cooled. There is less demand for residential land for developers. That's one of the good side effects of the cooling-off of the housing market — it allows the development community as well as the public sector to step back a little bit and revisit planning.

**Land prices have fallen. Is that helping?**

Land prices have not fallen dramatically. What they have done is stabilized. There is a lot of vacant land per se, but the commercial developers, particularly industrial developers, need larger tracts. There are a lot of small two- to five-acre tracts, but when you start to look for 20, 30, 40 acres — what they really need — those are scarce. It is not so much a shortage of land per se. It is a shortage of certain types of parcels in certain locations. That's what has driven some of these prices so high.

**What is the concern with commercial development going forward when it comes to land?**

It's not so much with office. The office market, for the most part, adjusts to land prices as need be. Our bigger concern is the availability of industrial land to support our economy. Without industrial land to support a growing community — particularly the driver of the economy in the resort industry — it could pose some problems in the future with economic sustainability. You need a balance of office land, industrial land, retail land, gaming land and residential land.

**What's the need for industrial land?**

What we mean by industrial land in Southern Nevada isn't factories. What we are talking about is warehouse distribution of a certain type, a certain size and a certain location so we can store the goods and products that come into Southern Nevada that fuel the economy as opposed to having those goods imported with higher costs from Southern California or other locations.

**What about the Apex industrial park north of Las Vegas?**

Apex is a little bit out of the way at this point. There are some issues of how far because of federal laws on how far truck drivers can drive a full day before they can stop. Apex is a little way beyond that. They can't get to Apex and then drive back. Apex has some infrastructure issues as well. Our goal is to look at Apex as a potential solution, to look at other areas and to look at BLM land. We have no silver bullet in Southern Nevada. We have a series of little actions that we can take.

**What do you want to do with green building during your term?**

There are some challenges in green building. The jury in many ways is still out in the green building community in terms of the multitenant-speculative market and whether green building makes sense long term. In general, because of the rising prices in oil,

the whole issue of environmentally friendly buildings is here to stay. We just want to educate our members and say look at this very carefully and not ignore the concept of green because it is new. We need to look at things a little differently and green buildings are very important to our members' pocketbooks but also the community at large.

### **You mentioned infrastructure as an important NAIOP issue?**

It is a huge issue and, hopefully, we can get these issues settled at the Legislature because we are very dramatically underfunded in our infrastructure — particularly roads — and it is something that is a concern for us. Often in the valley, we talk about gridlock and how the transportation issues affect registered voters. But what we don't get a lot of discussion about is how do we move goods and services throughout the economy if we have gridlock?

That is a big issue for our NAIOP membership, and it should be an issue for anyone in business in Southern Nevada, particularly the resort industry, to understand there are some constraints emerging in not only moving their workers around, but also goods throughout the valley to service those large resort campuses.

### **What is the solution?**

It is always money. Multimodal is also an issue. We are looking at rail, truck, highway and airports. There is also a question if we have the land capacity for all the roads we need, or do we have to look at the problem a little differently? We have to look at how we take people off the roads and get them into mass transit.

### **How do you solve the problems with funding?**

In our opinion it is a matter of priorities. Maybe, it's looking at our tax structure a little differently and how do we prioritize funding at the state and local levels? There are so many competing interests and needs here in Southern Nevada for public funding of education, health care, mental health care and roads and infrastructure.

### **What other issues are important for people to follow?**

The other issue in terms of where we are heading is tax policy. I think it is a hugely bad idea to be talking about increasing the gaming tax. That could have a dramatic effect on the profitability of the resort industry and, therefore, in terms of its

investment in Southern Nevada. I don't think it is the right time to look at a 15 to 44 percent increase, depending on what proposal you are looking at, in the gaming tax. That doesn't mean we don't have to look at the tax structure more carefully. We need to look at the expense side of the equation — public spending.

**You monitor trends as a consultant. Where is commercial development heading in Las Vegas and its challenges?**

We have a very low vacancy rate of industrial. It is under 4 percent and what we have seen are certain types of companies (warehousing) that either have an option to be in Southern Nevada or look to Phoenix. Sometimes they opt to go to Phoenix because land is cheaper and rents are less. Maybe we don't want those companies or maybe we do. But at least we ought to recognize we are losing some companies — some level of economic growth and diversification because of our expensive land. Companies that have to be here because they are servicing the local economy or the resort industry will pay whatever it takes. We need to be aware that we have an issue — that we can no longer assume that because we are a low-tax state that is enough of an incentive for companies to come here who have options to go to other states.

**Where is the office market heading?**

The office market is kind of weak. We saw a lot of product built in the last couple of years, particularly the office condo market that is now competing with for-lease product. We have seen the office vacancy rate go up a bit to 9.5 to 10 percent. We are a bit concerned about it now. We haven't seen office land prices drop or rents drop, but we have seen it stabilize. If you are a developer, you should be a bit concerned. But on the other hand, it is good to have excess office space because we need that space to accommodate growth for both expanding companies and companies that want to be established in Southern Nevada. Ten percent is healthy, but if you continue to see the vacancy rate go up to 11, 12, 13 and 14 percent, then we have some major concerns. We are then going beyond healthy vacancy. Now we are talking about a real slowdown in the office market. It is too early to tell at this point.

**How did we get to this point?**

A lot happened with the office condo market that was very hot. There was easy financing to buy office space. It was part of the whole easy credit that we saw in the housing market also. It spread to the commercial market. On top of that, the national economy has slowed a little bit, and so a lot of the companies that were thinking about

expanding have slowed as well. It is not necessarily a problem of Southern Nevada slowing but companies that were expanding here are slowing down in their home states. That has softened the office market over the last six months to a year. It is too early to see if it is a longer, deeper issue, but we do have some turbulent waters ahead for the next year or so in the office market.

### **What about the retail sector?**

We are very low, a 2.8 to 3 percent vacancy rate that is anchored retail with a supermarket or drugstore. Anchored is still very strong. The unanchored, we understand, is a little weaker at this point, but we don't track that. The anchored is so strong that certain tenants, certain retailers that want to come here and want to establish operations, can't find the space they need. They are shying away from it because they can't find the locations.

### **Is that a long-term concern?**

There is quite a bit of product being built. We are OK. The bigger issue for retail is we have had good population growth and we will continue to have decent population growth as long as we have \$40 billion of planned construction on the Strip. The issue is wealth. The savings rate here is pretty low. How much more debt can the consumer take on considering the housing market and continue to shop?

### **You have studied workforce housing. What is your take on the housing market?**

We have a major housing correction in Southern Nevada. On the one hand, with the drop in housing prices, we may be able to provide a little more workforce housing than we could have in the past. But at the same time we have had a lot of Nevadans experience negative wealth because their housing is not as worth as much as it once was.

### **Where do you see it heading?**

I think we will have a soft housing market for a couple of years until the economy catches up. The builders have reacted accordingly and adjusted prices, and they are burning off the new housing supply. Our concern is the volume of resale and foreclosures in the market that provide excess supply or demand. I think we will see another 5 to 7 percent adjustment in prices downward over the next couple of years

before it settles.

### **What about the apartment market?**

The area we have a tight supply is the apartment market. We have not been able to build enough apartments over the past two years to accommodate our renter population. That is a function of rising land and construction costs that have made it infeasible to build certain types of large-scale apartment projects in certain locations.

### **What is happening with the high-rise condo market?**

The high-rise market is in hiatus right now. There are some projects that are doing quite well that are located on the Strip where there is a market for tourists and second-home buyers. I think the idea that Vegas as a valley is Manhattanizing and that we would see the freeways ringed with high-rise condos was probably overstated. We found out that we are not producing those kinds of jobs. We are not that kind of community. Those kinds of units are pretty expensive. You are talking about \$400 to \$600 to \$1,000 a square foot for these units. That requires a high level of income, and we are not producing those kinds of jobs. That said, we will continue to see resort-related high-rise condo development as part of large scale mixed-use resorts along the Strip. In the suburbs, we may go to some midrise condo projects. For the most part, we will see four to five story that are going to serve our local population in the longer term.

### **What about Strip condos?**

There is a huge demand for being in Las Vegas and having a place in Las Vegas as a second home. For second-home buyers, the Strip is a very safe investment, but that market has slowed down quite a bit because the whole housing market has slowed. But over the long term, the building of large-scale mixed-use urban resorts that combine gaming, hotels, nongaming hotels, convention space, retail and high-density condos is the wave of the future for the Strip.

### **What about condo-only projects in the future along the Strip?**

I don't think so. We will see a few of those downtown, but for that wave of single-use high-rise condo-only projects, we had our day in the sun for a while.

### **What would you say to those considering investing in a condo?**

It depends on the location. If I was recommending, I would tell someone to make sure you know who the developer is and understand his qualifications. I would suggest they buy in a mixed-use development where you have supporting land uses. That way you are part of a complete environment, and you are protected in your investment.

### **What about condo hotels?**

If you look at a condo hotel as a way to own your own hotel room, fine, but a condo hotel as an investment per se that you can flip and make a lot of money? I don't think it is as good an investment as buying a straight condo unit. I am not a big fan.

### **Where should big-time investors put their money?**

I would tell them to start planning and look at the land market. We still, at the end of the day, have a constraint in the supply of land unlike other communities. Land, while the market has cooled off quite a bit, we won't see a major correction in the land market like we have seen in Phoenix, where land goes on forever. Another is industrial development — buying and managing industrial projects. It is a good income stream from a real estate investment standpoint. Both of these both provide the greatest upswing and the lowest risk.

### **Is there anything different about Las Vegas from other communities?**

We are not so unique that we can defy the laws of gravity and economics. We are finding that out right now with the housing correction. But where we are unique: We have a good relationship with the business community and development community and local governments. No one is interested in slowing the economy or the Southern Nevada miracle, so to speak. There is a vested interest among the resort industry, commercial developers, homebuilders and the public sector to keep that economy going. That is very unique. In most other communities, there is an adversarial relationship between the private sector and public sector. We don't have that here. We forget that and take it for granted. That is one of our greatest strengths and will help us get through some of the challenging times we will see in the next couple of years.

*Brian Wargo covers real estate and development for In Business Las Vegas and its sister publication, the Las Vegas Sun. He can be reached at (702) 259-4011 or by e-mail at [wargo@lasvegassun.com](mailto:wargo@lasvegassun.com).*

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