

Real Estate and Development

Commercial sector might face own credit crunch

By [Brian Wargo / Staff Writer](#)

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Although the Las Vegas housing market struggled with a downturn in 2007, commercial development, even though it slowed, remained a bright spot for the local economy.

What does 2008 have in store?

A key to watch is the effect of the nationwide credit crunch in the housing market on the commercial sector, says [John Restrepo](#), principal of [Restrepo Consulting Group](#). Financing has been slowing for commercial projects.

"Everything we have been hearing in talking to lenders and finance people indicates there will be a credit crunch in the commercial sector in Southern Nevada in 2008," [Restrepo](#) says.

That's bad news for the industrial market whose vacancy rate remains low because of the high cost of development, [Restrepo](#) says.

But it would be good news to slow down development in the office market where there is a danger of an oversupply, he says.

The office vacancy rate in Las Vegas was 11 percent at the end of last year's third quarter. It has the potential to reach 12 percent this year, [Restrepo](#) says. The jump in the cost of tenant improvements has forced some to stay where they are rather than look to moving, he says.

At the end of the third quarter 2.3 million square feet were under construction and another 4 million square feet planned. If all that is built, there would be a four-year supply, he says. The problem has been worsened by the availability of office condos that haven't been leased by the tenant owners, he says.

With that supply, [Restrepo](#) says he expects rents will have a slight growth at the most. Again, the cancellation of projects because of the credit crunch will be key, he says.

In the industrial market, [Restrepo](#) says the vacancy rate should stay below 5 percent in 2008. There are 3.1 million square feet under construction and another 5.6 million planned, [Restrepo](#) says.

"Most of that space will move forward, barring the credit market," [Restrepo](#) says. "While lenders are not high on office, they are still OK with industrial. But even

though we have a healthy industrial market, it can also be affected. Las Vegas has become a hyped market and because of that, some may not get built."

Restrepo predicts industrial rents will increase 3 percent to 5 percent.

Applied Analysis: When it comes to the commercial sector, Jeremy Aguero, principal of Applied Analysis, says commercial markets are looking at unprecedented construction with 13 million square feet of new commercial and industrial space coming on line during the next 12 months.

Aguero predicts office vacancy rates will rise through the first three quarters. Because of the lack of industrial, places such as Maricopa County, Ariz., look more attractive.

"The interesting dynamic is that Southern Nevada is a contrast between the residential and commercial construction sectors," Aguero says.

Although the opening of new megaresorts should spur the economy, the local growth wouldn't be immune from national economic trends. The employment levels are approaching the lowest nonrecessionary growth in two decades.

The slowdown creates some positive aspects for 2008, Aguero says.

"Things might be more predictable, and corrections are helpful in the longer run," he says. "Office space will be offered at lower costs. Slides in housing prices will make homes more affordable to those who don't already own, and some softening in the labor market will increase the number of candidates applying for new jobs."

Aguero says what happens in the upcoming election year will be important to Nevada's future. It's not so much the national election but state ballot initiatives, including one by teachers to raise gaming taxes by three percentage points, as well as initiatives involving school construction and transportation.

"That may be a harbinger of what Nevada will or will not evolve to become in the near future," Aguero says.

Apartment market: The outlook for the Las Vegas apartment market will continue to be strong in 2008, says Chris Bentley, president and a broker with the Bentley Group Real Estate Advisors.

Bentley says the subprime mortgage woes have increased the number of renters. Potential buyers are opting for high-end rather rentals than coming up with a substantial down payment.

He says 2,521 units are under construction and another 7,992 planned.

Occupancy levels fell at the end of 2007 in part because of the shadow market created by the large number of homes for sale. At the same time, rental rates have steadily increased above the rate of inflation.

Bentley predicts that rents will continue to go up in 2008 and that vacancy rates should drop. He expects the rents to grow 5 percent to 6 percent, enticing more investors into the local market.

The opening of resorts on the Strip will bolster demand for apartments, he says. The 40,000 new hotel rooms will create more than 285,000 jobs.

"The early part of 2008, the dust should settle after the lending shake-up, which will allow investment companies time to reevaluate and reposition," Bentley says.

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