Southern Nevada Economic Briefing

The Rocky Mountain Land Use Institute

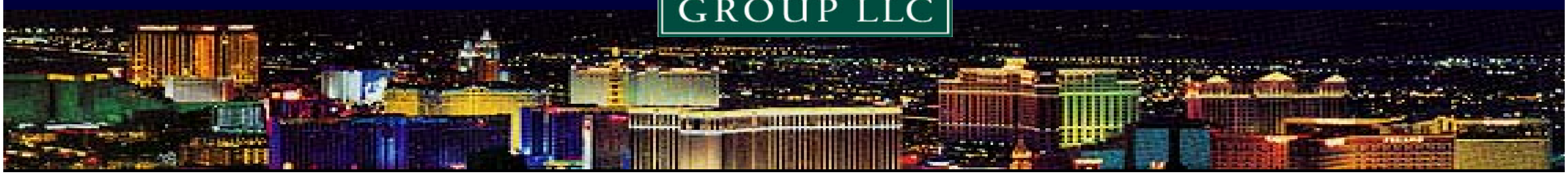
18th Annual Land Use Conference

Denver, Colorado

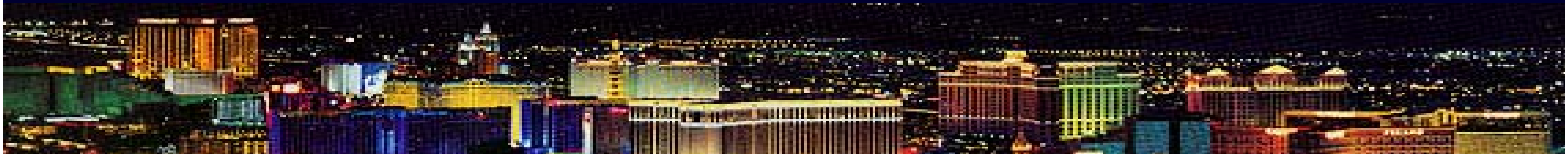
March 5th & 6th, 2009

Prepared by:

RESTREPO CONSULTING GROUP LLC

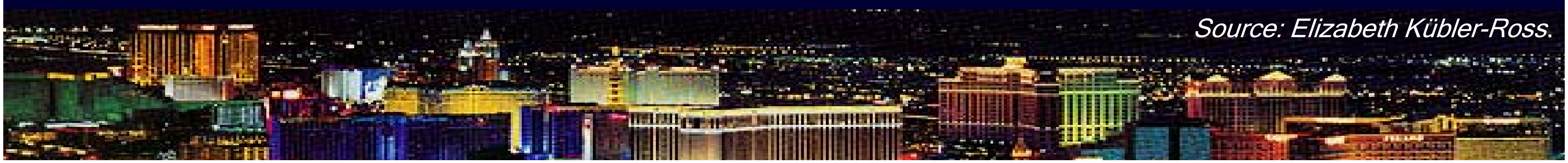


The National Economy



The Grief Cycle: Consumer & Business Confidence

- **<u>Shock stage:</u>** Initial paralysis at hearing the bad news
- **<u>Denial stage:</u>** Trying to avoid the inevitable
- **<u>Anger stage:</u>** Frustrated outpouring of bottled-up emotion
- **<u>Bargaining stage:</u>** Seeking in vain for a way out
- **<u>Depression stage:</u>** Final realization of the inevitable
- **<u>Testing stage:</u>** Seeking realistic solutions
- **<u>Acceptance stage:</u>** Finally finding the way forward



Source: Elizabeth Kübler-Ross.

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2008: What a Year

- ✓ "Only two positions out there: cash and fetal"

- ✓ Recession in full swing, but many market players were denial

- ✓ What went wrong?

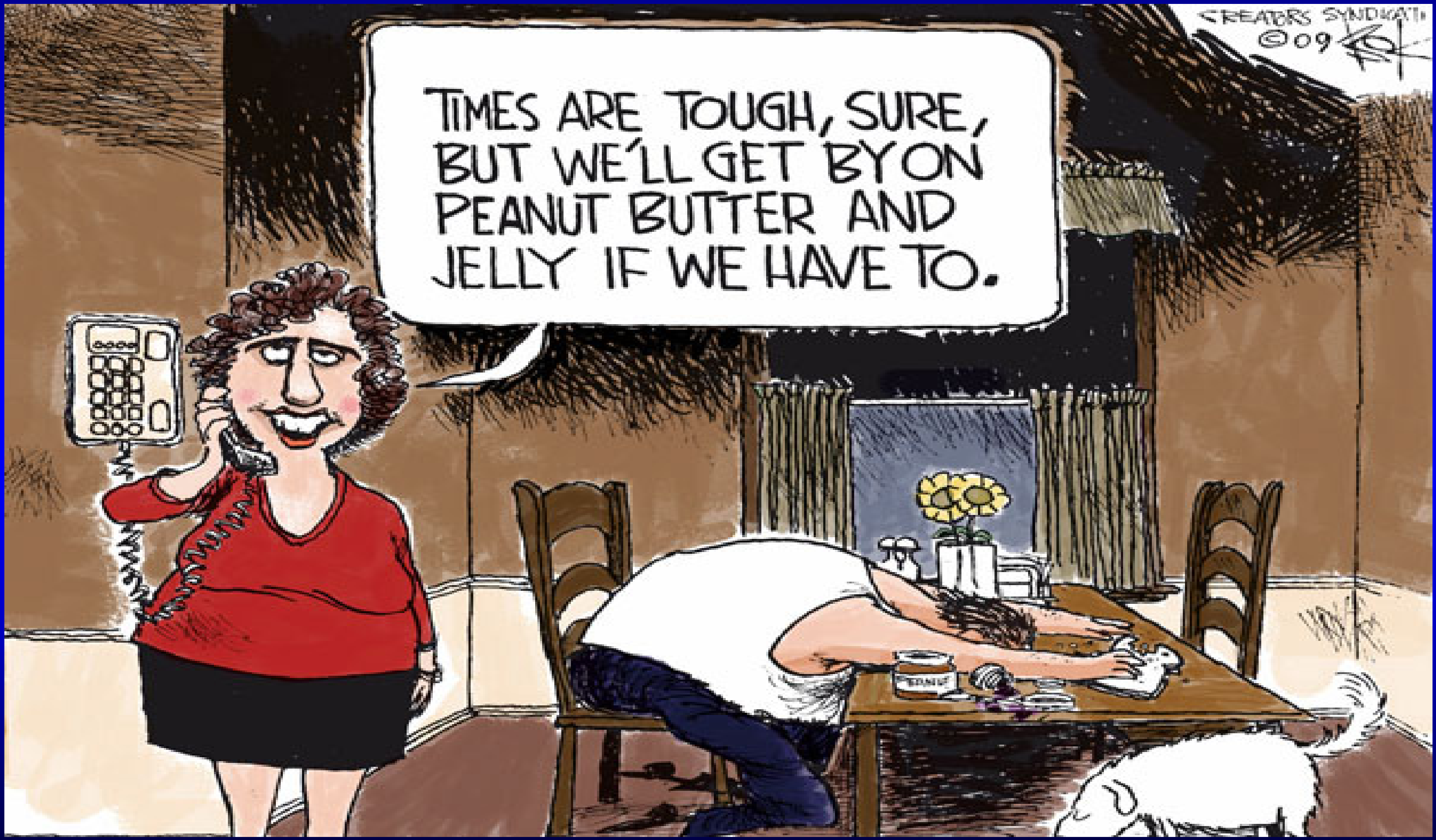
  3 major problems: housing prices, credit markets & consumer confidence/spending

- ✓ What's next?

  Where is the bottom

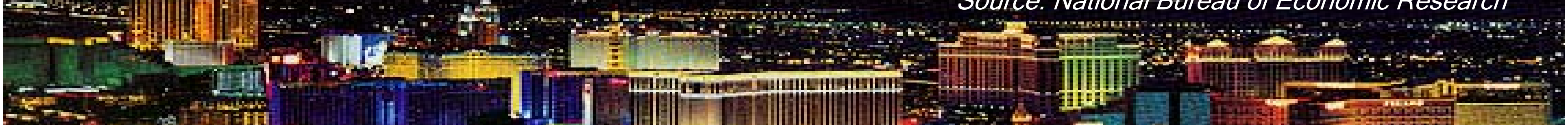
  Recovery will come, but when?

It Could Be Worse . . .



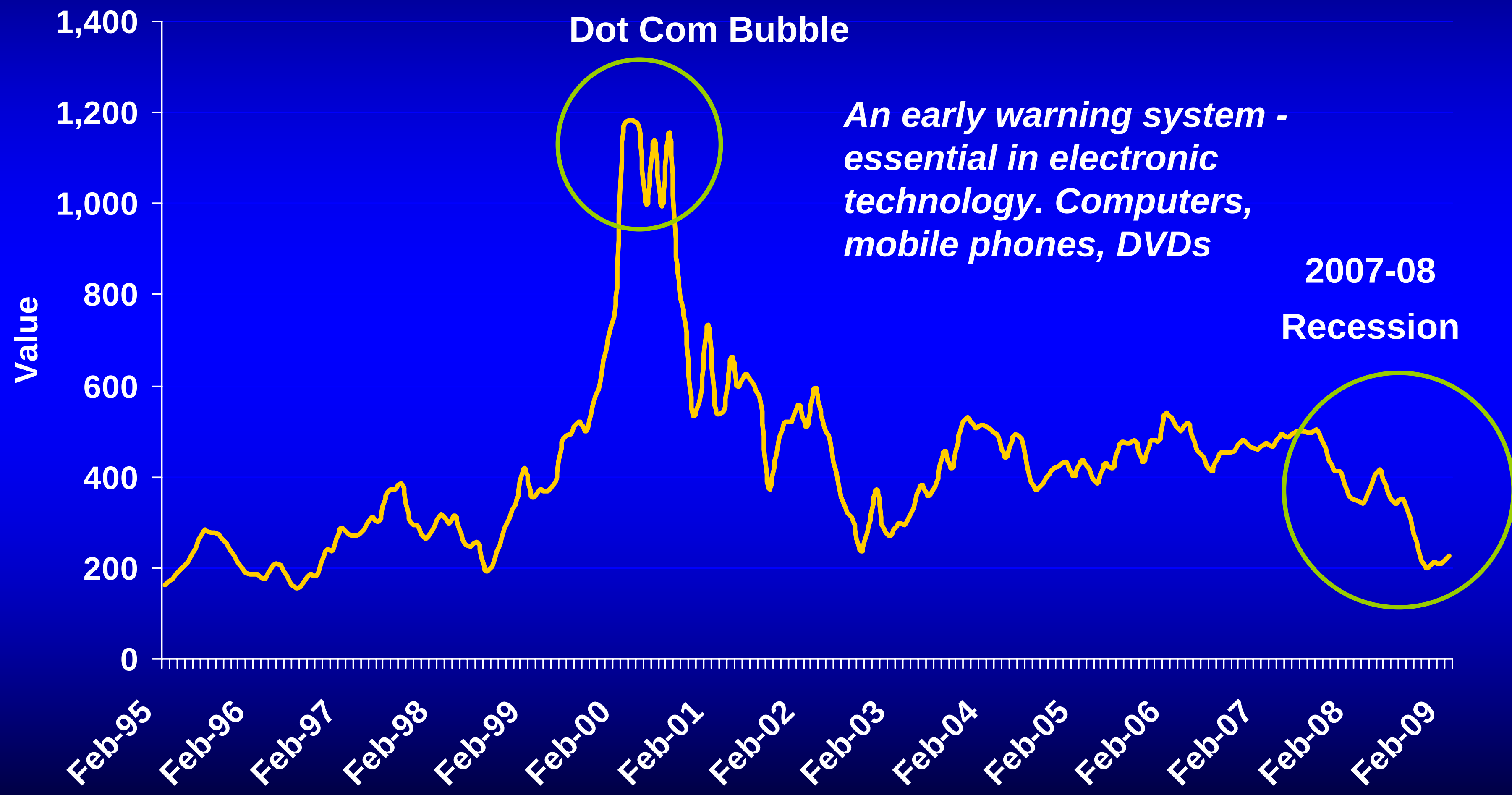
How Bad Is This Recession? Number of Months, By Recession Starting Month: Aug. 1929 – Dec. 2007*

*As of February 2009.
Source: National Bureau of Economic Research



And the Job Outlook?

Semiconductor Sector Index: 2/1995 – 2/2009



Source: Philadelphia Stock Exchange.

2009 Construction Outlook
Overall U.S. Construction Starts Forecast Declines

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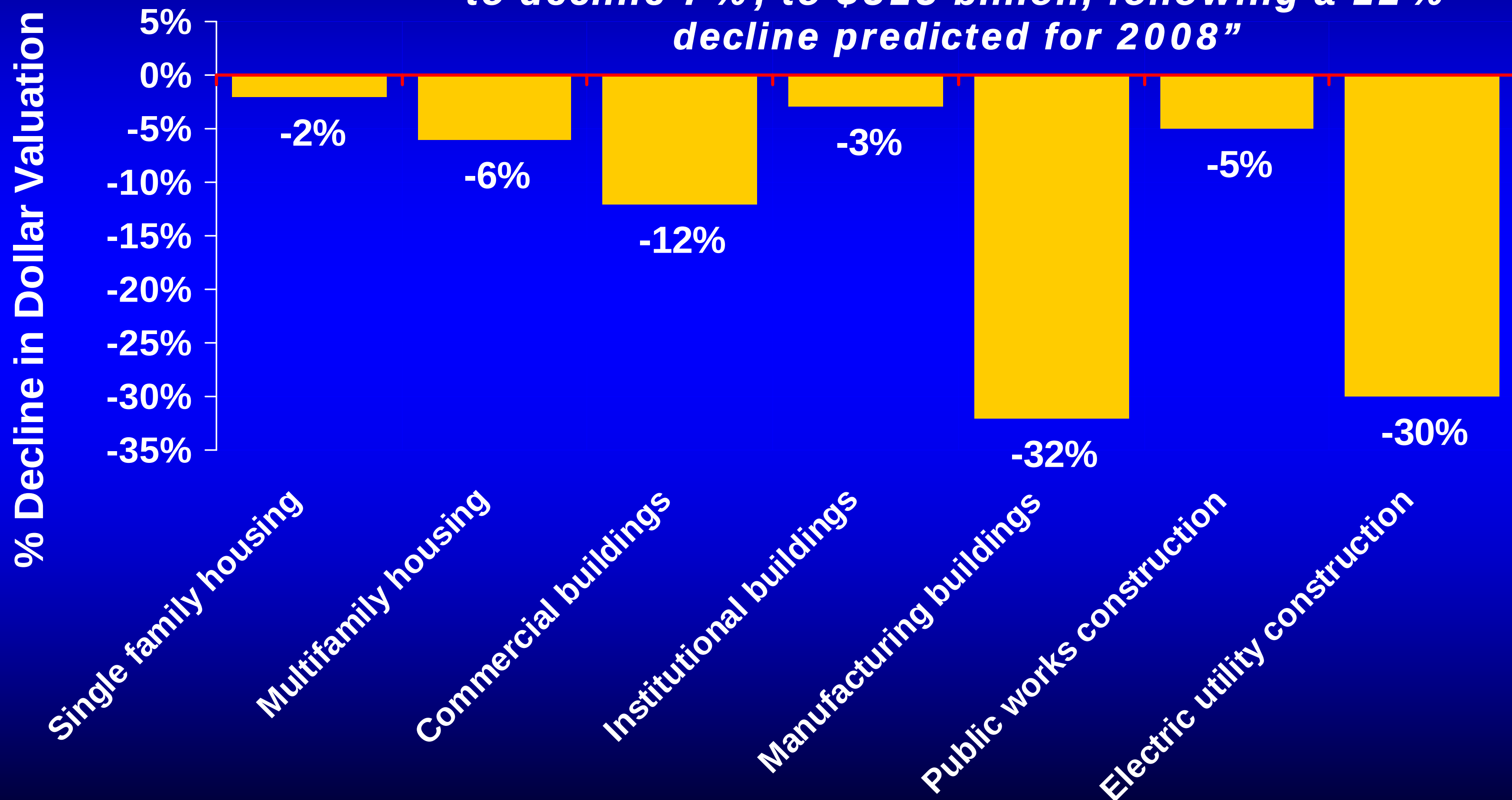
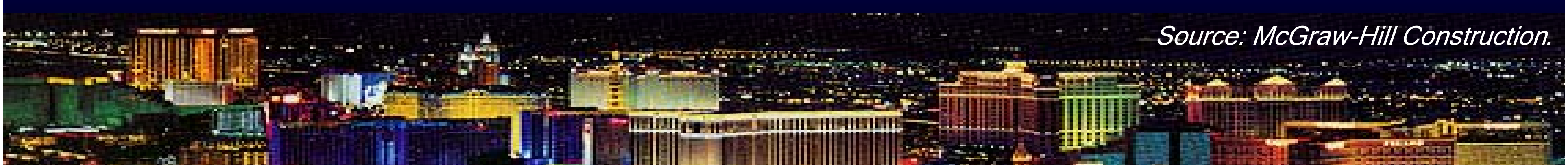
2009 vs. 2008

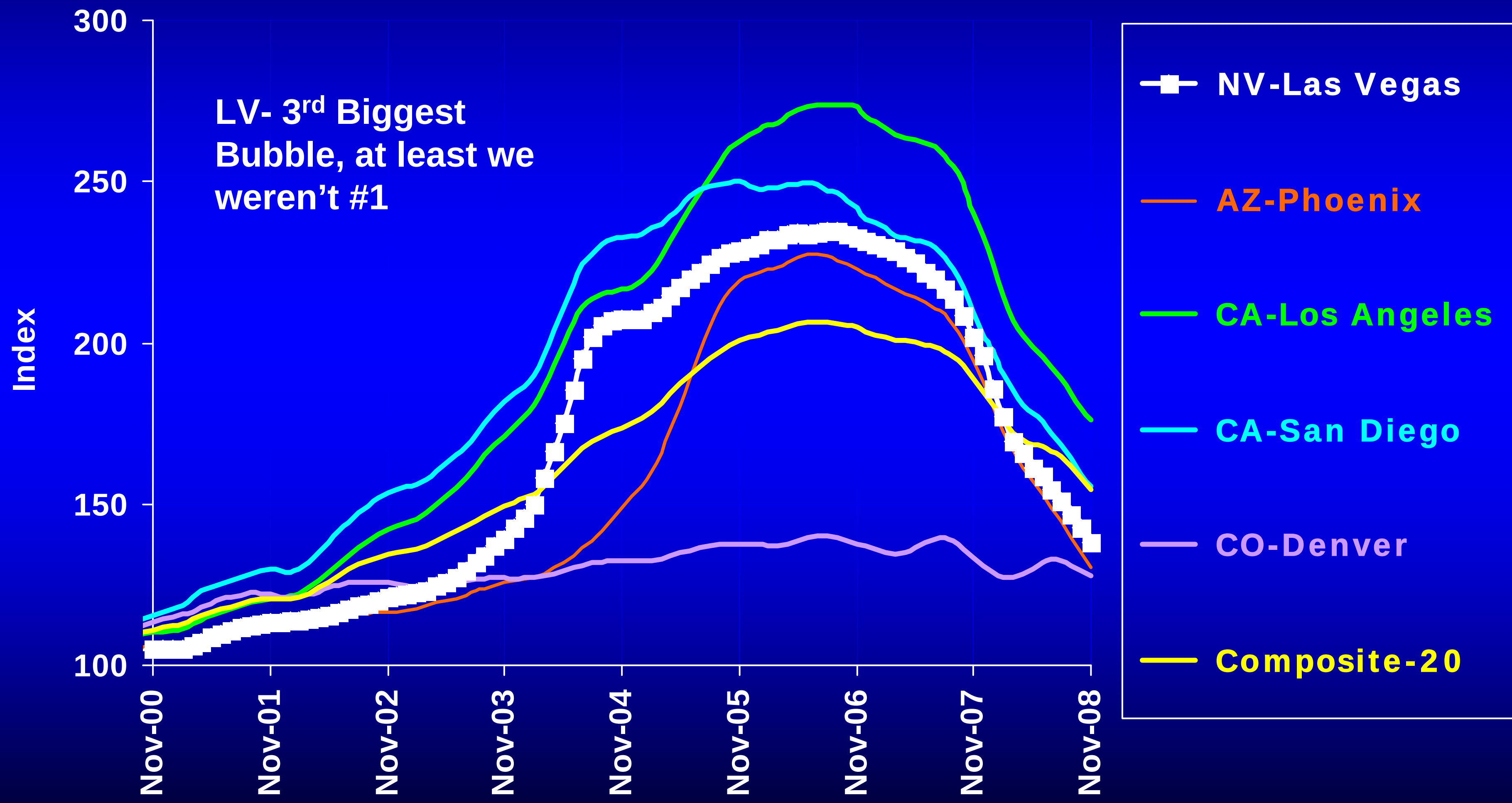
"The level of construction starts in 2009 is expected to decline 7%, to $515 billion, following a 12% decline predicted for 2008"





Source: McGraw-Hill Construction.

S&P / Case-Shiller Housing Price Index
Select Southwestern U.S. MSAs: 11/2000 – 11/2008



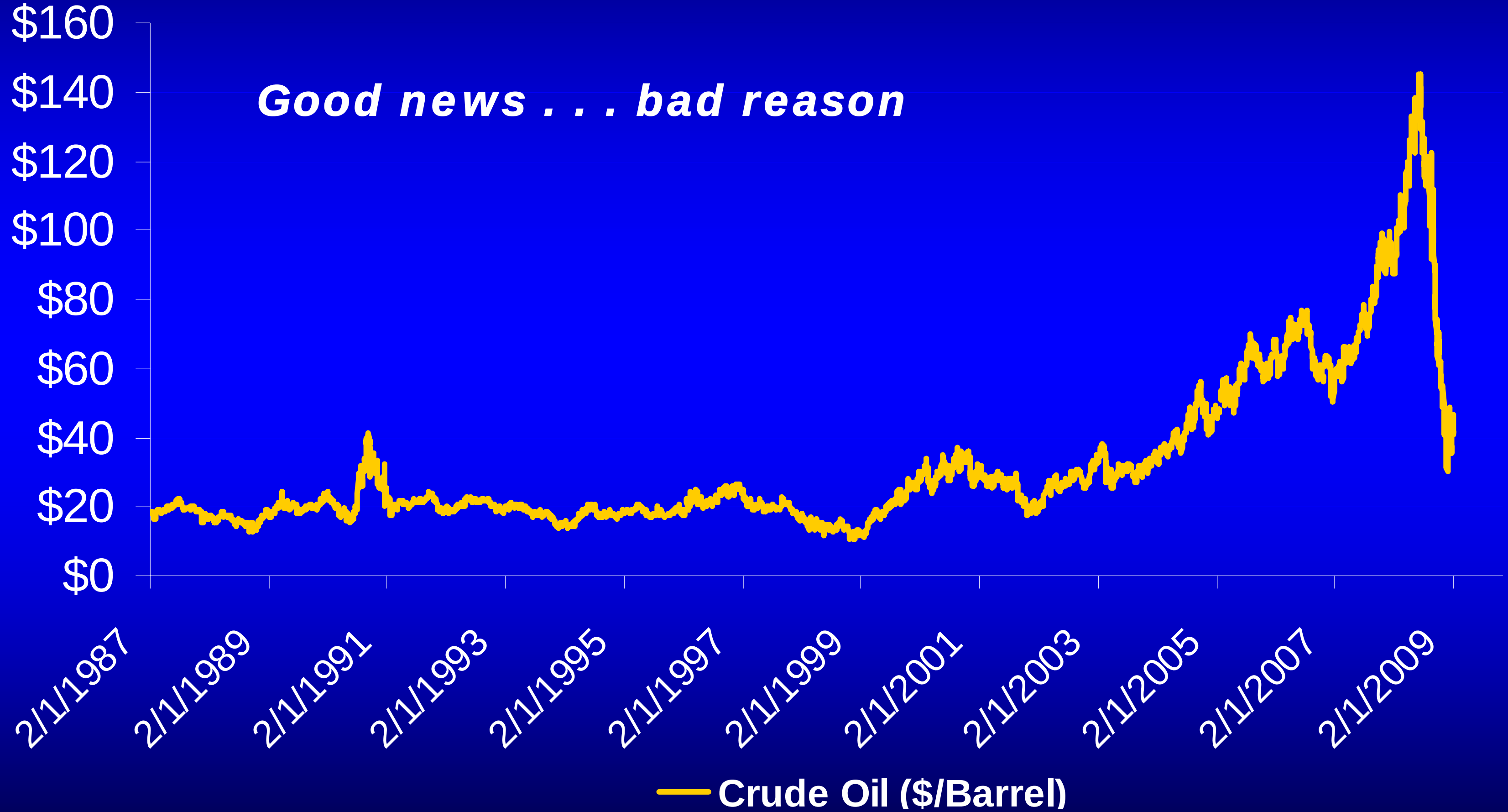
Source: Standard and Poors.

But the news isn't all bad . . .

U.S. Personal Savings Rate as % of Disposable Income
12/1990 – 12/2008

Source: U.S. Department of Commerce; Bureau of Economic Analysis.

U.S. Average Crude Oil Spot Price / Barrel
2/1987 – 2/2009



Source: Energy Information Administration.

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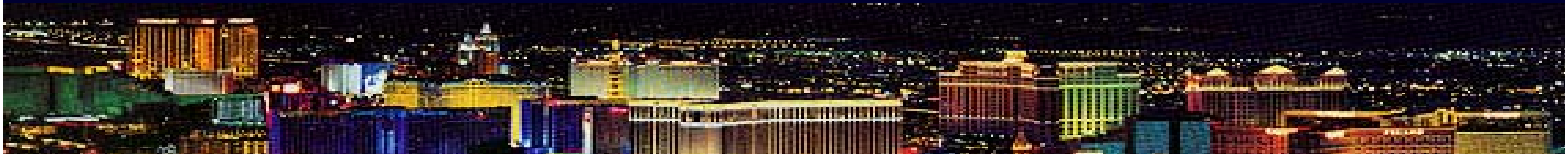
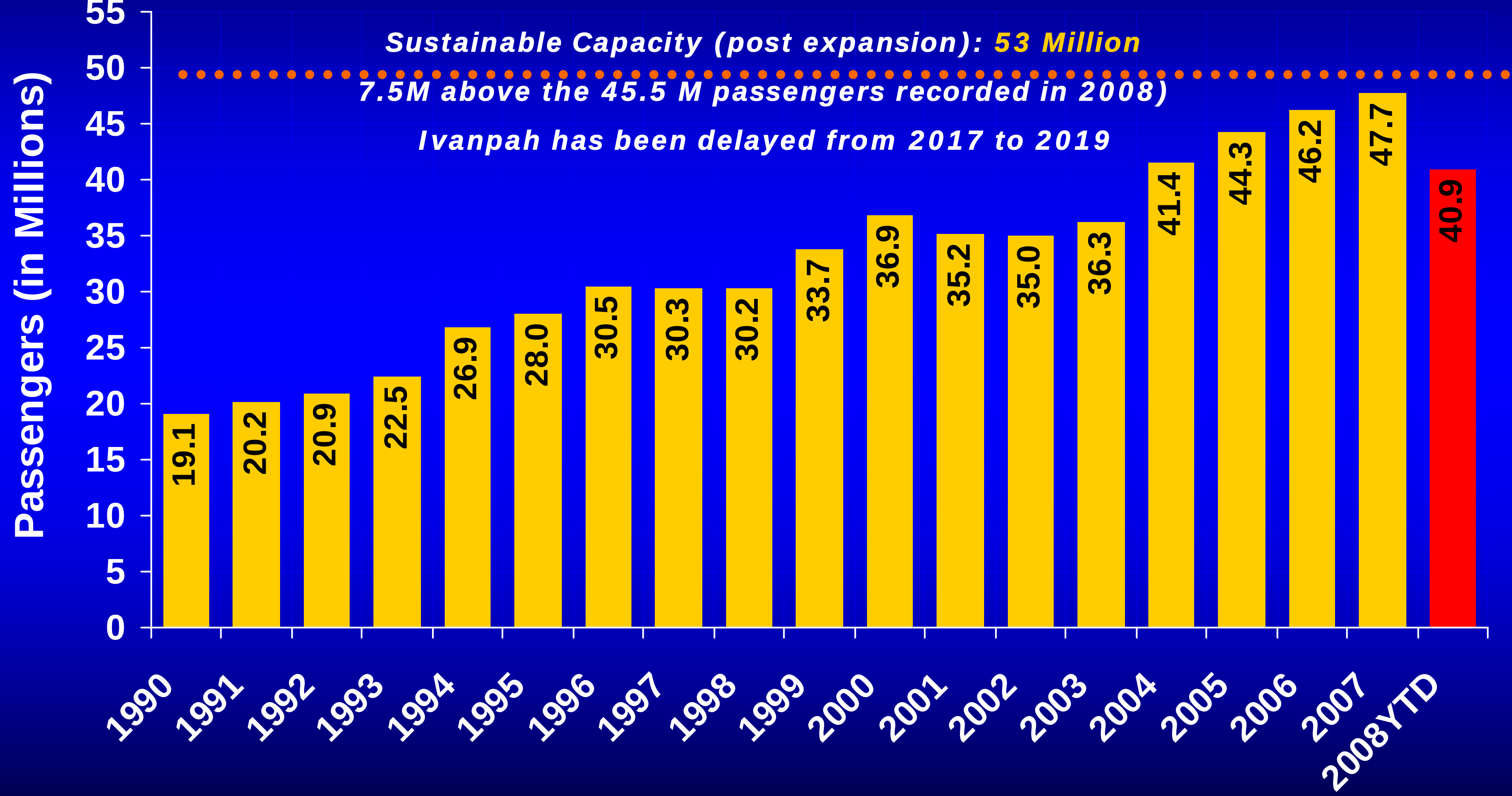
The Clark County & Nevada Economies



Clark County & U.S. Unemployment Rates
12/2000 – 12/2008

Source: Nevada Department of Employment, Training & Rehabilitation.

McCarran Annual Passengers
1990 – 2007, & 2008 (YTD November)



Sources: McCarran International Airport; Deutsche Bank.

Resort Industry Investment: Will They Come?
2008 – 2010 & Undetermined

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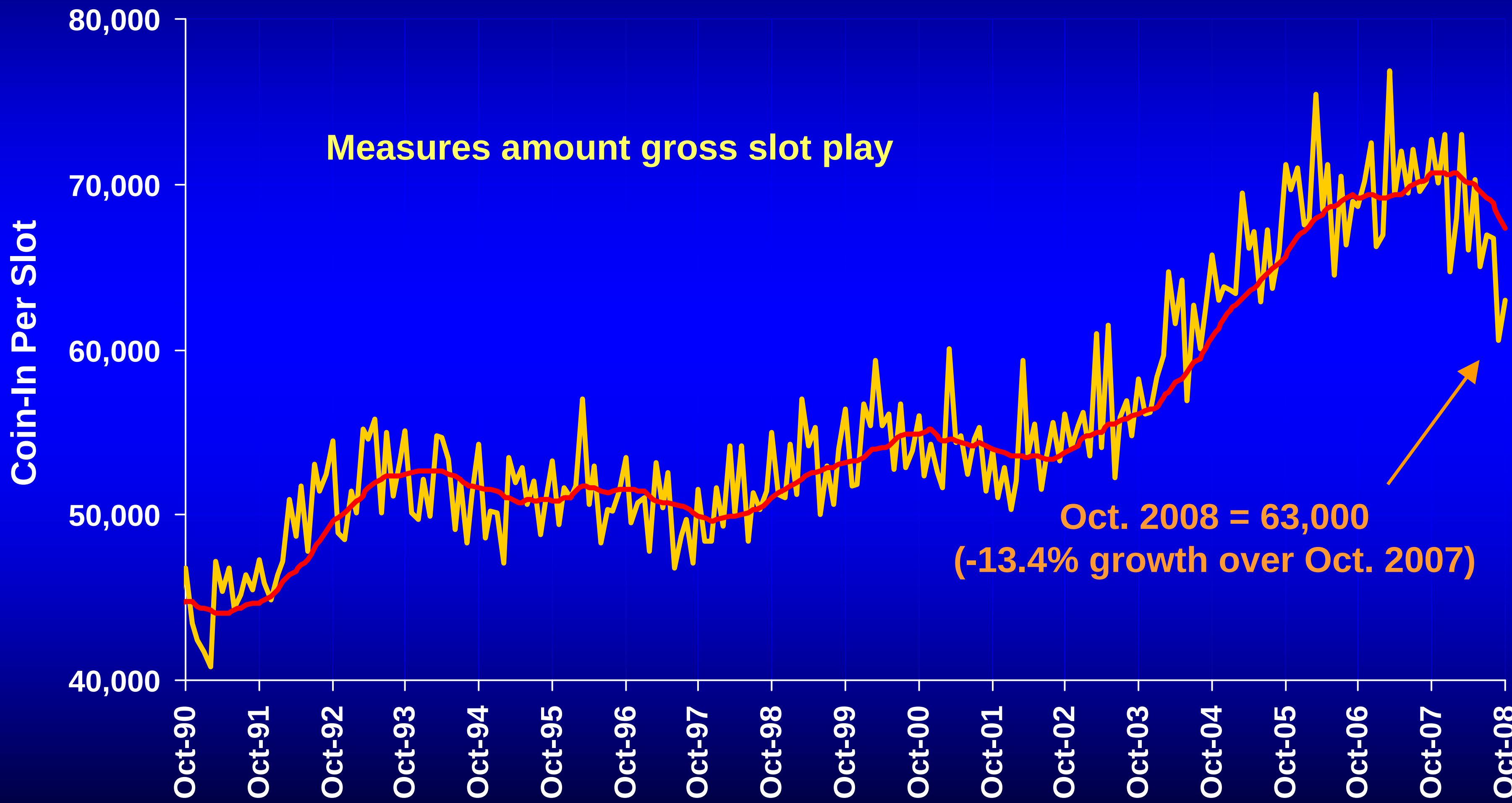
- *$27.1 B (currently under construction)*
- *26,400 additional rooms*
- *66,100 new jobs (direct, indirect & induced)*
- *$2.9B of additional annual wages*

Source: Las Vegas Convention & Visitors Authority. Current as of October 10th, 2008.

Clark County Gaming Coin-In Per Slot Statistical Count, 10/1990 – 10/2008



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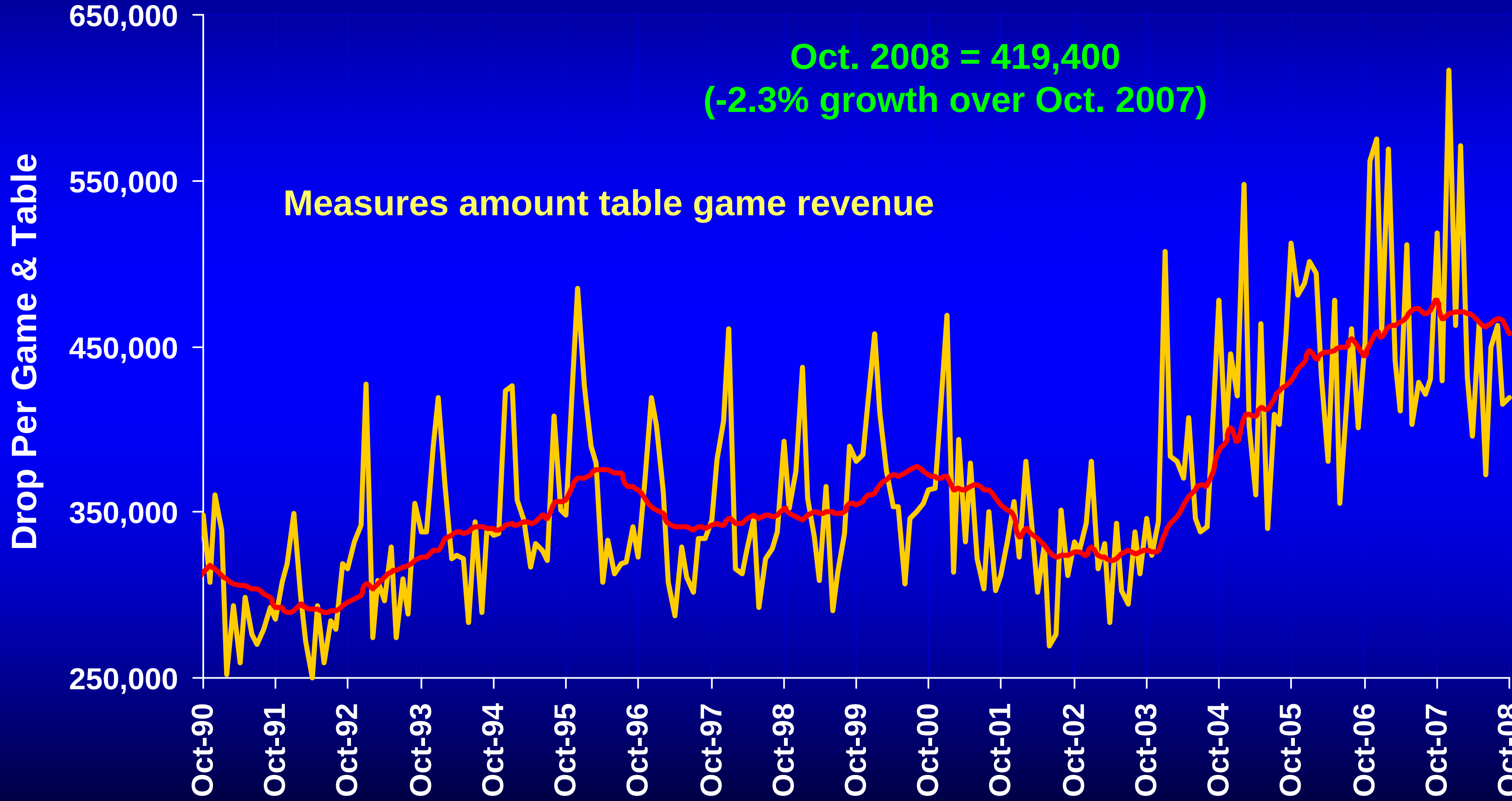
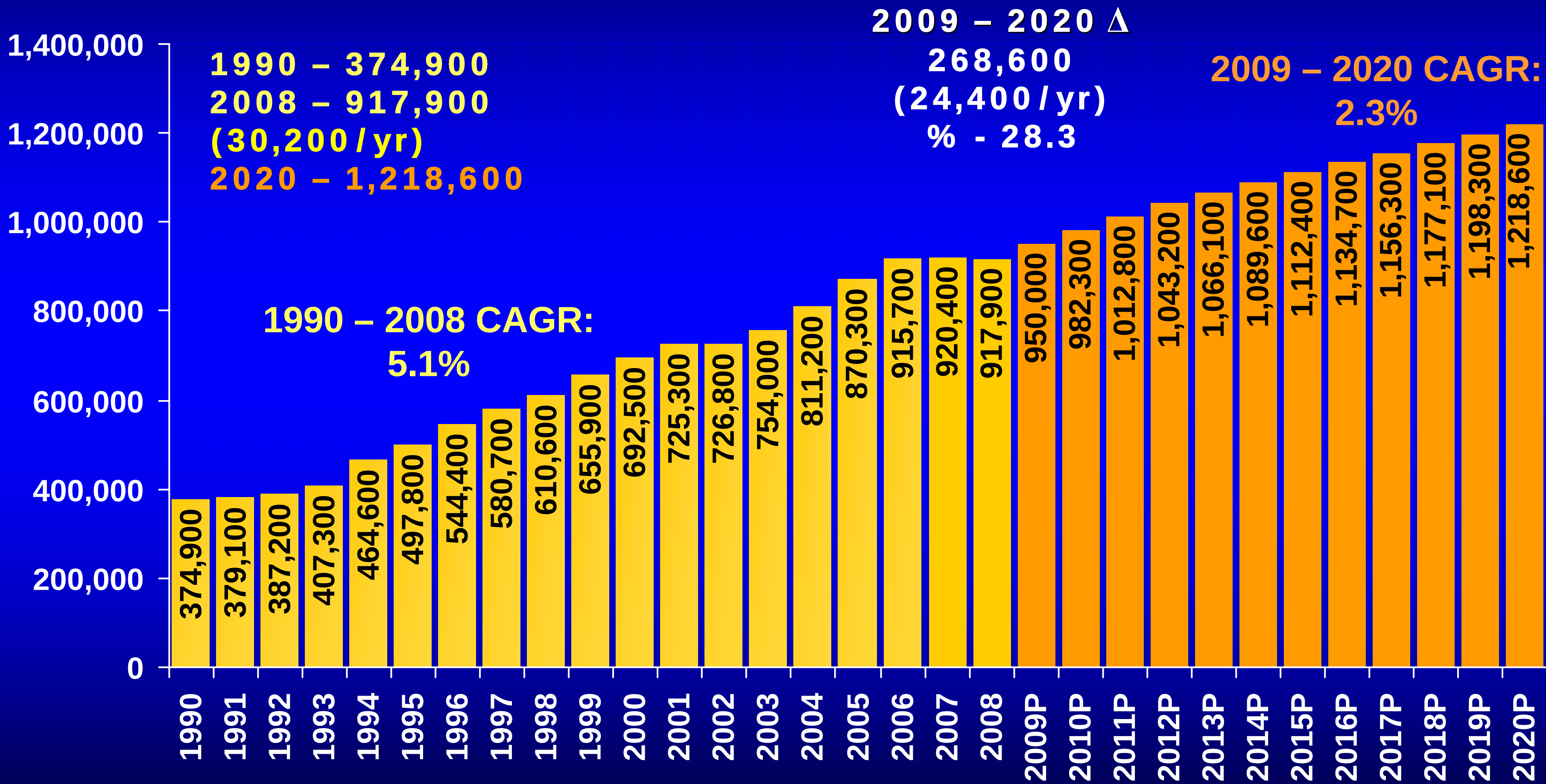
Source: Nevada Gaming & Control Board.

Clark County Gaming Drop Per Game & Table Statistical Count, 10/1990 – 10/2008

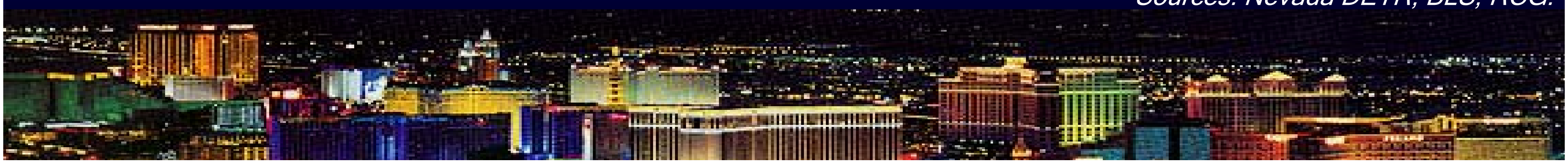


Source: Nevada Gaming & Control Board.

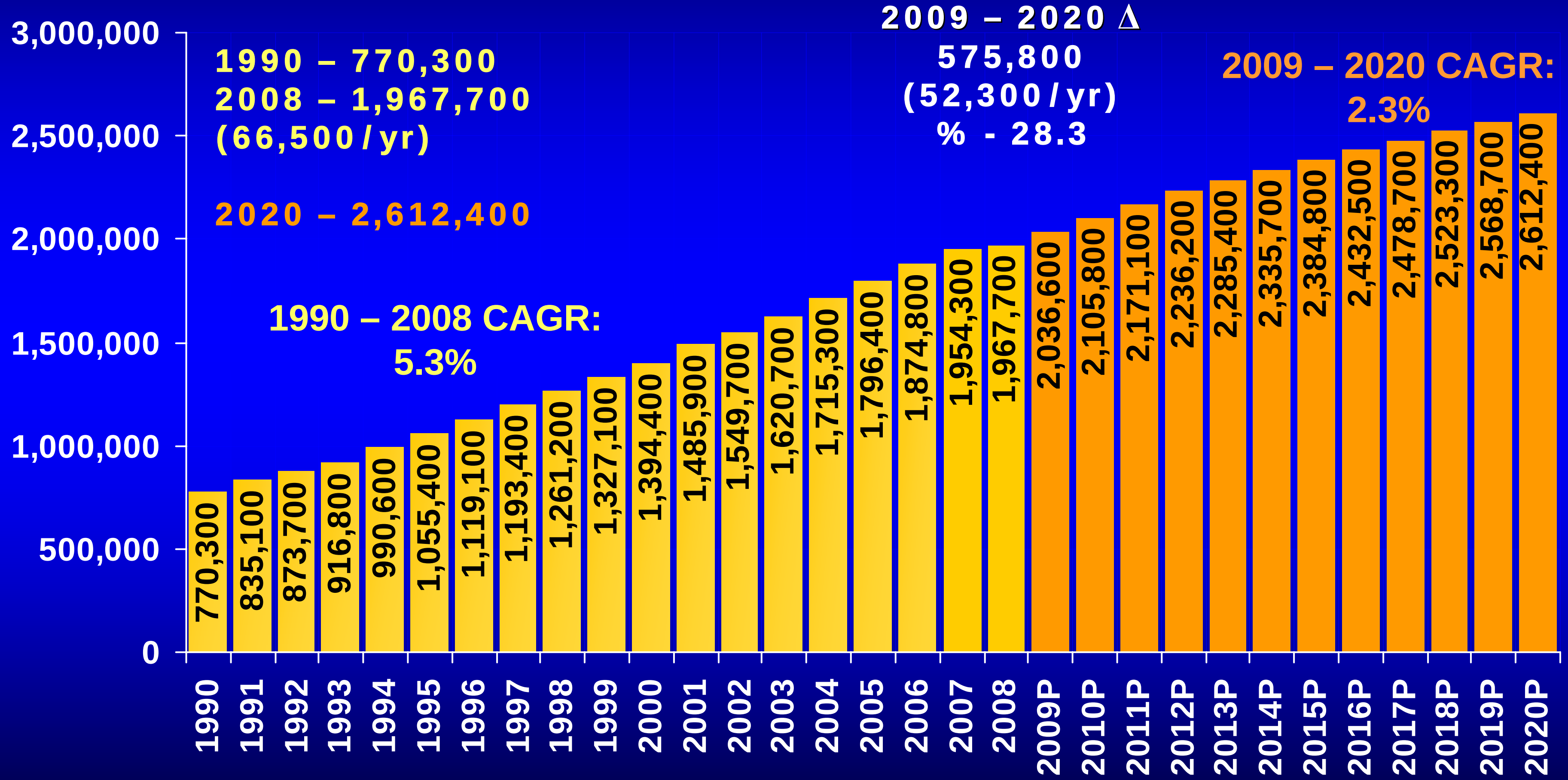
Clark County Employment: Growth Will Continue
1990 – 2020P



Sources: Nevada DETR, BLS; RCG.



Clark County Population: Largely Driven By Economy, 1990 – 2020P



Source: Nevada State Demographer.

Clark County Taxable Sales Growth Rate
11/1990 – 11/2008

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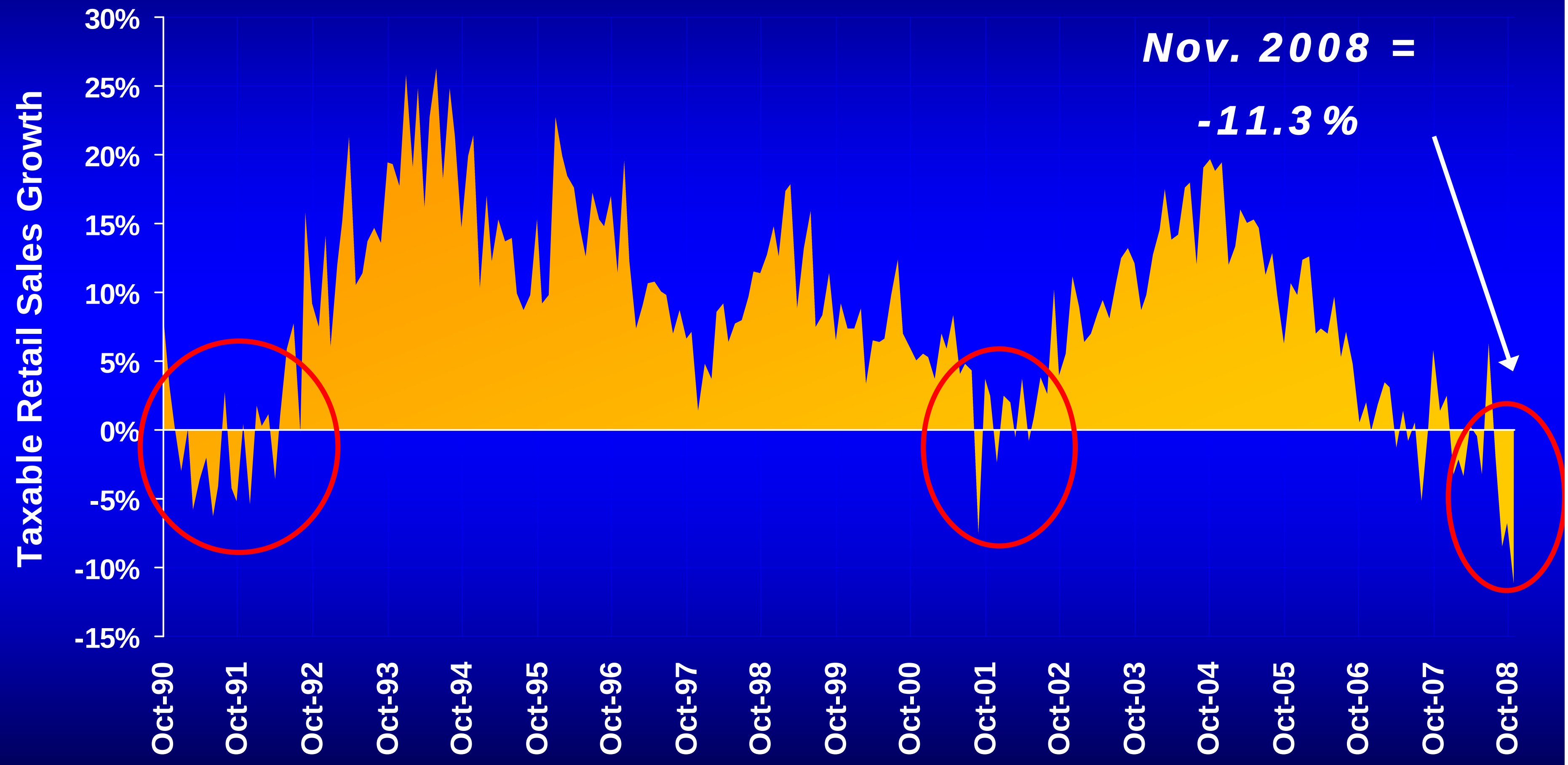

Source: Nevada Department of Taxation.

Are We Diversifying? Major Job Sectors
1990, 2000 & YTD 2008

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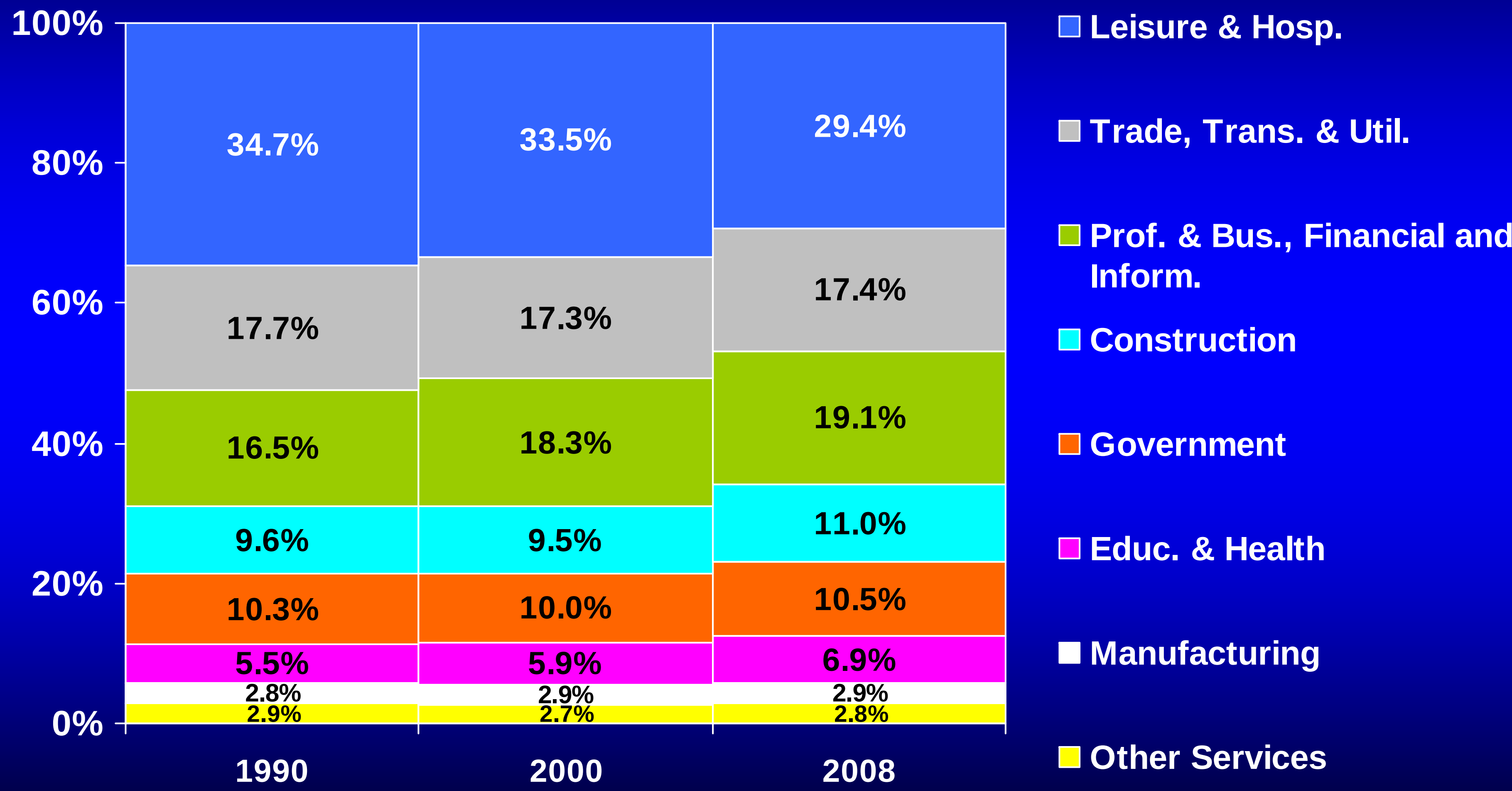
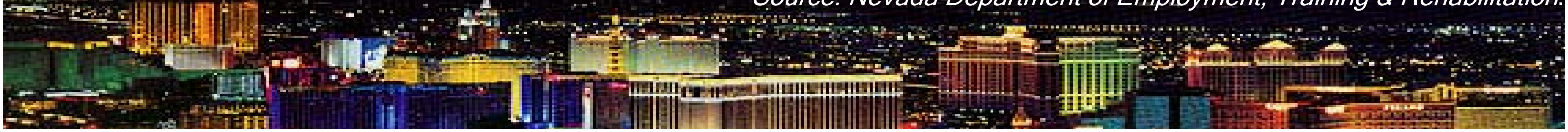
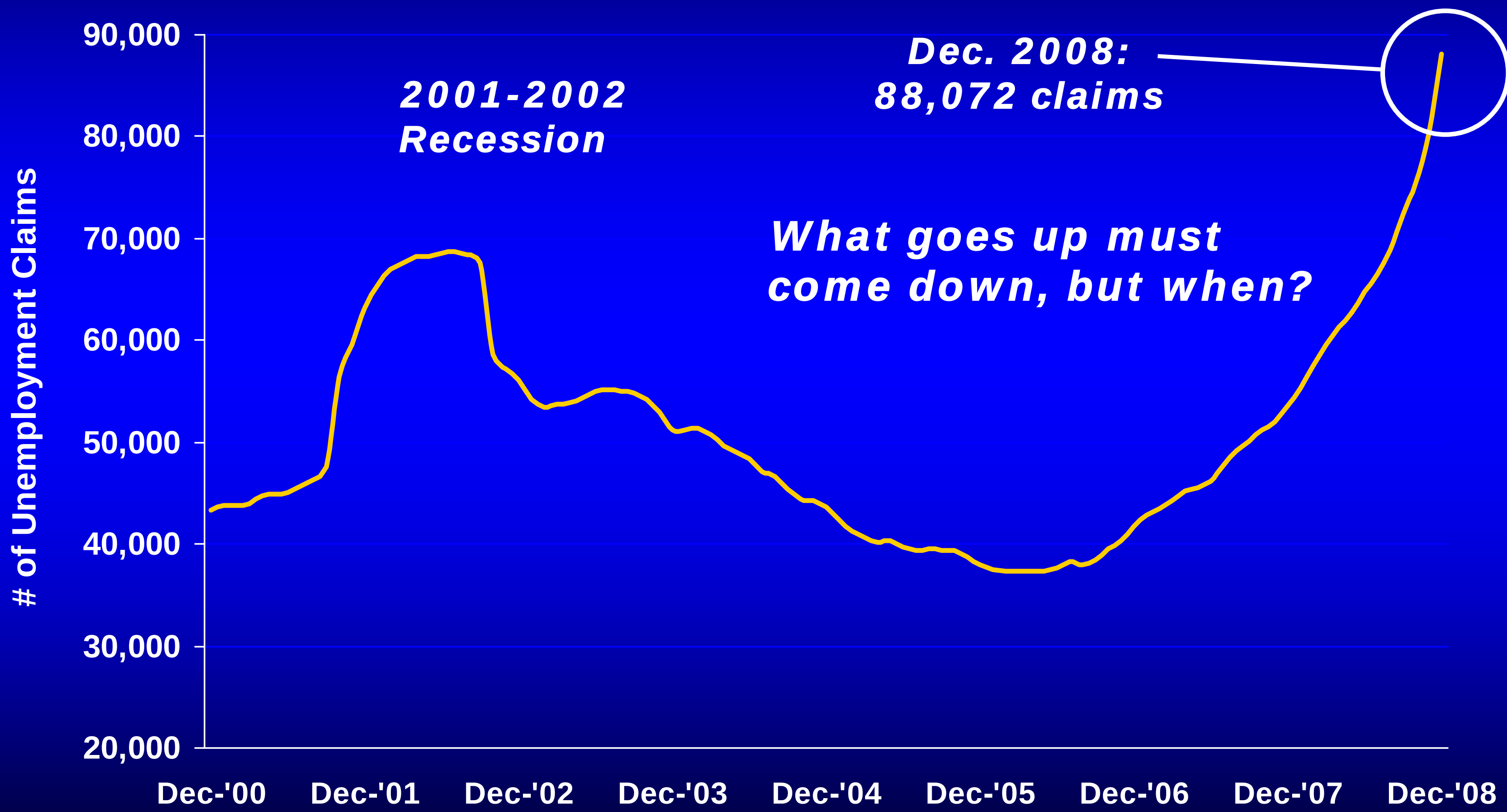


Note: Resources & Mining makes up less than 0.1% of employment.
Source: Nevada Department of Employment, Training & Rehabilitation.



of Clark County Unemployment Claims
12/2000 – 12/2008 (12-Mo. Annualized Totals)



Source: Nevada Department of Employment, Training and Rehabilitation.

Clark County Median Family Income Reported vs. Inflation-Adjusted (in 1995 $):
Q3, 1995 – Q3, 2008

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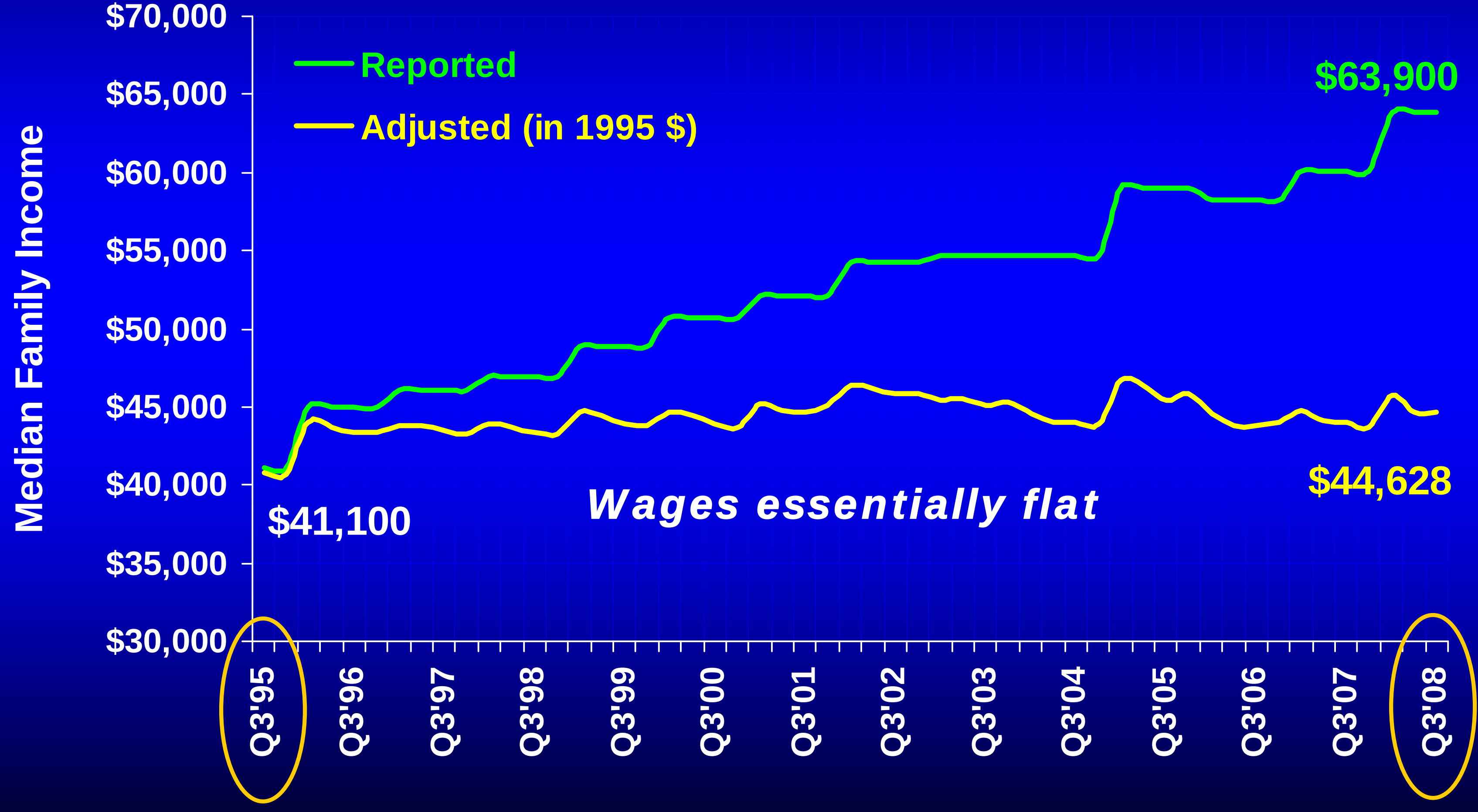
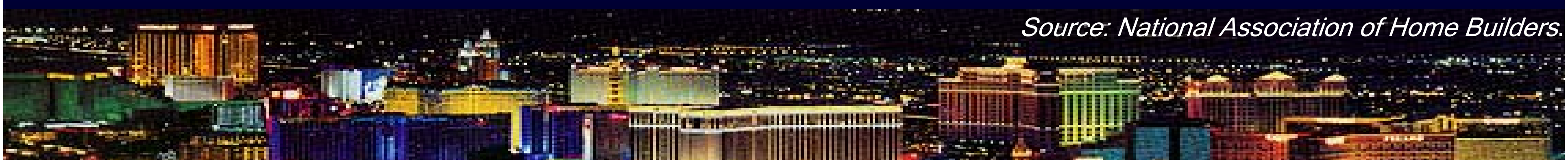




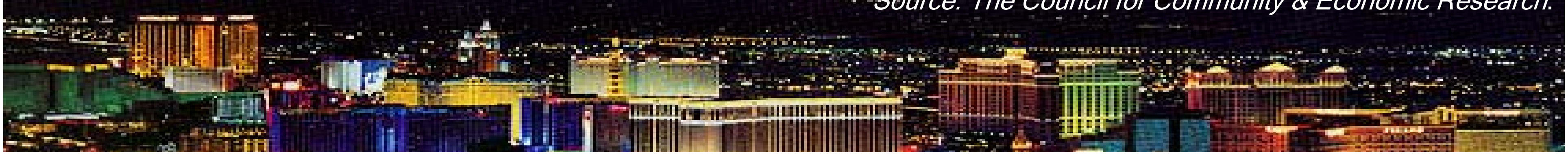
Source: National Association of Home Builders.

Las Vegas Cost of Living Index
Q4, 2008

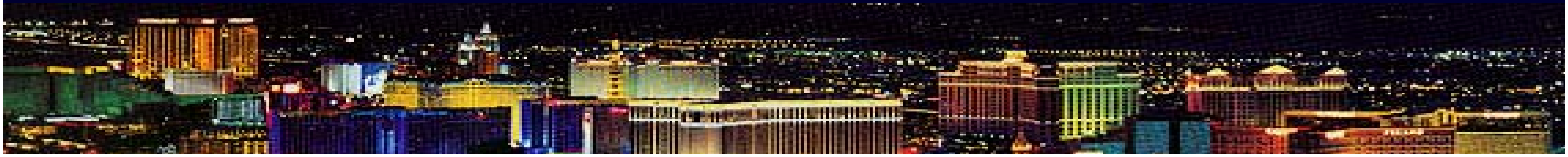
Cost of Living Index	Items Index Costs	Grocery Items	Housing	Utilities	Transp.	Health Care	Misc. Goods & Serv.
Las Vegas, NV	107.9	101.0	129.1	93.8	102.6	104.3	98.2

LV is almost 8% Higher than National Metro Area Average of 100

Source: The Council for Community & Economic Research.



The Real Estate Markets



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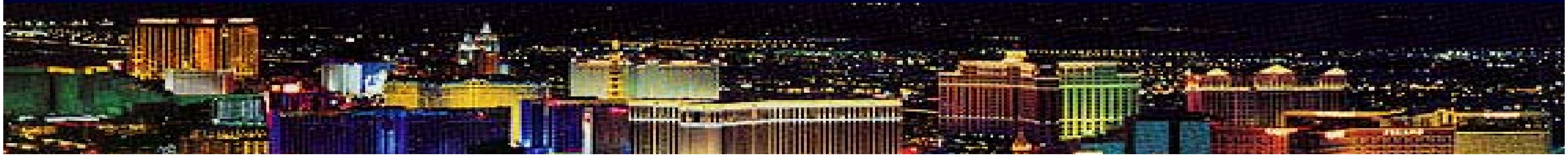
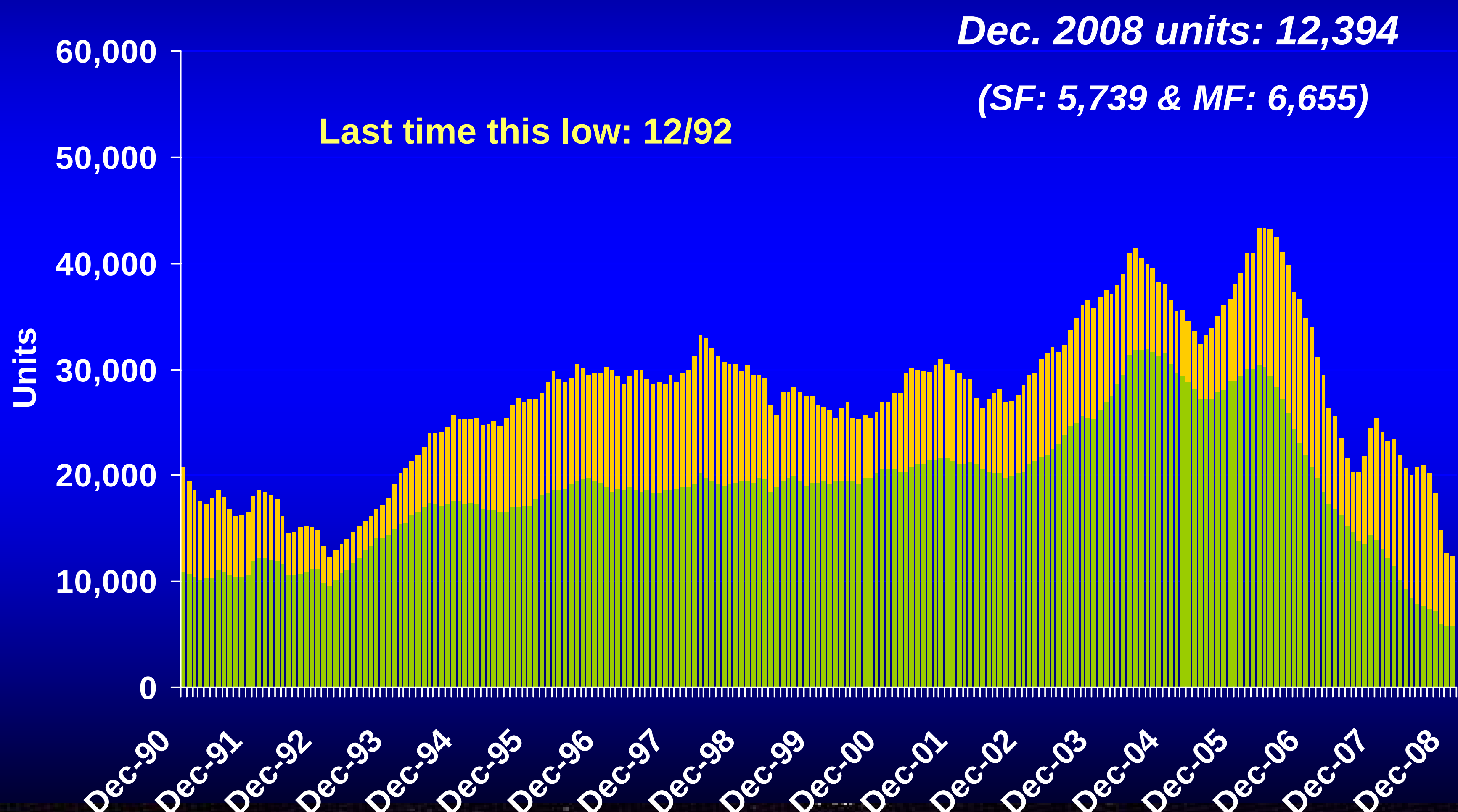
The Residential Market

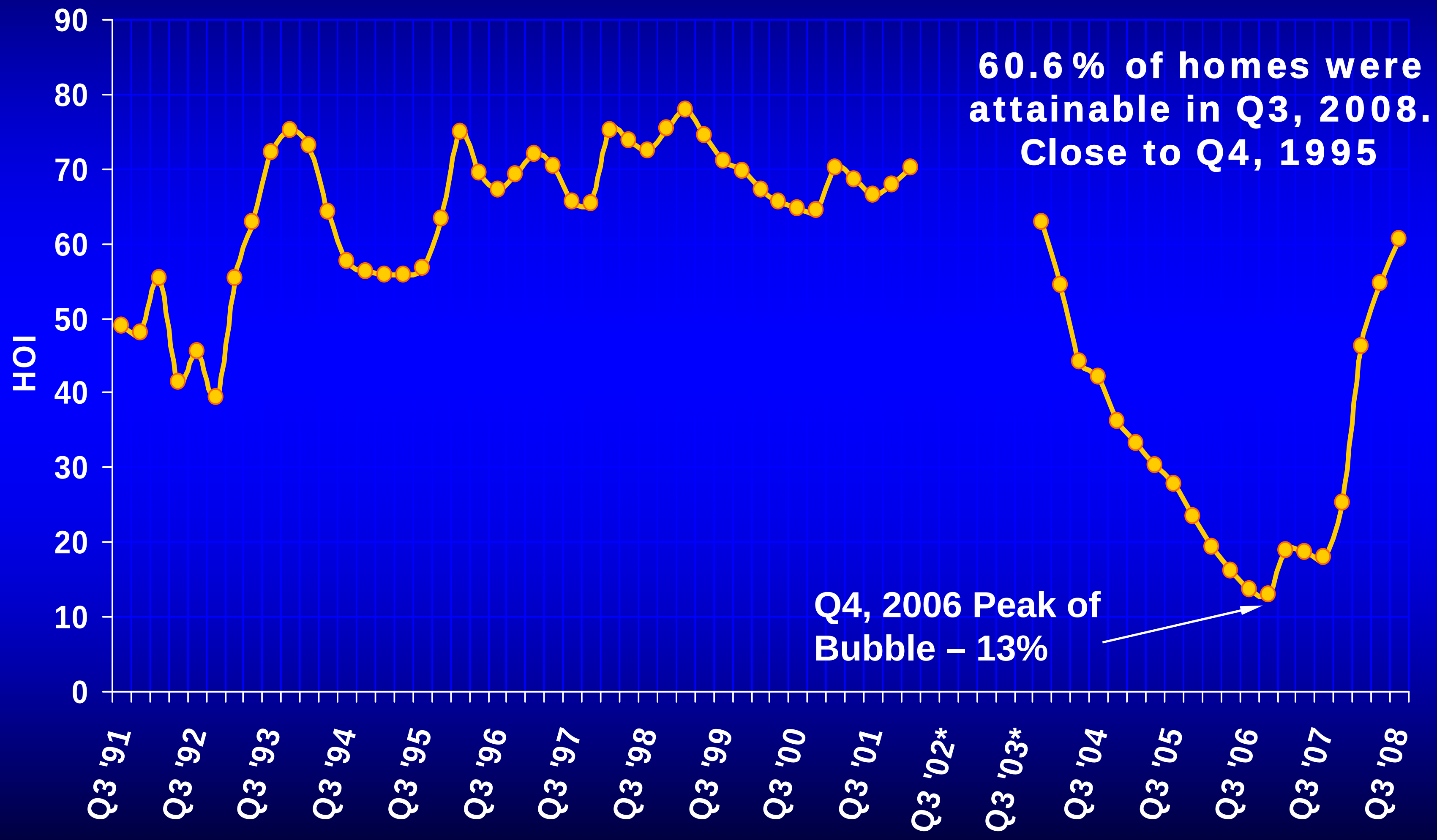


Clark County Residential Units Permitted
Single Family & Multi-family
12/1990 – 12/2008 (12-mo. annualized totals)



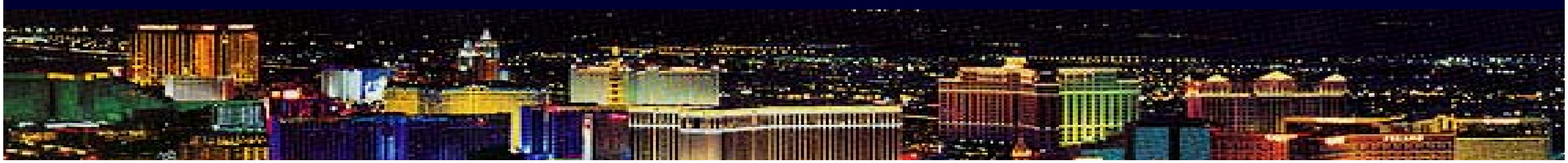
Source: U.S. Department of Commerce; Bureau of Economic Analysis.

Clark County Housing Opportunity Index
Q3, 1991 – Q3, 2008 *



*Index values were not available in Q2, 2002 to Q3, 2003.
Sources: National Association of Home Builders; Wells Fargo.

The Commercial Markets



Anchored Retail Market
Q4, 2008 Snapshot

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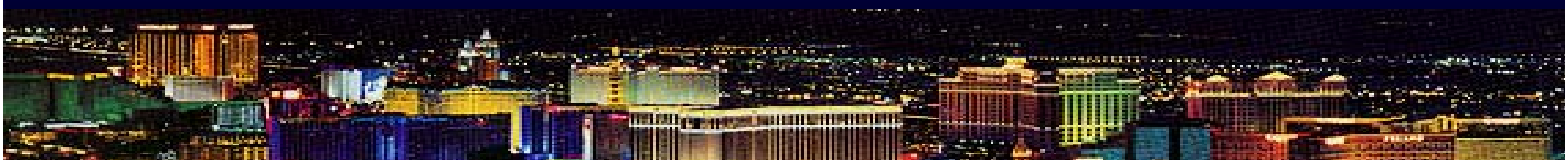
	Las Vegas Valley
Inventory	42.0 M sf
Vacancy Rate	5.8%
Rent $PSF	$2.04
Net Absorption (past 4 Q)	1.0 M sf
Completions (past 4 Q)	2.2 M sf
Under Construction	2.4 M sf
Planned	2.0 M sf



Valley Anchored Retail Vacancy
Q4, 2003 – Q4, 2008

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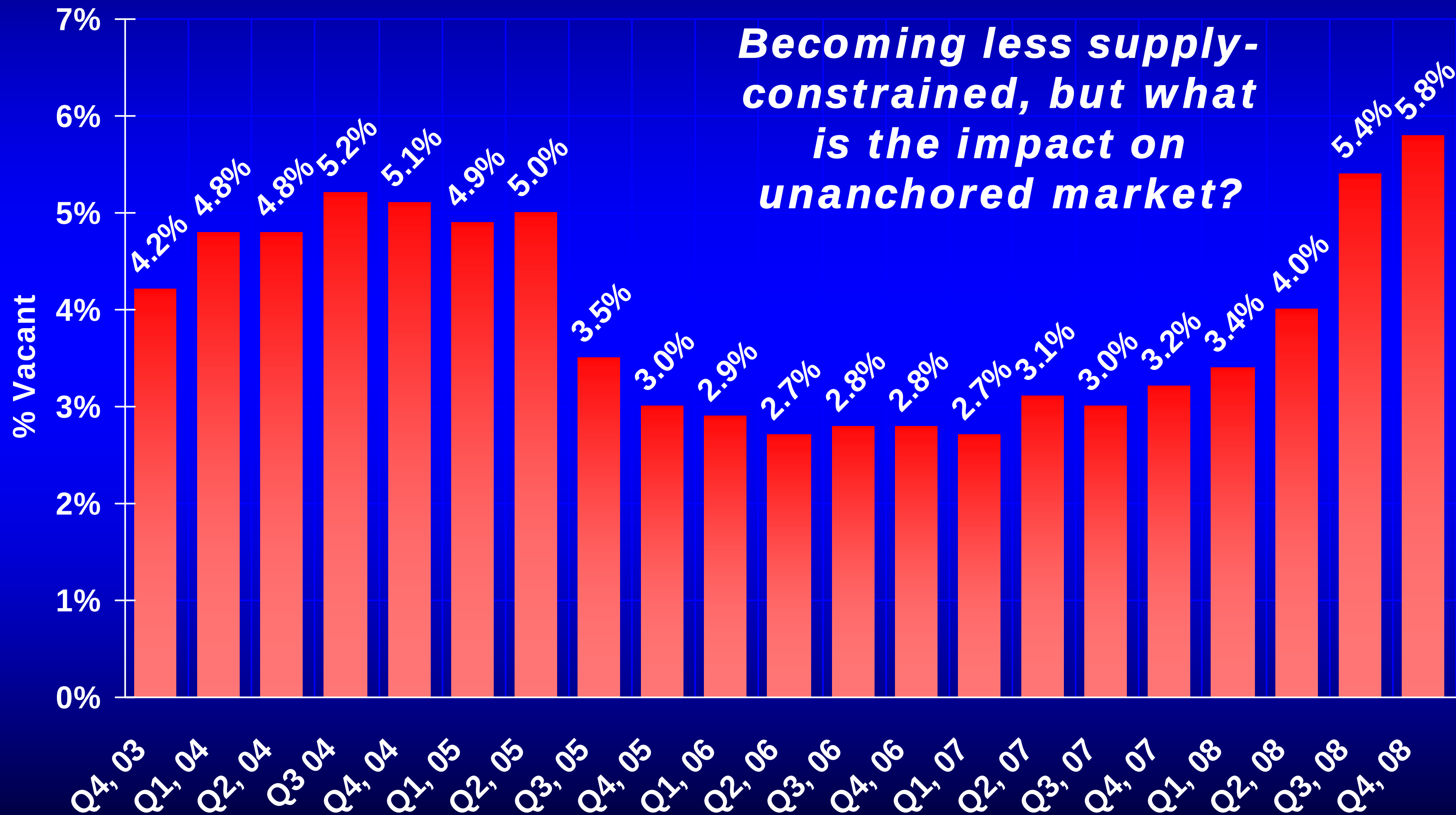

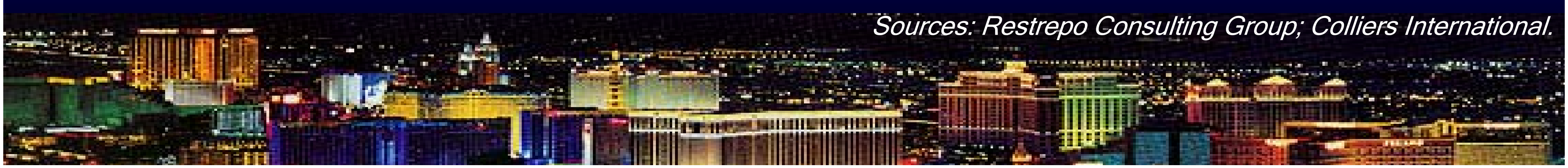

Sources: Restrepo Consulting Group; Colliers International.

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Industrial Market
Q4, 2008 Snapshot

	Las Vegas Valley
Inventory ➲	104.7 M sf
Vacancy Rate ➲	10.7%
Rent $PSF ➲	$0.73
Net Absorption (past 4 Q) ➲	-813,889 sf
Completions (past 4 Q) ➲	4.4 M sf
Under Construction ➲	1.1 M sf
Planned ➲	2.7 M sf

Valley Industrial Vacancy
Q4, 2003 – Q4, 2008

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Sources: Restrepo Consulting Group; Colliers International.

For-Lease Office Market
Q4, 2008 Snapshot

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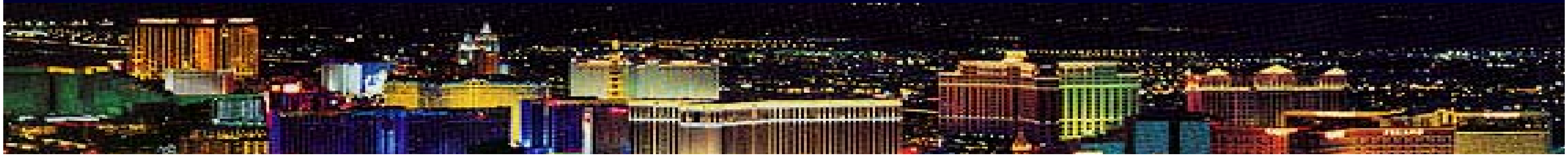
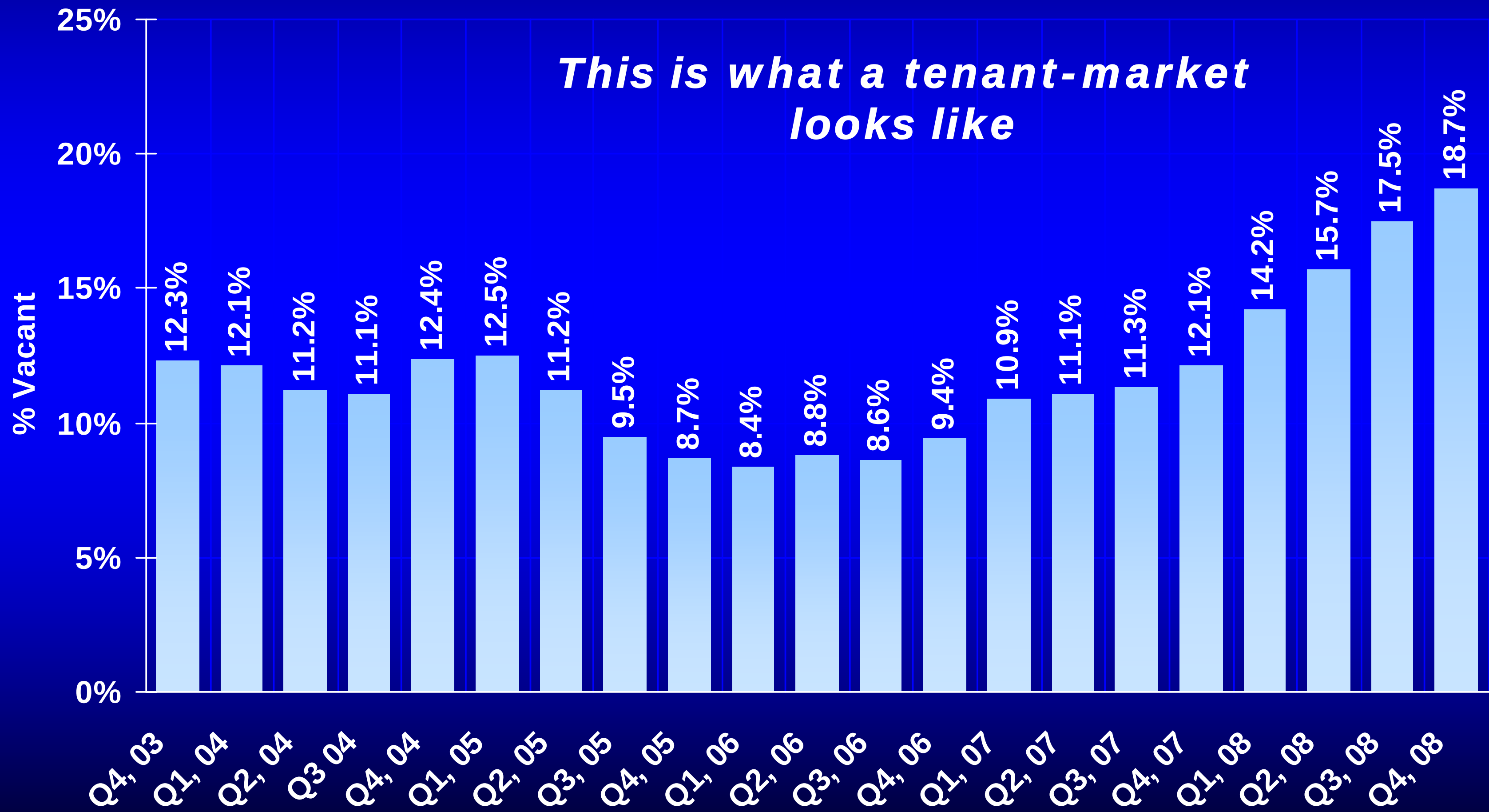
	Las Vegas Valley
Inventory ➲	39.0 M sf
Vacancy Rate ➲	18.7%
Rent $PSF ➲	$2.40
Net Absorption (past 4 Q) ➲	-1.2 M sf
Completions (past 4 Q) ➲	1.6 M sf
Under Construction ➲	1.4 M sf
Planned ➲	340,800 sf

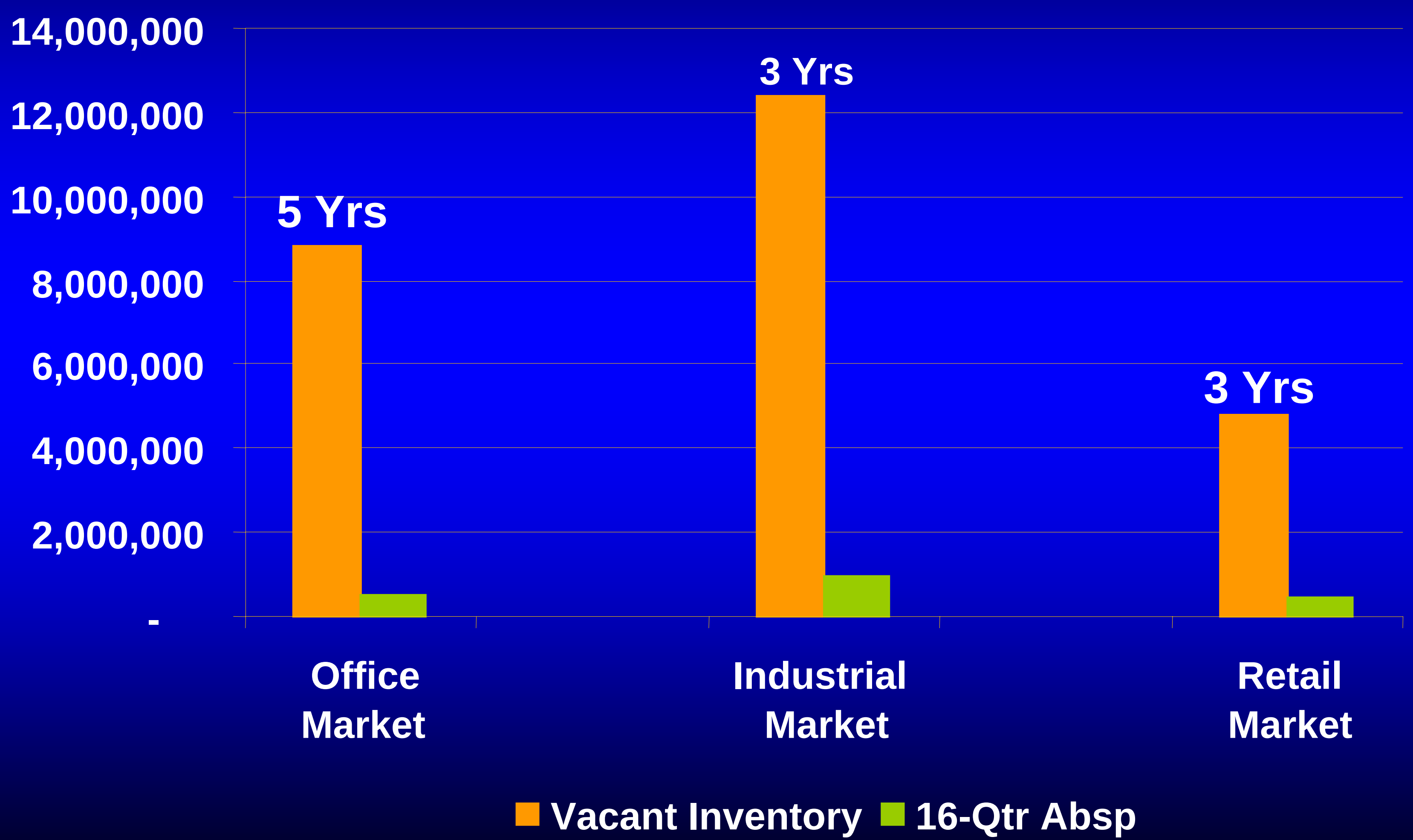


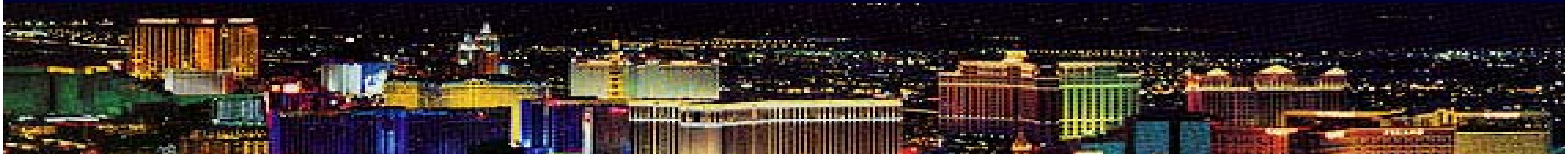
Valley For-Lease Office Vacancy
Q4, 2003 – Q4, 2008



Sources: Restrepo Consulting Group; Colliers International.

Years of Supply
Existing Vacant & Under-Construction

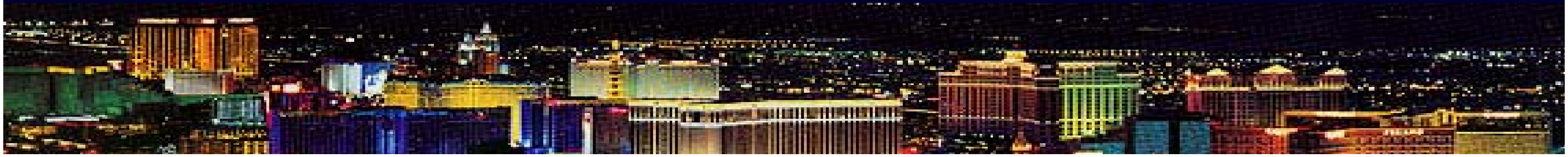




The Causes

Irrational Exuberance: “Chain of Blame”

- ✓ Real Estate Industry
- ✓ Valley Boosters Gone Wild
- ✓ Analysts Turned Cheerleaders
- ✓ Media Drinking the Kool-Aid
- ✓ Lenders = “Easy Credit” Drug Pushers
- ✓ Buyers & Sellers, & last but least
- ✓ *ALL OF US*



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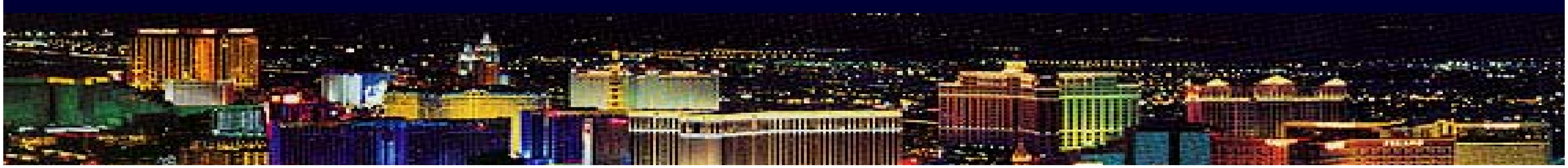
So What's Next?



What will Southern Nevada Recovery Look Like?

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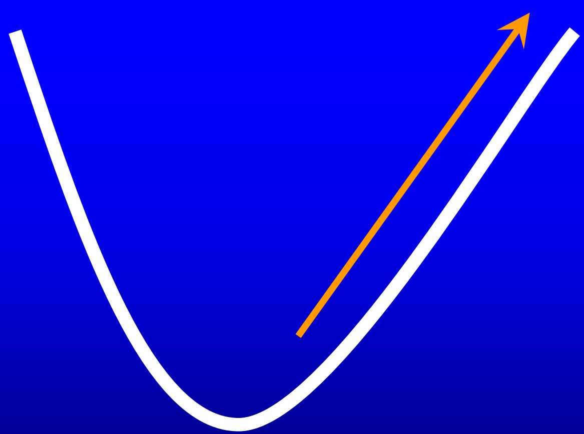
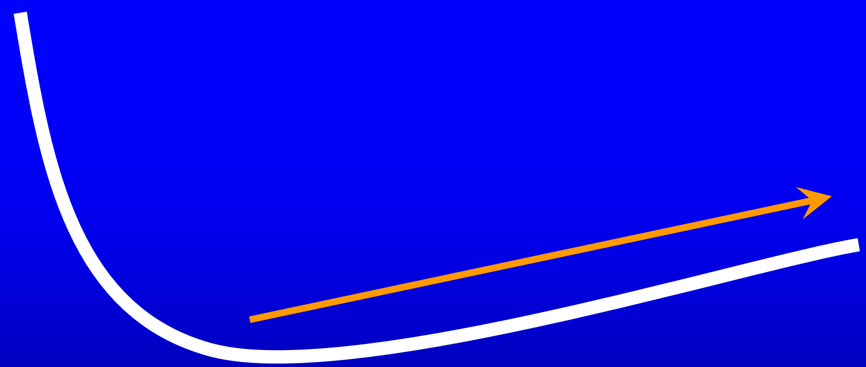
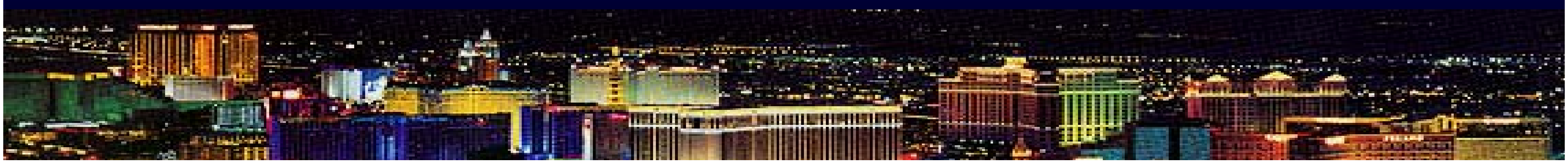
1. This….?



2. Or . . . This?





In Conclusion

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RECESSION IS HERE

- Flat is the new "up" cycle
- Consumer weakness will continue until 2011
- Business investment will also lag
- Exports are not enough
- Nevada budget to get worse

WHAT KIND OF RECESSION?

- Bad, but NOT a depression
- Economic recovery in early-2011
- Sustained housing recovery in 2012

DON'T PANIC

- Recovery is inevitable if delayed
- Fire sales will create opportunities – patience is key
- Low home prices are good for Nevada in long run
- In desperate times comes real change: Real fiscal change

Source: Adapted from Chris Thornberg

For More Information

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