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Commercial market shows gains after months of free-fall

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The commercial real estate market showed some signs of life in the third quarter.

The office vacancy rate in Las Vegas decreased for the first time in seven quarters and the retail vacancy rate has fallen more than two percentage points in the past year as leasing activity has increased, according to CB Richard Ellis.

Analysts said, however, that movement in the quarterly numbers shouldn't be viewed that the market has recovered. That will only happen when more jobs are created, additional office space is needed, consumer confidence improves and spending increases to warrant more retail space.

The Las Vegas brokerage's report shows the free-fall in the commercial sector may be at an end and comes as developers of one of Las Vegas's few major commercial projects under construction during the recession are doubling down on Southern Nevada's recovery.

RA Southeast Land Co., an entity formed by the current owners and developers of Tivoli Village, has acquired 23 acres adjacent to its mixed-use development.

The vacant site is on the south side of Alta Drive at Rampart Boulevard, across the street from Tivoli Village, a project of Israeli-based IBD Development Corp. and EHB Cos.

Tivoli Village, which is slated to open in March, will have 225,000 square feet of retail and 145,000 square feet of office in its first phase.

"I believe they are going to expand their retail and entertainment development across the street," said Cathy Jones, president of Sun Commercial Real Estate, which represented the seller of the property, City National Bank.

EHB ad IDB, the developers of One Queensridge Places, the luxury condominium development, said they plan to develop the parcel to connect Tivoli Village with Boca Park. Planning and conceptual design has already started but officials have not given a timetable.

"While many developments and construction projects have been significantly slowed or halted in Las Vegas, we remain confident in the city's future and steadfast in our vision for this dynamic mixed-use corridor," said Frank Pankratz, president of the EHB Companies in a statement.

The development group paid $11,750,000 or $501,280 an acre, Jones said. The property was valued at $1.2 million to $1.5 million an acre at the height of the market in 2006-2009, she said.

City National Bank foreclosed on the property owned by Triple Five Development in September 2009. It was supposed to be an extension of the retail development at Boca Park, she said.

“It is a really good piece of dirt and one of, if not the most high-profile vacant spots off the Strip for entertainment and retail,” Jones said. “We went national for the marketing campaign, and there was a lot of interest in the property. We had three other buyers interested who were hoping they couldn’t close.”

The acquisition shows that developers are willing to buy land if its in a quality location, Jones said.

“We are starting to see more land move because prices are lower,” she said.

The locale is a desired location for national retailers who brokers said are behind much of the interest in leasing in Las Vegas retail these days.

Those retailers are taking advantage of reduced lease rates to expand or enter the market.

In its third quarter report CB Richard Ellis reported that the retail vacancy rate has improved over the past year and that increased leasing and taxable sales are an encouraging sign about the long-term outlook of the Las Vegas retail market.

The valley-wide vacancy rate was 11.1 percent in the third quarter, down from 11.3 percent in the third quarter. The vacancy rate was 13.2 percent in the third quarter of 2009.

For three of the past four quarters, more space has been occupied than has been vacated. Leasing activity has averaged more than a half million square feet per quarter for the first nine months of the year. The 1.6 million square feet leased in 2010 is 33 percent higher than the first three quarters of 2009.

Other than Tivoli Village, no other retail space is under construction and virtually nothing is planned.

Taxable sales in Clark County increased 5.5 percent to $2.3 billion in July, marking the second time in two years that taxable sales have increased in the valley.

“While taxable sales are still well below their pre-recession levels, the increase is an indication that consumer confidence is starting to regain ground, which bodes well for retail tenants and landlords,” according to CB Richard Ellis.

The asking lease rates continued their decline in the third quarter, averaging $1.66 per square foot, down six cents since the second quarter and 18 percent over the past year.

The office market also showed positive signs in the third quarter with vacancy rate falling to 24.1 percent, down from 25.4 percent in the third quarter, the first decrease in seven quarters.

The third quarter marked the first time this year when more businesses occupied space than vacated it, CB Richard Ellis report.

Low lease rates are spurring activity and no new office buildings are coming online, according to the firm.

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