

Last updated: April 6, 2009 10:05am

Declining Fundamentals Hurt Vegas Retail

By [Brian K. Miller](#)

LAS VEGAS—There was little good news to take from CB Richard Ellis' first quarter retail report—that is unless you're looking to do a little bargain shopping, for goods or assets. Fundamentals were keelhaunched through the first three months of 2009, a continuation of the punishment inflicted during the final three months of 2008.

Net absorption remained negative, which meant vacancies continued to increase, lease rates continued to slide, and new construction continued to decrease as job losses and the fear of more continues to arrest consumer spending, and banks and investors remain reluctant to risk investing in a market that isn't already on the rebound. Unemployment in both the city and the state is over 10%, approximately 200 basis points ahead of the national average.

Across the Valley major chain retailers are vacating anchor and junior anchor space. Four Circuit City stores located throughout town closed their doors this quarter, and Linens 'n' Things stores in Summerlin and in Henderson were also shuttered.

Increased vacancies mean bargains abound for those few in a position to take advantage. Landlords are serving up more rent concessions (lower lease rates) and incentives (free rent, larger tenant improvement allowances) in order to maintain occupancy through the downturn.

Brokerage firms, however, especially those that represent both landlords and tenants just can't help but find the possibility in the predicament. "We are clearly in the midst of a recession," states the report, "but the local market is responding to negative market conditions in a prudent manner, and Las Vegas retail will be well-positioned to take full advantage of the inevitable market turnaround."

Better yet, there may actually be some substance to the comment. Brian Sorrentino, a broker with ROI Commercial, has the listing for the only significant new retail that was delivered during the first quarter, Deer Springs Town Center, a new Target-anchored center that at build-out will total 730,000 square feet.

Target and Babies R Us open this month. The remaining anchor retailers are opening over the next few months, he says, with approximately 500,000 square feet expected to be up and running by the end of the year. A total of 100,000 square feet of shop space is planned, about half of which has been delivered, and about half of that has been leased or is under negotiation.

"There was a dramatic drop-off in activity at the end of last year; any deal that wasn't well into negotiation—if it wasn't in contract or papers weren't being traded—it was just shut down," Sorrentino says. "Since the beginning of March, however, for whatever reason, activity started back up."

At ICSC last year, Sorrentino says retailers were saying they'd wait until 2009 to begin opening new stores again. By the end of that year, he says they were talking about 2012 and more than a few shut down their entire real estate divisions, as did many developers.

"It was pretty depressing stuff but, with spring, for whatever reason, we're starting to see a little of the opposite," he says. "We're actually seeing deals offered up from both the tenant and the landlord rep side."

The deals are rough from the lessors' perspective, however, as tenants have a misconception that they can get everything they wanted and more, Sorrentino says. "Landlords know they are no longer calling the shots but in a lot of cases they simply can't do some of these deals" either because they can't afford it, it's simply a bad deal and/or the lender won't let them, he says. "You can only write down so much of a loss."

There are some great deals to be had, he says, because market rents are at levels not seen since 2000-2002, especially for dirt, which has a lot of nationals coming back to the table, Sorrentino says. "With a lot of stores closed, the retailers that remain aren't getting hit as badly as they could be; the ones who survived are benefitting a little bit," he says. "There are a lot of retailers interested in our market who have heretofore been priced out that are now coming back to the table and looking around; a lot of people who haven't been able to make sense of our prices are now seeing it as a pretty good opportunity."

Deer Springs Town Center represents the bulk of the new retail delivered in the first quarter. The amount of planned retail space increased during the quarter but it was in large part due to stalled construction projects being shifted back to planned status. The only significant project to break ground in the first quarter was Green Valley Crossing, a 260,000 square foot Target-anchored shopping center in Henderson. Completion is expected before the end of the year.

Net absorption was negative at 585,252 square feet. Only two submarkets did not go negative, Southwest and North Las Vegas. The highest level of negative absorption was in Summerlin, where vacant space grew by 279,856 square feet. The closings of Linens 'n' Things and Great Indoors at Boca Park contributed "greatly" to Summerlin's results, according to the report. Similarly, closings at Sahara Pavilion South, Lake Mead Market Plaza, Spring Oaks Plaza, and Decatur Crossing resulted in 184,856 square feet of negative absorption for the Central West submarket.

The average retail asking rate fell 13 cents to \$2.01 per square foot per month, triple net. The Central East submarket took the biggest hit, with average asking rent declining \$0.28. Three other submarkets (Central West, Summerlin, and North Las Vegas) also saw decreases of at least 20 cents per square foot since last quarter.

The least expensive submarket at the moment is the Central West market, where the average asking rate is \$1.35 per square foot. The highest rate average asking rate, \$2.36 per square foot, can be found in the Southwest submarket, but that may just mean owners in the Southwest are maintaining the face rate while jacking up the incentives to offset.

"Actual negotiated lease rates have tended to be significantly lower than the asking rates recorded here," states the report. "Lease concessions, including free rent, tenant improvement allowances, and rental rate reductions are negotiated on a per case basis."

The only possible bright spot for the market is the potential employment boost that may occur from casino-resort openings. The M Resort, Spa and Casino in the southwest part of town opened this quarter. Encore at Wynn and Aliante Station opened at the end of 2008, and CityCenter may

still get itself up and running in the final three months of 2009, though there are serious concerns about the developers' ability to complete the project without new investors.

"Rents have dropped 20-30%, while cap rates are continuing to climb, thus investors are patiently waiting for signs that we are at or near the bottom of this cycle prior to making any purchase decisions. Very few retail sales occurred in late 2008 or early 2009 and our feeling is that those transactions were not 'arm-length' or had other than market-driven considerations."

Copyright © 2009 Incisive Media US Properties, LLC. All rights reserved. Further duplication without permission is prohibited.

For reprint information call 410-571-5893 or e-mail alexa.faulkner@incisivemedia.com.