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Distressed real estate market alive in Las Vegas

By Buck Wargo (contact)

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One humorous truism among brokers in Las Vegas and the rest of the country described how there were more seminars on distressed commercial real estate than there were sales of those properties.

That may be the case elsewhere but not in Las Vegas these days, said John Golden Taylor, director of corporate services for Commerce CRG/Cushman & Wakefield real state brokerage.

“Las Vegas is one of the most active in distressed sales,” said Taylor, who appeared Feb. 16 at a distressed real estate seminar. “Banks were working through a lot of issues, and I think it got so bad lenders realized they needed to sell and move on.”

Nearly two years ago, brokers were speculating that a wave of commercial foreclosures similar to what happened to the housing market would occur.

That wave never materialized as investors were waiting to scoop up discarded properties. Lenders were working with owners to lower interest rates and extend loans, but by 2010 they started to foreclose properties in greater numbers and rather than manage them are getting them off their books.

In other cases, lenders have sold the loans at a discount to resolve the problem and those note holders are moving to sell the properties right away, he said.

“I think Las Vegas and Phoenix are leading the nation in getting resolutions on these properties so they can get owners back in them,” Taylor said.

That allows the new owners to make improvements to the buildings and attract tenants, Taylor said. A lot of investors can buy the properties and hold them for three, five or seven years before they make money.

“The people who bought at a discount don’t have the rent at the same amount” as the rest of the market, Taylor said. “That kind of compounds the problem for those who haven’t gone to their lenders yet.”

Lenders had been reluctant to foreclose because the hit they would have taken from federal regulators and the need to hold more reserves, Taylor said. But the federal bank bailout has helped because it gave lenders time to recover so they didn’t go under because of their commercial real estate loans.

Lenders are going slow when it comes to sales, but Taylor said that pace should accelerate. Buyer interest remains strong, according to Taylor, who says he sees 10 buyers for every available property.

“We haven’t quite hit bottom yet because the net operating income is still declining, but the rate of the decline has slowed,” Taylor said.

The latest Las Vegas numbers published by New York-based research firm Real Capital Analytics kept the city No. 1 in its percentage of distressed commercial assets but indicated that sales are increasing.

In August, Real Capital Analytics reported $16.9 billion in properties with troubled loans, but that grew to $18.1 billion in its February report. Of that $18.1 billion, $3.4 billion in properties have been foreclosed upon, up from $3.2 billion in August.

The firm reported that as of February $3.1 billion in loans were restructured, up from $2.1 billion, and $2.3 billion in loan problems were resolved, up from $2.2 billion.

Hotels were $8.1 billion of the troubled loans; $4.2 billion were development sites and land; $2.1 billion apartments; $1.5 billion retail; $1.1 billion industrial properties; $779 million office; and the rest was other properties.

Detailing sales over the past 12 months, the firm said $458 million of the $1.86 billion was in the Las Vegas market. That's up from even December's $427 million in sales over the previous 12 months. The Las Vegas office market had the most sales at $145 million, followed by $113 million in industrial properties, $102 million in apartments, $53 million in hotels and $45 million in retail.

Mark Gaylord, a partner with Ballard Spahr, said some developers and property owners wish lenders would have foreclosed on the properties two years ago when values were higher because they are on the hook for more money.

Developers are seeking bankruptcy protection but some get the wrong idea that it can help them maximize their equity in a property rather than be realistic and try to minimize their liability, Gaylord said.

Retail sales will increase

Retail sales in Las Vegas will increase 8 percent in 2011 as an increase in tourism will benefit retail outlets closest to the Strip, according to a forecast by a California research firm.

Marcus & Millichap ranked Las Vegas No. 40 in the nation in 2011 in terms of retail markets, up from its 42nd ranking in 2010.

The firm is bullish on the national economy increasing visitors and that healthier gaming revenues will translate into leisure and hospitality job creation.

Local companies will expand their payrolls for the first time since 2007, especially casinos, the firm said. By the end of 2011, employers will add 14,000 positions, a 1.8 percent increase, it said.

"As local companies expand payrolls, consumer spending will pick up and slow the pace of store closures," said Hessam Nadji, managing director of research for Marcus & Millichap.

During the early stages of recovery, the increase in tourism will primarily benefit retail operations near the Strip. The biggest benefactors will be those retail stores close to the Cosmopolitan, which will outperform the rest of the market, the firm said. That would benefit the Miracle Mile Shops across the Strip.

Despite the strength near the Strip, the firm said other parts of the valley, namely the northwest and southwest, will recover more slowly with their vacancy rates of 10 percent and 16 percent, respectively.

Overall, vacancy rates will increase from 11.4 percent to 11.8 percent by the end of the year. It was 10.7 percent at the end of 2009, the firm said.

Retail building owners will hold the line on concessions but rents requested by them will drop nearly 1 percent. Other than the completion of Tivoli Village near Summerlin in March, retail construction will remain shelved in 2011, the firm said.

Waltuch leaves his post

Joe Waltuch has stepped down from his post as commissioner of the Nevada Mortgage Lending Division, effective Feb. 18.

Waltuch was a controversial choice to head the division when he was selected by Mendy Elliott, Gov. Jim Gibbon's Business and Industry director.

The selection was panned by Republicans and Democrats because she turned to a failed subprime mortgage company official to regulate Nevada's home loan industry.

Deputy Commissioner Nancy Corbin will become acting commissioner until Terry Johnson, the department's current director, appoints a new commissioner.

In other news

The Siegel Group said it has acquired 18 multiresidential properties as part of a packaged sale. The properties, which are comprised of 15 four-unit buildings and three six-unit buildings, were recently foreclosed and acquired from a private seller. The properties are east of Paradise Road. It adds to the Siegel Group's 4,500-unit inventory.