

## **Investors may regret shying away from LV**

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Las Vegas Review Journal

We tried to find some new real estate investors to interview for this article. Really, we did.

But we found slim pickings. Area real estate brokers could name barely a handful of local commercial properties sold to investors in the past year.

That's a shame, because investors could be missing out on some commercial real estate steals, according to Forbes.com.

Forbes.com has ranked Las Vegas among the 10 best cities in the United States for commercial investment, citing a local real estate climate rich with bargains.

"In 2006, (Las Vegas) was only the 16th most popular locale for international money," the report said. "But since the market has turned south -- and projects ranging from residential complexes to casinos and offices have suddenly stalled -- international investors are starting to look for big discounts."

Matt Woolsey, the report's author, told the Review-Journal some sectors are especially primed for investment. Rent yields on local apartment communities have risen because of increasing home foreclosures, which have sent homeowners back into rentals, and a slumping housing market, which encourages prospective home buyers to sit out the price drops.

Plus, the city's status as a leisure hot spot means abundant investment possibilities in tourism oriented sectors such as hospitality.

"Las Vegas' standing as an entertainment capital presents more than a few opportunities for hotel and retail investors, even in a marketplace where consumer expenditures in both of those markets are slowing," Woolsey said.

Local brokers agreed that Las Vegas offers abundant prospects for commercial investors. The market claims a sizable supply of buildings conceived two to three years ago, amid 5 percent annual job formation, \$2-a-gallon gasoline and a stable housing sector, noted Richard Luciani, a senior investment adviser with the Barton, Luciani and Moore Team at the Grubb & Ellis Co. brokerage in Las Vegas. Developers and banks drew up project budgets and income streams based on the solid demand and rising rents of a flourishing economy. Loans came through, construction started -- and the economy stumbled.

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As home foreclosures swept the valley and pinched consumer spending, business expansions slowed. High energy prices ate into the city's visitor volume and hurt job growth. Today, the market's office vacancy approaches 17 percent, up from 12.4 percent a year ago, according to Voit Commercial Brokerage. The latest reports from economic-research firm Applied Analysis pegged retail vacancy at 6 percent, compared with 3.3 percent a year ago, and industrial vacancy at 7.7 percent, up from 4.5 percent a year earlier.

Thanks to dropping occupancy and falling rents, prices on commercial properties for sale have slumped as well. In the sought-after southwest Las Vegas industrial submarket, for example, prices are off 8 percent to 10 percent compared with the economy's peak in 2005 and 2006. Industrial shells that commanded \$200 per square foot then might net just \$185 per square foot now, Luciani said.

"There's been a devaluation of prices across the board in every sector of commercial real estate," Luciani said. "For owners of relatively new properties with vacancies, there's a good chance some of them can't hold those properties, and those properties would be attractive to investors who want to pick up investments at a discounted value."

Investors seem to be sitting out the market despite lower property prices.

Charles Moore, a senior vice president specializing in commercial investments with CB Richard Ellis in Las Vegas, said the past four to five months have brought in tire kickers from Germany, Canada and Asia. But the only deals he's closed in recent months involved the sale to American investors of two small retail centers in January and February, for \$6.5 million to \$7 million each.

Nor has Luciani seen any noticeable uptick in investment business. A few foreign investors have sniffed around, and a handful of business owners have decided to buy and occupy their own office buildings, but Luciani hasn't closed any investment deals in 2008.

Investors remain on the fence partly because they have trouble finding loans, Luciani said. Banks impose tougher lending standards today, so unless a buyer has cash, he'll face hurdles to completing a deal.

And the institutional investors who've traditionally snapped up big office parks and industrial centers face rising vacancies inside the properties they already own. In a bid to hang on to cash flow, they're staying the course on existing holdings, Luciani added.

Throw in psychological factors as well: Many investors want to wait and see just how much lower prices might go, Moore said.

Moore expects the number of deals to pick up in the second or third quarter of 2009, once the capital markets stabilize and the country has a better indication of the economic policies that will follow January's changeover in the White House.

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Luciani expects a boost in activity in perhaps six months.

"We're going through a downturn, and we have challenges," Luciani said. "But this place has a bright future ahead of it. With the amount of money being invested, Las Vegas is not going to close up shop and say, 'We're closed for business.' There's too much money invested here, and there'll be more money invested here. This is business. We go through cycles."

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