

Las Vegas Sun

In Business LAS VEGAS

Real Estate column:

Mild recovery under way for commercial real estate

By [Buck Wargo](#) ([contact](#))

Mon, Jan 10, 2011 (3 a.m.)

Follow the jobs.

That's the best way to predict the commercial real estate market in Las Vegas that analysts said won't worsen and, at least, will show signs of a gradual recovery in 2011.

Even though unemployment remains high, in excess of 14 percent, analysts point to the most recent statistics that indicate the commercial real estate slide has halted and shows a sign of stability that has been lacking over the past couple of years. The office vacancy rate, for example, remains high at 24 percent, but the third quarter ended 15 straight quarters of rising vacancy. Other sectors are expected to remain level or even improve slightly and lease rates shouldn't dip much further if at all, analysts said.

"2010 was a difficult year in all real estate sectors, but 2011 will be characterized as the start of the recovery process that will likely span several years," said Brian Gordon, a principal at Applied Analysis, a research firm that tracks commercial real estate. "Job growth will be the key to the demand for commercial space, but there aren't a lot of reasons to see any significant jump in employment figures in 2011. Any gains will be modest over the next several quarters."

The commercial real estate market will struggle in early 2011 because of the region's high unemployment, but should show signs of improvement in the second half of the year, said Joe Kupiec, managing director of Grubb & Ellis in Las Vegas.

"We have been fortunate to have weathered the storm, and we will see somewhat of a recovery in commercial real estate in the second half of a 2011," Kupiec said. "It would be much better if we only had some jobs. I think the lesson learned by a lot of business leaders is the importance of diversifying the economy."

Brad Schnepf, outgoing president of NAIOP, the Commercial Real Estate Development Association, said his expectations for 2011 aren't that much different from 2010. There will be a slight improvement in leasing and space being absorbed in 2011, but not enough to call it a recovery, he said.

"We had a free fall in late 2009 and early 2010," Schnepf said. "We have stabilized, but I don't think it's quite over yet."

The Las Vegas market has shown its resiliency, but its health is tied to the strength of the national economy and discretionary consumer spending, analysts said. John Restrepo, principal at Restrepo Consulting Group, said the stabilization of vacancy rates is a good sign, but the recovery will take some time.

"I think 2011 will be a lot like 2010, and we will be bumping along the bottom," Restrepo said. "I don't see great improvement because I don't see a lot of job creation."

What helped the office market at the end of 2010 was a gain of 2,700 office jobs from August 2009 to last August, Colliers International Las Vegas said. National tenants made up 51 percent of the space taken compared with 30 percent for local companies.

“We’re starting to see some of the major cities around the country start to improve, and we are probably going to get some interest in our market as those get more expensive,” said Mike Mixer, Colliers’ Las Vegas managing partner, who predicts office vacancy rates will fall several points by the end of the year.

The brokerages report demand for space for the industrial market, which has a 16 percent vacancy rate, will be dictated by what happens in the gaming and hospitality industries. That market had been hurt by the decline in construction employment and closure of many contractors.

“If you had to grade the market, I think industrial will come back the fastest,” Restrepo said. “It wasn’t as hard hit as office and retail, and as the economy improves, companies will need more space for inventory. Office is the one that could languish for years because of the lack of job creation.”

The retail vacancy rate in Las Vegas has been running 11 percent. That market has been aided by some national retailers expanding and jumping into the market to take advantage of low lease rates.

High-end anchored centers have lowered their rental rates to remain competitive and that will continue in 2011, Kupiec said.

Many centers that have been foreclosed on will likely lease up the fastest during the next 12 months because they can offer the most attractive rental rates in town, he added.

“We may see some mom-and-pop and discount retailers take advantage of the rents that may keep falling because properties change hands through foreclosure or distressed sales,” Gordon said. “Those properties acquired for a reduced cost can take advantage of that with lower rents.”

Handicapping retail is all about monitoring consumer confidence and as that increases, spending will pick up and trickle down to commercial real estate, Restrepo said. Retail analysts said consumer spending picked up during the holiday shopping season, which is a good sign going forward.

“There is no doubt that the declines in rent have attracted some national retailers that had put Las Vegas on the back burner,” Restrepo said. “The cost of entry here was so high.”

The wave of commercial foreclosures that some predicted over the past 18 months to two years hasn’t transpired as lenders have extended terms with property owners. Analysts said banks facing scrutiny from federal regulators haven’t been willing to extend those terms and that’s resulted in bringing in third parties as partners to avert foreclosure.

“We’re not going to see the tsunami like we thought we would,” Restrepo said. “We saw a lot of out-of-state buyers looking for fire sales, and they have gone away. The ones who are left are realistic about where values are, and buyers and sellers can now meet in the middle.”

© [Las Vegas Sun](#), 2011, All Rights Reserved. [Job openings](#). Published since 1950. [Contact us](#) to report news, errors or for advertising opportunities.