
LAS VEGAS SUN

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real estate column:

Phoenix's commercial market shows what awaits Vegas

By [Brian Wargo](#), In Business reporter

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Las Vegas may need to look no further than Phoenix to see its fate when it comes to the commercial market.

Phoenix is about six months ahead of Las Vegas in commercial foreclosures. Lenders, property owners and real estate analysts are bracing for a jump in this area over the next several months, according to Steve Pritulsky, the principal of Southwest Resolution Advisors, a consulting firm that works with banks, hard moneylenders and investors in both Phoenix and Las Vegas.

Pritulsky said Phoenix lenders had been working with commercial property owners at first, but started foreclosing on buildings last fall. Some property owners are simply returning their commercial buildings to lenders, he says.

What happened, Pritulsky says, is that banks, under the watch of regulators, realized that commercial property values weren't going to stop falling. Some properties have fallen in value by 30 percent to 35 percent, he says.

“What we are seeing here because of the employment losses is a wholesale abandonment of retail center tenants who are folding left and right,” Pritulsky says. “Large chains have gone out of business, and we have had similar problems on the office side with homebuilders, contractors and mortgage companies.”

The lenders aren't going to find a lot of takers for the properties because investors typically use leverage in acquisitions. Since there is little financing available, they are going to have to rely on cash deals and that will further drive down prices, Pritulsky says.

“It is our assessment that it is going to be an instant replay on the single-family side with an increasing rate of foreclosures and other forms of liquidation that flood the market with office and retail product and limited buyers. The only thing that will do is drive down the price.”

The problems should continue into 2010, he says. Phoenix has some advantages over Las Vegas in that its economy is more diversified.

“I wish I could be more optimistic about it, but the big thing is to keep an eye on what is going on in the employment side,” Pritulsky says. “The wild card for Las Vegas is how job losses keep running. (Phoenix has) a more diversified economy and our recovery will be more broad based and rapid. You have so many eggs in

the tourism and gaming industry.”

Pritulsky says Las Vegas could have office vacancy rates in the high 20s and retail vacancy rates of 16 percent to 17 percent. Those projects on the perimeter of the valley will fare the worst, he says.

Office vacancy report

Applied Analysis reported the Las Vegas office market has a record high 19.6 percent vacancy, 4.9 points higher than the first quarter of 2008.

The decline in the office market appears to be accelerating, Applied Analysis Principal Brian Gordon says.

“The current environment in the office market may look similar to trends reported in the residential sector two to three years ago,” Gordon says. “Should these trends continue, the rate of foreclosures will likely rise, and tenants will be hesitant to lock into long-term pricing.”

There was 329,000 square feet of space completed in the first quarter to bring the total inventory to 48.9 million square feet, the firm reports.

Another 1.9 million square feet started construction and 30 percent are uncertain of viability, the firm said. That suggests only 1.3 million square feet will be completed.

The lack of demand was evident: 708,000 square feet of space was not occupied in the first quarter compared with the fourth quarter. That's the second straight quarter of dropping demand.

Applied Analysis Project Manager Jake Joyce said Southern Nevada has less space occupied than a year ago. That points to the commercial construction market coming to a standstill within the next year.

The firm reports rents of \$2.31 per square foot, down from \$2.34 in the fourth quarter. Those are the lowest rents since the fourth quarter of 2006. The average prices break down to \$2.79 per square foot for high-end Class A space, \$2.22 for Class B and \$1.84 for lowest-tier Class C space.

Class C has the lowest vacancy rates at 12.1 percent, while Class B has a 20.4 percent vacancy rate.

In other news:

- Ken Simonson, chief economist of Associated General Contractors of America, will speak April 30 on the construction industry during a luncheon hosted by the Las Vegas chapter. The noon luncheon at the Orleans costs \$35 for members and \$40 for nonmembers.
- Colliers International will host its 14th annual Links for Life golf tournament May 4 at the Bear's Best golf course in Summerlin. The annual golf tournament raises money for charitable projects throughout the year. Lifetime Tournament proceeds of \$1.9 million have been awarded to numerous regional charities.

To sponsor or register a team of four, contact Gina Jones at 735-5700 or visit www.lvcolliers.com and click the Links for Life banner.

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