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Office market rebounds in 2004

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Increased employment growth from a strengthening economy and continued population boom has fueled an uptick in professional office use in Southern Nevada. The valley's office market had a 10.3 percent median vacancy rate at the end of last year, reports Applied Analysis, a Las Vegas-based economic research firm. Although it marks only a modest 0.2 percent improvement from a year ago, there was 339,000 square feet of net absorption during the fourth quarter. Additionally, average asking rents reached \$1.92-per-square-foot at the end of 2004, a 0.4-cent-per-square-foot increase from the previous year.



The next stage of Beltway Business Park is now under construction.

The Las Vegas Valley office market grew to 33.3 million square feet in 1,141 buildings at the end of 2004, with 736,000 square feet of new additions coming online. There was also 2.3 million square feet of new space under construction during the fourth quarter, including the 156,000-square-foot next phase of Thomas & Mack's 424-acre Beltway Business Park, located at the southeast corner of Badura Avenue and Lindell Road, scheduled to finish in April; and Nigro Development's 15-acre, 170,000-square-foot Desert Canyon Business Park, located at Russell Road and I-215, scheduled for occupancy in the first quarter.

There is also another 4.9 million square feet planned office space for future development, including Molasky Companies' \$75 million, 192,000-square-foot Parkway Center, located at Grand Central Parkway and F Street in downtown Las Vegas, scheduled to open in 2007; VLP Investments' new \$2 million, 12,000-square-foot "Pinnacle" office building, located at 203 S. Water Street in Henderson; and Montecito Companies' six-story, 100,000-square-foot Class A office building, located at Elkhorn Road and Durango Drive in the northwest valley.

"An estimated 64,000 people will move into Southern Nevada in 2005, which will increase the demand for office related employment," says J.J. Peck, a senior information coordinator at CB Richard Ellis. "And the State Department of Employment, Training, and Rehabilitation estimates that financial services, professional and business services employment will grow to approximately 192,800 jobs by 2012."

The Northwest remains one of the healthiest office submarkets with an 8.4 percent vacancy rate in the fourth quarter, despite having the valley's largest inventory, according the Restrepo Colliers International Office Report. This is primarily attributable to the rapid population growth and business activity spurred by the recent completion of the I-215 Beltway coupled with such developments as Centennial Hills and Summerlin.

"With the residential market initiating home sales activity along the periphery of the valley, we have witnessed increased interest in the office properties along the I-215 Beltway," says Michael Wronski, an office investment broker with The Bentley Group.

Professional Class A space remains ever popular among users with a low 7.8 percent vacancy rate during the fourth quarter, the strongest off all office product types, says John Restrepo, principal of Restrepo Consulting Group, LLC, a Las Vegas-based economic research firm.

Average asking rents for Class A space in Las Vegas are projected to reach \$29.10-per-square-foot by the end of 2005, up from \$28.01-per-square-foot in the fourth quarter of 2004, placing Las Vegas sixth out of 112 markets ranked worldwide.

"While rental rates and development costs are rising, 2005 is still expected to be another solid year for growth and development," says Joseph E. Kupiec, managing director of Grubb & Ellis, Las Vegas.

But while current vacancy levels are relatively low, much of the growth is the result of new owner-occupied projects, which are being spurred by low interest rates. Shea Commercial, for example, is developing \$32 million worth of office condo projects in the Las Vegas Valley, totaling 300,000 square feet. The five projects, which feature space from 1,200 to 10,000 square feet, are expected to come online by mid-2005. Similarly, Pageantry Development Corporation/Sandy Ridge, LLC is spending \$2.38 million to construct three office condominium buildings in the 88,321-square-foot Pageantry Horizon Park, located at Horizon Ridge Parkway and Sandy Ridge Avenue in Henderson.

"In 2005, we expect to see increased rental rates in the newer projects as a result of construction costs going up," says Tom Stillely, senior vice president of Colliers International's Las Vegas office division. "There is great demand for the newer, well-placed office buildings. We expect to see as much absorption this year as we did in 2004. Many existing companies are expanding, and new professional service firms are now looking to relocate in Las Vegas."

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