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Valley real estate was full of ebbs and flows in 2005

Major developers invested heavily, driving land values out of sight

BY TONY ILLIA
 BUSINESS PRESS

The Las Vegas Valley's real estate market reached dizzying heights in 2005, with super-sized deals and mammoth new projects. Southern Nevada, long considered a tertiary real estate market, achieved a new level of maturity and sophistication as all eyes watched the valley's runaway growth in disbelief. REITs and out-of-state investment dollars poured in, fueling record levels of buying and selling, and driving land values sky-high.

There were some unlikely successes and surprising flops, but it all made for an exciting year. Here are just a few of the highlights:

VACANT LAND PRICES SET RECORD

Median valley vacant land prices topped \$708,000 per acre in the third quarter, a whopping 99 percent increase over 2004, marking an all-time record for Southern Nevada property values. The average selling price of \$16.25 per square foot in the third quarter was 76 percent higher than second-quarter prices.

Major third-quarter transactions included Centex Homes' purchase of the 15.2-acre former Westward Ho hotel-casino at 2900 Las Vegas Blvd. S. for \$145.5 million, or \$9.6 million per acre; Gameday LLC's purchase of 85.8 acres in the southwest valley for \$48.7 million, or \$568,000 per acre; and the purchase of 6.7 acres on Las Vegas Boulevard near Circus Circus for \$40 million, or \$6 million per acre. Although a healthy economy, speculation activity and a diminishing land inventory have fueled high land prices, values are expected to soften in upcoming quarters because of rising construction costs and flat commercial rents.



Gilcrease Orchard could soon be the site of new homes.



OLYMPIA GROUP A BIG WINNER

Garry Goett's Olympia Group won the BLM's Nov. 16 land auction for a 2,675-acre parcel in North Las Vegas. The developer bid \$639 million, or \$238,878 per acre, to win the tract. The final sale price was 18.25 percent higher than the BLM's minimum bid.

The land was removed from last year's BLM auction after environmentalists found rare plant species of Las Vegas bear poppy and buckwheat. A 300-acre conservation area has since been set aside for the plants to appease environmental concerns. Olympia, meanwhile, bought 4,358 acres in Lincoln County during a Feb. 9 federal land auction. It paid \$14.5 million for the tract, or \$3,327 per acre.

Olympia Group is also planning a \$750 million, 610-room hotel-casino at Las Vegas Boulevard South and St. Rose Parkway in Southwest Las Vegas, situated within its 2,700-acre Southern Highlands community.

DOWNTOWN FACES CHALLENGES

The city of Las Vegas and The Related Cos. dissolved talks Oct. 6 on the development of downtown's 61-acre Union Park. The former railroad site, bound by Grand Central Parkway, Bonneville Avenue and the Union Pacific railroad tracks, was acquired by the city through a 2000 land swap with Lehman Brothers of New York.

Related and the city entered into an exclusive negotiating agreement in January, which included a \$500,000 good-faith

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deposit. But the two parties called it off 10 months later, citing "skyrocketing construction costs, high land sale prices and more competition throughout the valley."

The city has since named Dan Van Epp, former president of the Howard Hughes Corp., as its master-plan development consultant. Van Epp currently serves as Mountain Region president of Newland Communities, a San Diego-based master-plan developer. The city has approved \$40 million in infrastructure upgrades to the Union Park parcel, which currently consists of the World Market Center. There are also plans for a Frank Gehry-designed Alzheimer's center at the site.

IVANPAH AIRPORT SPELLS RELIEF

A new Ivanpah airport takes shape as the county hires Vanasse Hangen Brustlin of Watertown, Mass., to perform a final impact statement. The proposed \$4 billion facility will be located on a 6,000-acre dry lakebed in the Ivanpah Valley, east of Interstate-15 between Jean and the California border.

Initial plans call for a 14-gate terminal with two parallel runways for concurrent takeoffs and landings. The airport will initially service 6 million passengers annually when it opens in 2017, reaching 35 million passengers upon build-out.

It will help alleviate congestion at McCarran International Airport, which is rapidly nearing its 53 million annual passenger capacity. Once the new facility comes on-line, McCarran Airport will shift its focus toward short-distance flights while Ivanpah will service long-haul and international passengers. New airport construction will be financed from federal grants and revenue bonds, with debt being retired from passenger fees, concessions and airport revenue.

STANDARD PACIFIC HOMES ARRIVES

Standard Pacific Homes, one of the nation's largest builders, entered the Las Vegas residential market in 2005. The publicly traded firm hired Gary Cavender, former CEO of Signature Homes, to head up its local office. The Irvine, Calif.-based Standard Pacific already has 390 residential lots in its inventory.

It is building a 110-home community in Henderson and three projects totaling 280 homes in North Las Vegas. Its first single-family detached homes, ranging from 2,660 square feet to 3,400 square feet, are expected to come on-line February, 2006. Standard Pacific will be targeting entry-level to semi-custom track homebuyers, with prices ranging from \$275,000 to \$750,000.

CARINA SELLS TO LENNAR

Carina Corp., a privately owned Las Vegas home builder, agreed to sell most of its assets to Miami-based Lennar Corp., a publicly traded production builder, this summer for an undisclosed sum. Lennar acquired about 187 acres of land around the valley, including The Village of Centennial Springs, a \$100 million, 41-acre mixed-use urban village that broke ground earlier this year at Farm and Tule Springs roads in Northwest Las Vegas.

The transaction doesn't, however, include the project's 17 acres' worth of commercial developments, consisting of 56,000 square feet of office space and 50,000 square feet of retail shops. The sale additionally includes Carina's 35-acre community at Jones Boulevard and Warm Springs Road as well as its six Lamplight Communities.

Carina built roughly 1,800 homes in the Las Vegas Valley during the past nine years. Lennar, by comparison, had 1,219 new home closings locally in 2004 under its U.S. Homes and Greystone brands.

DEVELOPER EYES GILCREASE ORCHARD

Royal Construction Co. unveiled plans to build a residential subdivision at the site of the Gilcrease Orchard, an agricultural landmark in the northwest valley, where for decades locals have gone to pick their own fruits and vegetables.

Plans for the 40-acre orchard site, located at Grand Teton Drive and Tenaya Way, consist of 120 single-family detached homes with 11.5 acres of open space. The project, "Spinnaker Homes at The Orchards," will have 3,000- to 6,000-square-foot homes with a density of three units per acre.

Despite strong local opposition, the project has moved forward. Ted Gilcrease, whose family began farming the land more than 80 years ago, managed the orchard until his death in 2003. His brother, Bill Gilcrease, founded a wildlife sanctuary adjacent to the orchard where more than 1,800 rescued birds and animals reside. A foundation was formed to preserve the orchard after Ted's death, but foundation operators sold the land to help preserve 57 acres directly east of the orchard, turning the Gilcrease home on Elkhorn Road into a public history museum.

FOCUS PROPERTY GROUP WINS AUCTION

Focus Property Group won the BLM's Feb. 2 land auction, paying \$510 million, or \$298,245 an acre, for 1,712 acres of land in the northwest valley near the Kyle Canyon gateway. The property had an appraised value of \$323 million. Focus joined forces with a consortium of homebuilders to make its winning bid, including KB Home, Kimball Hill Homes, Lennar/US Home, Meritage Homes, Pulte Homes/Del Webb, Toll Brothers Homes, Woodside Homes and Ryland Homes -- to make its winning bid.

The property will be developed into a master-planned mixed-use residential community, adjacent to its Providence community now under development at I-215 and Hualapai Way.

COMMERCIAL RENTS FLAT, FOR NOW

Despite robust valley-wide demand for commercial retail, office and industrial space, rental rates, when adjusted for inflation, have remained relatively flat since 2001, reported Colliers International/Restrepo Consulting Group. The rapid inventory growth of commercial space has prevented rental rates from rising. Rental rates, as a result, are expected to

see double-digit increases during the next several quarters as leases begin to expire and developers attempt to catch up with inflation, rising land prices, and higher construction costs.

DOWNTOWN HENDERSON BEGINS RENEWAL

Downtown Henderson is undergoing an urban renaissance with four new projects backed by low-interest, five-year loans from the city's redevelopment agency. For example, Water Street South, a two-story, 30,500-square-foot office-retail building at the southeast corner of Water Street and Basic Road, opened in November.

RLK Investments, meanwhile, broke ground on the three-story, 21,000-square-foot Meridian at 155 Water St. in December. The \$5.2 million development consists of 7,000 square feet of dual-use office-retail space, with seven 1,000-square-foot apartments. VLP Investments' \$3 million, 12,000-square-foot Pinnacle office/retail building at 203 South Water St. opens in January.

And developer Sam Cherry recently received a 4.5-acre, city-owned parcel at Water Street and Victory Road. Although still in the early stages, Cherry's \$180 million project may consist of condos, apartments, and retail space. The combined undertakings mark the first significant private construction in downtown Henderson in nearly 30 years.

SUMMERLIN SKIRTS NEW COURSE CONSTRUCTION

New county ordinances introduced this year halted any future golf course construction for three years or until valley drought conditions cease. However, the ban doesn't apply to Summerlin because of a pre-existing agreement with developer Howard Hughes Corp. that dates back to September 1996.

The 22,500-acre master-planned community is permitted to build one additional course. Homebuyers pay premiums of \$100,000 up to \$3 million for residences adjacent to a golf course. The ordinance, some fear, will deter bidding activity during future BLM land auctions.

ARROYO OPENS

EJM Development Co.'s 450-acre mixed-use business park -- The Arroyo -- opened this summer. The firm has a 50-year ground lease with the Clark County Department of Aviation to develop the site along I-215 between Rainbow Boulevard and Buffalo Drive, splitting the proceeds with the public agency.

The project's \$11 million initial phase consisted of three concrete tilt-wall industrial/warehouse buildings, totaling 310,556 square feet, on 26 acres between Buffalo Road and Tenaya Way on the northside of I-215. The first phase was about 90 percent pre-leased with tenants such as MICE North America, Red Bull and Interior Specialists Inc. The Arroyo eventually calls for 5 million square feet of commercial space, including industrial, retail and office products, with some speculative and custom buildings as well as stand-alone pads. The master-planned project is expected to reach build-out by 2014.

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