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High demand, rising costs for land

Average LV land value hits \$708,014 an acre, data show

By HUBBLE SMITH REVIEW-JOURNAL



A sign on the corner of Las Vegas Boulevard and Warm Springs Road advertises acreage for sale. Las Vegas land prices are rising, data show. Photo by [John Gurzinski](#).

With companies such as Centex Destination Properties plunking down \$145.5 million for the 15.2-acre Westward Ho, or \$9.6 million an acre, it's little surprise that average land values in Las Vegas climbed to \$708,014 an acre in the third quarter.

That's an 18 percent increase from the previous quarter and a 76 percent increase from a year ago, when the average price was \$403,534 an acre, local research firm Applied Analysis reported.

Demand for Las Vegas as a residential, commercial and tourism destination continues to grow, which helps support record housing and land prices in the valley, said Brian Gordon, principal of Applied Analysis, a local economic research firm.

"There's a lot of speculation and a lot of investment activity going on in the vacant land market here and that drives prices north," Gordon said. "There's concern over the lack of developable land so they're willing to pay premiums. Residential developers are looking to acquire as much land as they can to feed their pipeline for future development."

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Darryl Briley, vice president of high-density development for Las Vegas-based Signature Homes, said rising prices have made land acquisition a bigger piece of the development formula that ultimately shows up in the bottom line -- the price consumers pay for a house.

"If I can't get some mixed use out of it, it makes it hard to (make it work financially) for our revenues and profit margins," Briley said. "It's hard to keep it up there at \$700,000 an acre. That's the driver."

The key to making high land prices work is density, he said. Anything less than \$700,000 an acre may work for strictly residential use, depending on lot sizes. When you get to \$800,000 and up, which some bidders were paying at the Bureau of Land Management auction in November, it gets tricky, Briley said.

"There are so many pieces that play into that. Like density. Is it seven (units) an acre or 14 an acre? It is a component that needs to be embraced and the sooner the better," he said.

Gordon said developers have found ways to alter the traditional return on investment by increasing density, entering joint ventures and subdividing parcels. Creative financing and midrise and high-rise construction also contribute to the land price equation when considering the financial feasibility of a given project, he said.

"Again, there's a limited number of available sites. Obviously, retail developers are seeking sites that are in close proximity to future residential activity. Office developers like to be near a major thoroughfare like the (Interstate) 215," Gordon said.

Land appreciation is expected to taper off in the fourth quarter, which includes the release of nearly 3,000 acres of public land at the BLM auction, where the average price was \$265,358.

Of greater concern is the sustainability in private transactions, Applied Analysis principal Jeremy Aguero said.

"We cannot turn a blind eye to the disconnect between pricing and productivity, nor can we ignore the market signals suggesting a somewhat softer demand profile during the next 12 months," he said.

Developers and investors have to be careful in the land purchases and have an exit strategy, said Matt Bear, a partner in Las Vegas-based Venture Development Group.

"I think it's been said so many times that prices are beyond what makes economic sense," he said. "People get in trouble changing numbers in the pro forma to make it work. Looking at it from a responsible pro forma, it comes down to what is an acceptable return for developers or investors."

Bear said it's been about a year since Venture bought land in Las

Vegas, though he has a small parcel in northeast Las Vegas in escrow for about \$450,000 an acre.

"That's why we're spending more time in Phoenix, which has gotten a lot pricier in the last year," he said.

Other reasons for the increase in property values, according to Applied Analysis, include:

- A relatively healthy economic climate that continues to boast nation-leading population and employment growth.

- Significant development activity taking place, confirmed by 13 percent growth in construction employment in November.

- Limited availability of large contiguous parcels suitable for traditional residential activity, along with increases costs of assembling the land.

- Rising densities, particularly suitable for midrise and high-rise condominium development.

Bear of Venture Development Group said he's not sure everyone wants higher density; part of the reason people move here is for the wide open desert living. He cited a recent Fortune magazine article that ranked Las Vegas last in housing appreciation over the next two years.

"Look at the high-rises that have been canceled. Not enough people want those units to make it work at the prices they're at," he said.

QUARTERLY LAND COMPARISON

	Third quarter 2005	Second quarter 2005	Third quarter 2004
Acres sold	1,805	2,296	2,880
Price per acre	\$708,014	\$601,569	\$403,534
Square foot price	\$16.25	\$13.81	\$9.24
Increase from previous quarter	18 percent	42 percent	26 percent
Increase from prior year	76 percent	88 percent	99 percent

SOURCE: APPLIED ANALYSIS

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