

## Developers push to reverse Valley's shortage of vacant industrial space



Doug Roberts, a partner at Panattoni Development Co., speaks on the Henderson Freeways Crossing , a business park project that will include six buildings totaling over 450,000 square feet, during a ground breaking ceremony for the project at the construction site near the intersection of W. Lake Mead Drive and Eastgate Road in Henderson, Nev., on Wednesday, June 3, 2015. (Erik Verduzco/Las Vegas Review-Journal) Follow Erik Verduzco on Twitter @Erik\_Verduzco

By JENNIFER ROBISON

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It's a big week for big industrial projects in the Las Vegas Valley.

Developers have either started or completed construction on nearly 1 million square feet of speculative warehouse and distribution space, banking on the idea that reversing the Las Vegas Valley's shortage of large, vacant industrial space will lure big tenants from outside the market.

At Pecos and Gowan roads, Prologis' 464,200-square-foot Las Vegas City Center No. 19, the largest local spec industrial building in nearly a decade, received its certificate of occupancy and is officially finished, contractor TWC Construction announced Wednesday. And Panattoni Development Co. broke ground Wednesday on Henderson Freeways Crossing, a six-building, 452,710-square-foot project at West Lake Mead Drive and Eastgate Road.

They're just the newest projects in a spate of recent warehouse and distribution building. The valley had nearly 1.6 million square-feet of warehouse and distribution space under construction in the first quarter, according to the commercial brokerage Colliers International. That's about five times the 373,000 square-feet under way in first quarter 2014.

And that may just be the beginning. Developers have as many as 5 million square-feet of potential industrial development — the "vast majority" of it in warehouse and distribution space — on tap in the next 18 months, said John Stater, research and GIS manager for Colliers International. That would add about 10 percent to a current warehouse and distribution inventory of roughly 50 million square-feet.

#### SPECULATIVE RISK

Whether it's all too much — or whether it all even happens — will depend on how the market greets the first few projects. Speculative space has no tenants lined up before construction begins, and that's why it can be risky. Buildings could sit empty for months or years if demand is slow.

That scenario isn't likely right now, observers said.

That's partly because the new projects follow a long development drought that began during the recession, in 2007. Warehouse and distribution development hit a high of 8.7 million square feet in the fourth quarter of 2006. That number tumbled to 72,000 square-feet — essentially nothing in a market of 2 million — in 2010, Stater said.

Those numbers illustrate "pent-up demand," said Doug Roberts, a partner in Panattoni's Nevada division.

In some pockets of town, the space shortage is especially acute. Take the Henderson submarket, home of Panattoni's newest project. The warehouse and distribution vacancy rate there is less than 1 percent, Roberts said. That's compared to an overall industrial vacancy rate of 8 percent market-wide.

"If we can make some product available in Henderson, we think we will be successful with it," Roberts said.

As industrial vacancy has fallen — it peaked at 14.3 percent in 2010 and 2011 — rents have risen, and that's made new construction possible. In the depths of the downturn, some deals were worth as little as 26 cents per square-foot, and many landlords couldn't recoup their costs at that rate, Stater said. Rents are creeping back into the mid-40-cent range.

"Within the last six months or a year, there's been a lot of demand. Everyone is starting to see the viability of these projects again," Stater said.

At Henderson's Freeways Crossing, Panattoni is aiming for the low to mid-50s.

"The returns we need require those rents," Roberts said. "We think it's justified, and we think that's what the market will bear."

The risk that comes with building on spec is a necessary part of the sector, Roberts said. He likened it to home-building: Developers start with three or four unsold models to help consumers see what the homes will look like and have a few other homes at or near completion when they decide to pull the trigger. Otherwise, buyers would have to wait months for a home.

"We have the same mentality. Las Vegas is not a strong build-to-suit market, because people don't want to wait for their space," Roberts said. "We've had no luck with just signs and renderings. If we start the project to give tenants an idea of what it will look like, they're more likely to lease."

The new boom also comes amid global growth in warehousing and distribution, said John Boyd, a principal in The Boyd Co., a site-selection consulting firm in New Jersey.

#### MOSTLY EMPTY TRUCKS

Internet commerce and a growing middle class in Mexico are boosting demand for distribution space. Companies are bringing back production once based in China as labor costs there soar. Las Vegas is poised to capitalize: Hundreds of trucks come into the market each week loaded with goods but because there are few factories here, they mostly leave empty — creating a "fundamental advantage" for distributors that locate here, Boyd said.

Then there's the Tesla Gigafactory under construction in Northern Nevada. Media attention put the state's business climate "on the national stage," said Boyd, who helps companies find relocation and expansion markets.

"What it did was showcase the rather unique tax advantages of a Nevada location to companies that were unaware of that," he said. "We now have companies asking us all the time about Nevada."

Boyd said a \$1.1 billion education tax increase passed Monday by the Legislature shouldn't hurt the state's reputation because it was a "good balance" on funding education, and companies are sophisticated enough to understand the focus on such qualitative issues.

Even amid improving times, developers are likely to remain as cautious as the inherently precarious nature of spec development allows, Stater said.

"I think a lot of people are waiting to see what kind of pre-leasing activity they get," he said. "They're making sure a building makes sense."

Roberts said Panattoni is embracing that wait-and-see attitude. The company has just one other big spec project now underway, a two-building, 416,000-square-foot development at Sunset Road and Jones Boulevard. Panattoni is eyeing a third project of 400,000 to 500,000 square feet in the south valley, but it's not a sure thing.

"It all depends on the performance of these two projects," Roberts said.