

CLIFFORD COMMERCIAL MARKET BRIEF

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BREATHE NEW LIFE INTO YOUR SHOPPING CENTER

By Kent Clifford, **CCIM**

A note to the shopping center owners who need to breathe new life into their center(s). My observations are on two fronts or issues, I see older shopping centers that are all concrete and pavement and are not inviting to potential shoppers. I am not a real shopper because I never shop in a center or store that does not invite me "in." My wife, and her sisters, on the other hand, are typical shoppers. They go wherever they perceive they can get the best deal—large centers, small centers, large stores, small stores, it really does not matter as long as they perceive there is a bargain to be had.

Now for my thoughts—increase tenant loyalty by adding additional landscaping to your property. This turns into increased profits and adds value to your center. When my partners and I purchased our office building, we had two large water ponds that continually required maintenance. One sunny day the Water District felt that all owners (not casino properties) should reduce their water usage and our ponds were suddenly dry. We could have left them empty and saved us several thousand dollars. But instead, because we value our tenants, we elected to fill the ponds with soil and install lush desert landscaping. Since then, we have renewed every lease and we remain 100% occupied.

Recently, I read an article in the Retail Traffic Magazine entitled "Event Planners." It was an article about regional malls and their ability to have events in their common areas. The article lamented that small grocery-anchored centers could not afford to plan events such as the regional malls.

My second thought came after pondering the article. Why can't grocery-anchored centers plan events as well? Why not contact your tenants and take a page out of the "Costco" play book? Why not have lunch on the tenants for potential customers—have each store have a food item outside on the sidewalk once a month. This would allow shoppers to stroll down the sidewalk and get free samples of food from each store similar to what "Costco" does.

Why not contact a car dealer to have a tent sale in your parking lot?

Why not contact the "Girl Scouts" to have a bake sale and have them situated in front of each store?

Why not put your property manager to work and come up with other ideas and make him/her responsible for coordinating the events.

In other words get out of the same old tired box and **do something!** ♦

MOTELS ARE GOOD INVESTMENTS

BY Kent Clifford **CCIM**

Motels generate a cash income stream for the owners and they offer some tax shelter with depreciation. If they are in a good location and well maintained you will experience appreciation in the value of the property. Motels usually can be financed with long terms (25-30 years) and, if the property qualifies, you may be able to obtain non-recourse financing. This allows you to increase your equity as you pay the loan back and with appreciation you could be contributing to your retirement fund.

Buying a motel requires you to know what the property is worth and if there is deferred maintenance. In addition, a professional financial plan is required in order to obtain a loan. You must also know what is expected if you are going to manage the property yourself. What you are doing is buying a 24/7 job. This allows you to be your own boss. However, if the property does not generate enough cash flow for an additional manager to relieve you, it will be required that you have good enough health to work 16 hour days, seven days a week including holidays with no vacations.

There is much more to know and if you are interested in owning a cash cow, call us at Clifford Commercial Real Estate. ♦



Special points of interest:

- INCREASE TENANT LOYALTY BY ADDING EYE-APPEAL TO YOUR SHOPPING CENTER
- DO YOU WANT TO BUY A CASH COW?
- LANDLORDS DON'T LIKE EARLY LEASE TERMINATIONS
- REMEMBER THE MOVIE "CHITTY, CHITTY, BANG BANG"
- VACANCY RATES FOR RETAIL 2.5%

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EARLY LEASE TERMINATIONS

By Sally Rycroft, Sr. Vice President
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Tenants normally enter into lease agreements with optimism and a positive outlook as to their chances to do well in the business world. However, as we all know, things do not always work out as anticipated and, unfortunately, it is not unusual—from time to time—to have a tenant approach the landlord to discuss the possibility of an early lease termination.

Landlords do not usually like to let a tenant out from under binding lease provisions unless it is in their best interest to do so. Those occasions typically occur when the tenant is desirous of relocating into a larger, different space within the facility or an alternate location owned by the landlord and/or the tenant wishes to exercise its contracted option to purchase the premises. However, more often than not, the tenant is desirous of downsizing and/or closing its doors, neither of which benefits the landlord. On occasion, for whatever reason, the landlord does decide to release the tenant from its contracted obligation.

The tenant looks at an early lease termination as a simple thing, but the Law Journal Newsletter (LJN) in its December issue assures its readers that it is not. There are several items that must be included in the termination document to protect the interest of the parties. The following identifies those matters.

The Introduction: The introductory provisions must plainly identify the underlying lease and all amendments, addenda and other modification documents. The drafter must accurately note the parties involved and the date of the underlying lease. Therein, the collection of documents should be identified collectively as "the Lease."

Purpose of Termination: It must be precisely stated why "the lease" is being terminated and to what extent. If the termination is only a partial lease obligation release, the provisions must clearly note this.

Method of Termination: A lease might be terminated in one of two ways: (1) it

might be terminated by nullifying the contents of the lease with fulfillment of the negotiated requirements or (2) by amending the provisions of the agreement.

Contingencies: Care must be given to address any and all contingencies. This would include the payment of any final rent and/or other financial obligations. Examples of other financial obligations might include an early termination fee, final payment of utilities, CAM fees, and premise restoration.

Authority: As in the binding document, it must be clearly noted that the signatories have the requisite authority to enter into and carry out the provisions of the lease termination agreement with the approval or consent of any other party. On the other hand, if the consent of one or more other parties is necessary, it must be noted and there must be a provision allowing for the third party to sign off on the agreement. One likely third party might be the Landlord's lender.

Termination of Memorandum of Lease: The terminated provisions of the lease might be recorded as a protection to all parties, or the lease might be nullified by amendment in accordance with previously agreed contractual provisions.

Survival of Other Agreements: The termination of one agreement should not allow for the termination of other agreements, unless the signatories agree to absolve more than the original lease agreement. This must be clearly spelled out.

In conclusion, lease termination agreements must be drawn up carefully so that the provisions note the important aspects of each party to the overall termination document. Only then will the parties have no further recourse to each other.

If you need help leasing your property or leasing space for your business, call Sally at 702-889-9898. ♦

WHY LEASE **FLEX-SPACE**

An Opinion by **Royden Britsch, Ph.D.**

There are four basic types of commercial space for lease in Las Vegas: office, retail, warehouse and, what is called in the industry, flex-space. Warehouse space usually is leased as a large empty rectangle which the client may use to store goods or manufacture or assemble products. Often it has offices built in part of the space. Retail space is usually in 1,000 to 1,500 square feet spaces or multiples of these spaces. Flex-space can be a combination of warehouse and retail.

Why would you need flex-space, or if you are a developer, why would you build flex-space? As a developer, the primary reason is financial. You can build flex-space for less than retail, yet rent it for more than warehouse space. Clients can rent the space generally for less than retail space and still have more of the advantages of a retail store. In Clark County, flex-space may be as low as \$1.40 per square foot for new space. This is because the warehouse space is leased at a lower rate than the retail space, whereas, regular retail space is leased at a retail rate (right now about \$2.00 to \$2.25 and as high as \$4.00 per foot, for new space), and any retail space a renter may use as a warehouse is leased at the retail rate.

The primary reason for a client to lease flex space is that they need work space and selling space. This is a very old idea. For example, in the movie "Chitty, Chitty, Bang Bang," the lead characters end up in a toy shop where the toy maker has a retail space and his workshop space is behind the toy displays. Often these spaces were large and housed several workers. In Clark County, if such a business existed, it would be in an industrial area in space zoned M-1 (light manufacturing and distribution.)

Most likely, renters will not be manufacturing products in this country, but many need the storage or assembly space. For example, one of my clients, a window and door corporation, is leasing flex-space because they need some work space and storage space, and also retail space to display windows and doors which the corporation manufactures in another state. Another of

my clients is leasing space which is flex-space and sells spas out of this location. Obviously, such a business needs storage space. However, this company expanded and asked me to find a retail space for them. Why? Because selling considerations outweighed storage needs. The company needed to be on a busy retail street, which I was able to locate for them.

Another advantage to flex-space may be accessibility. Land prices are forcing developers to build as much building as possible on the least amount of land. For a regular

retail business this means that a large portion of the land must be used for customer parking. Therefore, buildings are often situated near the back property line. The result is no truck access in the rear of the building. All of the goods must be brought in through the front door. This can be distracting to sales. Flex-space is primarily built as warehouse space. Warehouse space usually has truck loading/unloading space behind the building, or sometimes in front. This type of space is very desirable for certain clients, particularly if they are a destination-type of business.

Another advantage of flex-space may be the geographic location of the building. Because flex-space buildings are built in warehouse districts, they are not as prevalent as retail spaces. Yet this can be an advantage. For example, I currently have two clients who want to be in the southwest warehouse district and need both retail and warehouse space. Both like this location

simply because of the **location!** It is near the middle of the valley between Henderson and Summerlin, their two largest potential markets.

Flex-space is often efficient, virtually always cheaper, often more accessible, but not as visible, and can be as varied in architectural facades, age of buildings, and overall condition of the building as any strictly retail space. As land prices continue to rise and buildings costs climb, flex-space holds some real advantages both to the developer and to the renter.

Call Royden at 702-889-9898 for your industrial leasing needs. ♦

FLEX-SPACE

WORKING

SPACE

AND

RETAIL

SPACE

Las Vegas Market Remains Strong!

LAS VEGAS COMMERCIAL REAL ESTATE MARKET LEADS WESTERN REGION

by Don Chism, Senior Vice President –Land/Investments

The Commercial Real Estate Market in Las Vegas ranks at, or near the top of the following major markets in the Western Region of the United States according to recent reports by the Real Estate Research Corporation (RERC) and the CCIM Institute: Denver, Honolulu, Los Angeles, Phoenix, Portland, Salt Lake City, San Diego, San Francisco and Seattle.

According to the reports, the vacancy rates for retail was only 2.5%. With one of the fastest growing rates and one of the lowest unemployment rates in the nation, the Las Vegas retail market is quite solid. Retail growth in the southwest and northwest submarkets has been fueled by a substantial amount of residential growth.

The growing job market has also fueled incredible growth and expansion in the Las Vegas office sector. Office employment is expected to continue to grow 4% to 5% over the next five years, and office demand is expected to increase accordingly. Vacancy rates are continuing downward, but some area experts question whether they can go much lower. The vacancy rate for second quarter 2006 was 9.4%, down from 10.8% the previous quarter, while gross asking rents were up 14 cents per square foot, according to Torto Wheaton Research.

The availability of industrial space in the Las Vegas market fell to 5.3% in the second quarter of 2006, down from 5.7% the previous quarter according to the reports. Due to strong demand for industrial space in this market and increasing land prices, net asking rent increased a dollar per square foot during the second quarter 2006. Some land prices in the area have tripled within the last three years, and the market saw an extraordinary increase in building costs in 2005. As a result of rising land prices and construction costs, many developers have been hesitant to deliver the product currently in demand.

Apartment development in Las Vegas has been spurred by huge job growth, population increases, and a commitment to downtown revitalization. With improving fundamentals, continued demand, and the potential for significant rent increases in the city's market, apartment performance is expected to continue to increase.

Overall, the Commercial Real Estate Market remains strong in the Las Vegas area despite a rather dramatic "adjustment" in the local housing market this year.

If you would like to take advantage of over 25 years of expertise in buying and selling land, call Don at 702-889-9898.



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