



Picking Up the Pieces

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INDUSTRY INTERVIEW:

Rebuilding and Revitalizing a City

Derek Armstrong
Director of
Economic Development and Tourism
City of Henderson

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The Macro View



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David Grana is a financial writer based in Las Vegas. He has worked as a content writer for the Financial Times in London and Institutional Investor in New York. David established Vegasnomics for the purpose of hosting the Las Vegas Property Development & Infrastructure Conference - a vehicle that delivers tangible information on the property market to real estate professionals. Just like the complex issues that he has covered in his conversations with portfolio managers from the investment management industry, Vegasnomics brings complex economic and financial issues to the forefront of real estate professionals' minds.

The Micro View



Pam Junge, CCIM

Chief Adventure Officer

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Pam Junge grew up in Las Vegas and has made real estate her profession since the age of 17. Her vast knowledge spans title and escrow practices, private and commercial lending and every possible type of commercial and residential transaction. Most recently, Pam has pursued her passion of bringing technology and transparency to the home buying and selling process and aligned with eXp Realty, the fastest growing real estate firm in the country. Pam leads a dynamic team of commercial and residential agents on a platform built from three decades of providing consumers trusted services. Her mission is to grow industry leaders and real estate professionals through six core values - community, innovation, service, sustainability, collaboration and fun.

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The Macro View

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The best personification for 2020 that I can come up with is the character Mikey, portrayed by Jon Favreau, from the 1996 film *Swingers*. Poor Mikey is a downtrodden comedian who moves from New York to Los Angeles, in pursuit of his dreams, only to be dealt with a series of crushing blows ranging from money to dating, and everything in between.



Jon Favreau (L) and Vince Vaughn in *Swingers*.

"...the biggest question that real estate professionals are asking themselves is how this will impact non-anchor brick and mortar stores."

He and his much more optimistic friend Trent, played by Vince Vaughn, decide to take a trip to Vegas, Baby, where they find themselves at a \$100 minimum blackjack table, in spite of their precarious economic situation. Mikey gets dealt an 11, whereby Trent points out that you always double down on 11! After much consternation, Mikey reluctantly does so, ending up with an 18, which falls desperately shy of the dealer's eventual 21.

The euphoria of the gradual reopening of many parts of the economy across the country was dealt a similar blow, with the horrific death of George Floyd at the hands of a Minneapolis police officer, and the riots that followed in many major US cities. This is just another of many tragic events that has plagued 2020 and has broken the spirit of the masses.

On a geopolitical scale, President Trump's declaration to end special trading privileges with Hong Kong has sparked anger by the communist Chinese government, who deem it as meddling in internal affairs.



The saga over Sino-American relations will continue, and in the meantime, is likely to impact trade and cross-border investment between the two countries.

Closer to home, April consumer spending plunged by 13.6%, while household savings increased. This is, undoubtedly, due to the closure of many businesses during this period, as well as the economic boost felt by the Federal economic stimulus package. The Commerce Department's Report also shows that many consumers had shifted to online shopping during the month, leaving many of us asking how much of that will become permanent, once the economy fully opens. Of course, the biggest question that real estate professionals are asking themselves is how this will impact non-anchor brick and mortar stores. Will delivery or curbside service become a common element that shops will need to include in their customer offering? Will businesses need to dip into their coffers for additional TI's moving forward? Time will tell, and hopefully not at the expense of the livelihood of those tenants.

The biggest unknown, as the New York Stock Exchange, Las Vegas casinos, and many other well-established institutions of our economy reopen, is how big of a rebound we will see in the coming weeks.

"...this comes along with a backdrop of much uncertainty over business confidence and trade, as well as a national unemployment figure that is projected to be reported at around 20% later this week."

There is, without a shadow of a doubt, a part of our consumer economy that has pent up demand. Of course, this comes along with a backdrop of much uncertainty over business confidence and trade, as well as a national unemployment figure that is projected to be reported at around 20% later this week. And with talks over a second stimulus check and extending Federal unemployment benefits still up in the air, one has to ponder if households are re-evaluating their financial positions and preparing for some tough times in the months ahead. In spite of White House economic advisor Larry Kudlow's optimism over a Q3 rebound, growth numbers can always look great if you're climbing out of a very deep hole. The next few weeks will give us an indication of just how optimistic consumers and businesses are feeling in the current climate.

In its bi-annual Financial Stability Report, the Federal Reserve gave a grim warning that asset prices, particularly in the commercial real estate sector, are at risk of significant declines. Hospitality and retail are the two main areas that will experience rising cap rates in the coming months, but that doesn't mean that office, multifamily and industrial are out of the woods just yet.



The Federal Reserve Bank in Washington, DC.

Once again, these will all be determined by consumer and business confidence, as the narrative unfolds in the coming weeks and months.

What is most anomalous is the housing market, which is expected to heat up, particularly in affordable price ranges as the economy begins to open up, per National Association of Realtors Chief Economist Lawrence Yun. Though home sales have suffered a steeper-than-expected 21.8% decline in April, Yun projects that they will reach their nadir in May before bouncing back, thanks in great part to limited inventory. After much discussion over this topic with my Micro View colleague, there are a lot of questions and “what if” scenarios that seem to come up, which do not appear to be accounted for in many analyses.

For starters, what if homeowners have decided to take their properties off the market because their own economic circumstances are uncertain and they are in a holding pattern until their employers call them back to work or give them their pink slips?



National Association of Realtors Chief Economist
Lawrence Yun.

What if those homeowners were banking on receiving the additional Federally-backed \$600 unemployment benefits, which are currently set to expire on July 31? What if their refinance or modification applications are still pending and eventually get denied?

I could go on, but will leave it at this: just like the state of the overall economy and the value of commercial real estate, the future of the housing market will ultimately depend on consumer and business confidence.

In the meantime, we will all be picking up the pieces left by the devastation of the pandemic and the many other maelstroms that we have been navigating through this year. Stay safe and let's work on making this world a better place for everyone.



The Micro View

Pam Junge, CCIM

Chief Adventure Officer

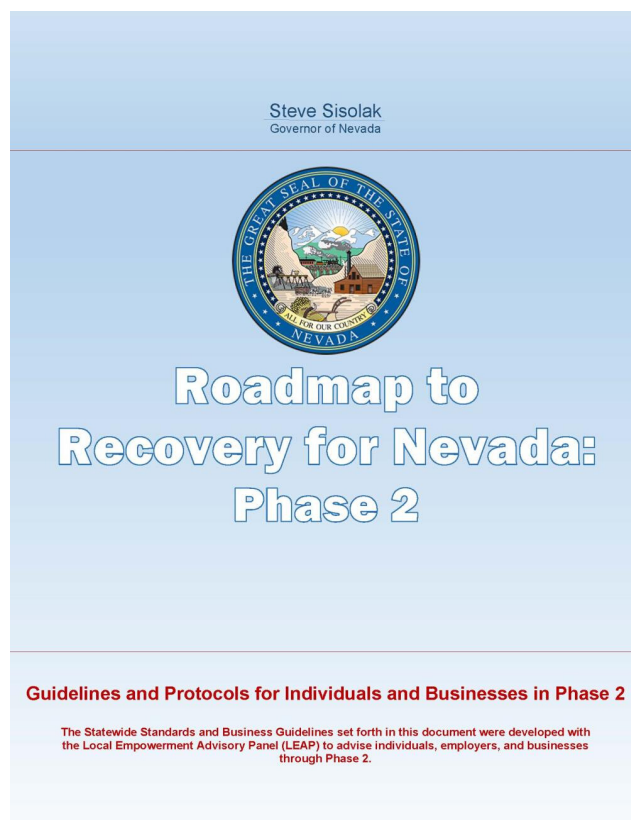
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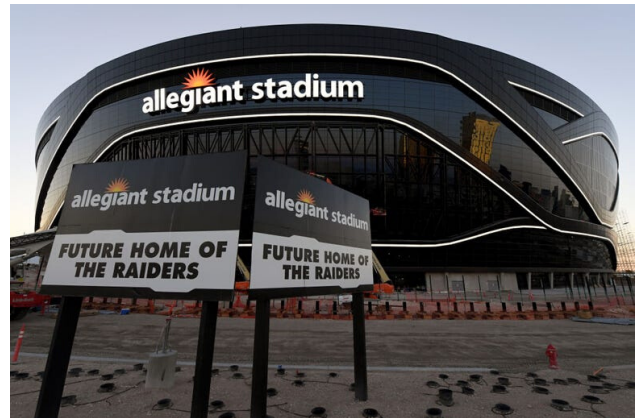
One step forward and two steps back. That's exactly what last week's paradox of events felt like, starting with the excitement and anticipation of the Governor's press release of Phase 2 and ended in a sobering few days of protests and civil unrest. One can't help but wonder if all the effort we've put into flattening the curve and targeting a June 4th resort opening might all have been for naught.

The Governor's briefing on entering Phase 2 on Tuesday unexpectedly turned into a recorded release due to his possible exposure to COVID-19. Despite the change in plan, the news was exciting.

Gym rats across the city (myself included) celebrated with fervor, dreaming of squat racks and that ever so pungent smell that we've all grown accustomed to. The Silver State Stabilization Plan, or Phase 2, as it's more widely known, brought forward operation of most businesses, with the exception of night clubs, adult entertainment and brothels (sorry Pahrump). We can now gather safely (social distancing is still a highly recommended piece of the plan) in groups of up to 50.



I can't help but find myself reverse engineering the "gathering" numbers backwards from the very crescendo of the ultimate statement that "Las Vegas is open for business," the grand opening of Allegiant Stadium - our \$2 billion jewel in the desert that will seat 65,000 people.



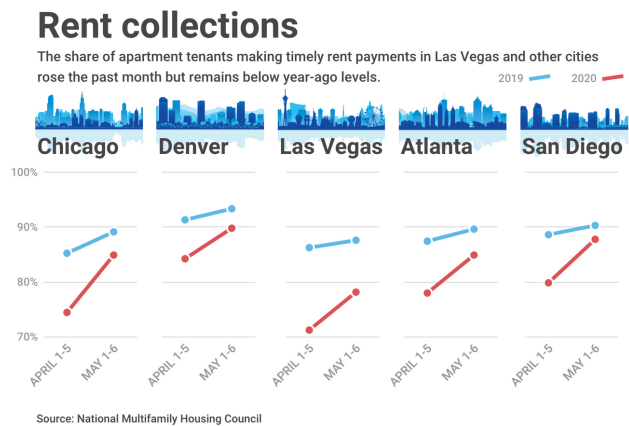
Let's take a count: today we can gather up to 50 persons, some casinos will open on June 4th at roughly 50% occupancy across the board, and we will seat 65,000 people on August 22nd for the Garth Brooks concert kick-off, followed by the Raiders' first preseason home game versus the Arizona Cardinals on August 27th.

"The University of Chicago estimates that 42% of the recent layoffs (nationally) will result in permanent job losses."

That's a 64,950 person increase in less than three months. The show must go on and, by all accounts, the stadium will be completed on time. In a recent interview with the Las Vegas Sun, Don Webb, Chief Operating Officer for Las Vegas Stadium Co. said, "If we don't have that wild card of government shutting us down or making it impossible, yes, we're going to finish on time. Unless there's a backup plan that I'm not familiar with, we're all in on Las Vegas. We've got all our chips in on Las Vegas, so that should tell you how serious we'd take any interruption. I intend to finish this on time."

While there is still no safety net in place, or exit plan, if you will, in regards to the moratorium on evictions, Las Vegas renters have done surprisingly well in keeping their rents paid through the pandemic.

Nevada Hand, which operates about 4,200 apartment units in Southern Nevada, has “definitely seen an increase in folks asking for rental assistance,” said Greta Seidman, spokeswoman for the affordable-housing developer in a recent interview with the Las Vegas Review-Journal.



The positive numbers can likely be attributed to the many financial overlays in place, such as furlough wages, stimulus checks and disaster unemployment. With these mitigating factors coming to an end, and the new wave of job loss, due to the continual re-sizing of casinos, the tides could change this summer. The University of Chicago estimates that 42% of the recent layoffs (nationally) will result in permanent job losses. I can't help but believe that estimate will remain right as rain in Las Vegas due to our economic structure and its heavy reliance on tourism.

"As of now, median and below-priced homes are the hot sellers, with first time home buyers doing most of the bidding."

In another surprising turn of events, Southern Nevada new home sales rose slightly in April, despite an expected drop of more than 20%. We entered the pandemic with a shortage of inventory and the pent up demand was fueled positively, in part, by a side effect of sheltering in place and working from home.



As more and more businesses allow their employees to permanently work remotely and families sequester themselves in their private sanctuaries, they've made the decision to invest in their home for the long-term.

I recently chatted with Geoff Christoph, Lead design Architect Adventure Specialist of Blue Haven Pools, who stated, “My phone didn’t ring for two weeks after the shutdown. I was getting nervous. Then all the sudden, in the third week, I got ten leads. In the second week I got 60. Today, I’m working 80 hours a week just to keep up with the demand.” When I asked him what he was hearing from his customers, he said the general consensus is that they felt they may be in their homes a bit longer than anticipated, so they wanted to make it more fun and comfortable for the duration. But the story doesn’t end there.

Lest we get too excited about the ripple effect of COVID-19, let’s point out the skyrocketing number of lawsuits the week brought between buyers and sellers. As the pandemic continues to upend lives around the world, some buyers and sellers are second-guessing their desires to seal the deal. Now, many are citing reasons related to the pandemic as justification for backing out of a contract or trying to negotiate a lower sales price. As a result, threats of legal action and lawsuits between buyers and sellers appear to be on the rise, despite the multitude of COVID-19 clauses that agents and brokerages have put in place during the pandemic. “We recently had a buyer attempt [using the COVID-19 virus as an excuse for terminating the contract, but I knew the ‘reason’ they were stating was not valid, so I advised my client to pursue them to retain their earnest money deposit,” Travis Groome, founding partner and broker of The One Real Estate Group at Keller Williams, told Inman News in an email.

“Of course, we were met with resistance from the buyer’s brokerage, but we knew they did not go about things ethically or legally,” Groome added.



Treasury Secretary Steve Mnuchin (C).

"So we engaged legal counsel, as did the buyer, and ultimately we did prove that, in fact, they did not maintain the integrity of the contract, so my client was able to retain their earnest money deposit, and it was a substantial, almost six-figure, number." And who doesn't remember reading the headlines about the sister of Treasury Secretary Steve Mnuchin? She recently sued her potential buyers for \$800,000 when the sale of her \$8 million Upper East Side penthouse fell through, as a result of the couple attempting to renegotiate their contract to a lower sales price amidst the recent economic turmoil caused by the pandemic. Force Majeure is the new buzz word in courts and, whether or not it holds up, has yet to be seen.

Las Vegas' resale housing stats are completely benign week-over-week and practically a mirror image of one another. The numbers remain incredibly consistent, and I'm looking to June 4th to judge if the next major phase of reopening the economy moves the needle in one direction or another. As of now, median and below-priced homes are the hot sellers, with first time home buyers doing most of the bidding.



The commercial sector, despite threats of value decline, remains benign as well at this time. For anyone who's read the Dr. Seuss book "Oh the Places You'll Go," you'll get this. We're in the waiting place. With a multitude of false positives in the market keeping checks and balances, we wait. Our intellect suggests we can not sustain when the foundation of fictitious economic stimulus and government orders fades away, however, the butterfly effect of this pandemic has surprised us once or twice already.

As the resort corridor readies their majestic and fun-filled entertainment meccas for the masses, we find ourselves with protests and riots on the very street that houses them. With 12 officers injured and 80 protestors arrested on Friday night alone, we are a city divided once again. One step forward and two steps back. Get me off this crazy ride. Perhaps the situations we find ourselves in are less the problem than the human reaction to them. This, too, will be merely a couple paragraphs memorialized in Wikipedia, and we will move forward from it. Let's hope we find a middle ground soon and can move forward together picking up the pieces. Stay safe, sane and healthy out there. Stay **#vegasstronger**.



INDUSTRY INTERVIEW: **Rebuilding and Revitalizing a City**

Derek Armstrong

Director of Economic Development and Tourism
City of Henderson

Derek Armstrong promotes a diversified economy by attracting new business and assisting business expansion for the City of Henderson. Mr. Armstrong encourages entrepreneurial enterprise and working with industry partners to develop a high-skilled workforce.

What 2019 construction projects were the highlights for the City of Henderson?

There were a number of projects that broke ground last year, which were indicative of the city's forward progress, including the \$600 million Google data center, which just completed their first phase last month. Water Street is under a considerable amount of construction, including the Lifeguard Arena, which opens in October, along with mixed-use development just adjacent to that facility. And then over in West Henderson, there is the site of the Raiders' corporate headquarters and practice facility. These are all very significant projects that have and will continue to raise the profile of the City of Henderson.

Has there been any pause to projects that were underway or that were about to break ground since the pandemic started?

I'm not aware of any construction projects that have paused as a result of the pandemic. We're very fortunate that the Governor allowed construction projects to move forward, which will ultimately help with the economic recovery process.

"Some of the strategies include evaluating how we encourage people to visit Henderson businesses, how we can help businesses use outside space to increase capacity, developing small business relief programs and aligning our business attraction efforts to increase our resiliency."

How has the City of Henderson been aiding businesses that have been struggling through the shutdown?

From the beginning of the crisis, we have addressed short-term business needs, but we have also been looking at longer-term solutions to help businesses recover. In the beginning, it was about determining which businesses were essential and which could and could not remain open. There were numerous meetings that we held with different stakeholders throughout the community to provide clarification of the Governor's directives and provide guidance as necessary. Once we overcame that initial hurdle, we then tackled the issue of helping businesses apply for the Federal aid programs, such as PPP and EIDL. This was done through a virtual consultation platform between our staff and local businesses, as well as a weekly joint webinar with the Small Business Administration, in which we had over 1100 participants per week for 6 consecutive weeks.

Since rolling into Phase 1 of reopening, our licensing department has been visiting local businesses to provide them with guidance on implementing social distancing measures. We have now shifted from emergency response to recovery support mode, which involves the development of strategies based on input from local stakeholders that will help businesses recover quickly. Some of the strategies include evaluating how we encourage people to visit Henderson businesses, how we can help businesses use outside space to increase capacity, developing small business relief programs and aligning our business attraction efforts to increase our resiliency.

"Our long-term objective is to create employment opportunities for Henderson residents to improve their quality of life through diversifying our economy with companies who fit Henderson's profile and are great community partners."

Will there be any change in the Economic Development and Tourism Department's messaging or operations as it continues to try and attract businesses to the City of Henderson?

There will be some limited changes to the messaging that will emphasize the work that we are doing to ensure the safety of residents and visitors. We work according to a strategic plan that focuses on advanced manufacturing and healthcare as well as other strategic sectors, and we don't see us moving away from that, but rather adding the component of safety and our response to the pandemic.

Do you still see businesses that were interested in the City of Henderson prior to the pandemic inclined to make the move?

Economic development has not stopped down since the pandemic. We've still had inquiries from companies that are considering the City of Henderson for their business. And companies such as Haas Automation are still very committed to planned pre-pandemic moves to the City.

What are the short-term and long-term objectives of the Economic Development and Tourism Department?

The short-term goal is for the City to support businesses as they reopen and make sure that those small businesses that are struggling find the resources that they need to get back on their feet. Our long-term objective is to create employment opportunities for Henderson residents to improve their quality of life through diversifying our economy with companies who fit Henderson's profile and are great community partners.

Navigating the New Normal in the Property Market.



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