Vegasnomics

Here We Go Again...

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INDUSTRY INTERVIEW:

Implementing Sustainability Practices Key to Regional Growth Strategy

Michael Cooper

Manager, Energy Solutions

Southwest Gas

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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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"Serenity now!" Oh my goodness, have I become Frank Costanza? Is this what happens after 40 or is this just the only knee-jerk reaction I can muster under the current set of circumstances? When I wrote my last article, COVID-19 was but a distant memory, unemployment was on the decline, we were solving all of the social inadequacies of the last millennium. And then the deluge of news hit us last week...

The late Jerry Stiller as Frank Costanza in *Seinfeld*

Apparently, COVID-19 is back, or never went away, or something like that. Regardless, there are now conflicting reports over the severity of the virus and its method of contagion. Various states across the US, including California, Arizona, Texas and Utah are now reporting a spike in cases and pundits are debating over whether this is a second wave or if it's still part of the first. Any which way you look at it, Thursday's stock market capitulation is an indication that the euphoria felt by investors may have been premature. And comments by Richmond Fed President Thomas Barkin that the May unemployment rate is worse than the 13.3% that was initially reported has only added to that uncertainty. While he was upbeat on growth, assuming there wasn't a resurgence of COVID-19, Barkin also stated that the economy needed stimulus beyond what the Federal Reserve was capable of delivering.

"The path ahead for the economy is highly uncertain and continues to depend to a significant degree on the path of the pandemic."

Discussions for a summer stimulus won't begin for at least another month, and by then, we should have a better idea of how far business and consumer confidence will take us. Wednesday's FOMC meeting resulted in the US central bank announcing that interest rates would remain unchanged through 2022, and that unemployment could improve to 9.3% by December.

Richmond Fed President Thomas Barkin

Echoing Barkin's comments, Fed Chair Jerome Powell stated, "The path ahead for the economy is highly uncertain and continues to depend to a significant degree on the path of the pandemic." In spite of the euphoric messaging and the reopening of Las Vegas casinos and many businesses, we are most certainly not out of the woods yet.

It feels like the plight of retail businesses continues week-after-week, with Men's Warehouse being the next business in a long line to contemplate bankruptcy.

"The flight from densely populated urban areas may increase the allure of secondary and tertiary markets in the months and years to come."

That news contrasted with an announcement from Dunkin' Donuts, which proved that America does indeed run on Dunkin', whose franchisees will be hiring 25,000. Retail commercial brokers take note of this... Contrasting news is what the multifamily sector seems to be all about. The National Multifamily Housing Council announced that June rents hit 80.2%, which represented a slight uptick from May. However, you might be having a difficult time if you were a multifamily owner-operator in New York City, where leases plunged by 62% in May, or San Francisco, where rents have dropped to three year lows. Portfolio managers are, undoubtedly, keeping an eye on the performance of multifamily markets, and the trends that we follow, as the COVID-19 narrative continues to unfold. The flight from densely populated urban areas may increase the allure of secondary and tertiary markets in the months and years to come.

Lastly, I must make mention of the "defund the police" movement and the possible implications on real estate. Regardless of politics, opinion, or even the final iteration of the policies that arise with regards to this topic, it will have a severe effect on the residential and commercial real estate sectors. With safety being among one of the primary factors that determine where people choose to live or establish their businesses, even the threat of the defunding of law enforcement agencies and the potential effects on the safety of communities are enough to make buyers and renters question the market value of real estate. Wherever this proposed movement takes the greatest hold will certainly see a decline in values.

This means a potential lower future resale value, as well as lower rents that can be charged by landlords. In addition, security, insurance, and repair costs will see a significant increase. How much more to tenants and owners want to add onto their overhead, on top of the fixed costs and taxes already associated with a property?

What are the costs associated with preventing your property from becoming the next Republic of Chaz?We are far from being out of the woods. It’s important to find that happy balance between staying on guard and finding Serenity Now. Stay safe!

The Micro View

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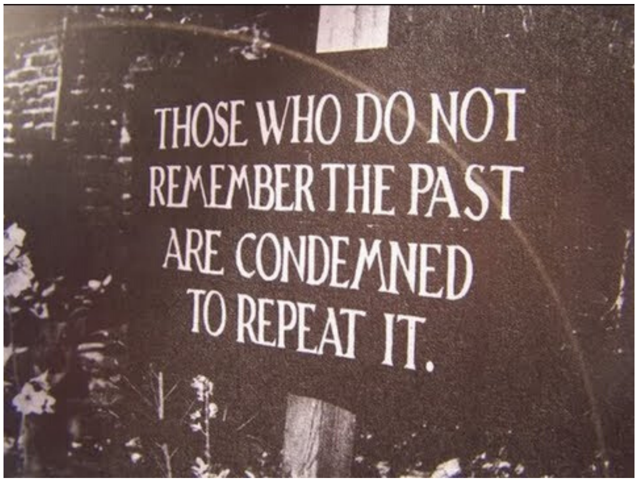
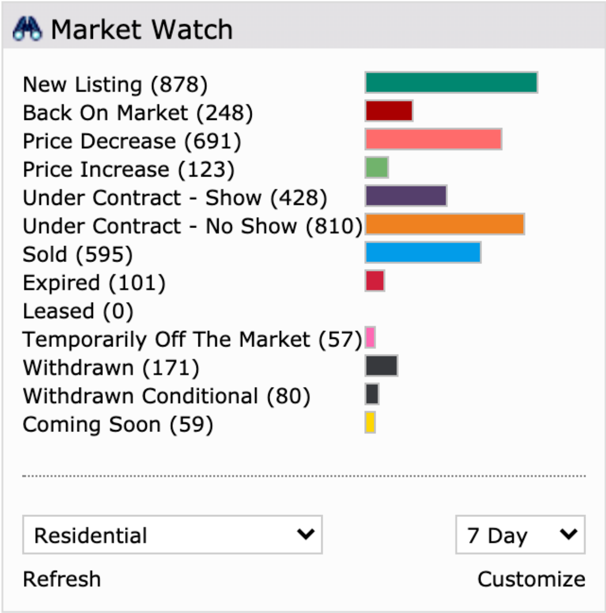
Here we go again. Apparently everything we knew last week has changed, yet again. To wear a mask, or not to wear a mask? That is the question, along with so many others. Let's start at the beginning by going back in time. Throughout the years, history has had a timely way of repeating itself. Historic recurrences can many times be traced to specific chains of casualty, rationalized and documented for future reference.



"Whether a potential seller is holding the inventory back due to mortgage payment deferment options or simply fear of risking exposure to the virus, there is a pent up well of housing waiting to hit the market, thus creating another false positive."

Tidy as a bow. But, as humans, how quick we are to forget. Just as fast as the memories fade, they can become events of today. The flow is generational and millennials are inching dangerously close to mirroring events of a century ago. I shudder to think how what we're living through right now will be memorialized in the fabric of this patchwork quilt we call America, and only a complete fool would try to predict what's coming next. And here I go...

Sorting through the metaphysics of the last several months is confusing to say the least. Just turn on the news, click through a few channels, and you will get a different spin on the same story every time. The stock market has felt like a game of economic charades and, by all means, the housing market is being held together by sheer optimism and false positives.



Could the forward momentum, despite chaos and confusion, be the very glue our city needs to propel our economic recovery? That's a very resounding "Perhaps!" Let's take stock in where we're at and how we got here. Today's circumstances are, in my opinion, largely in part due to behavior. At the onset of the coronavirus outbreak, our governments placed a "freeze" on life and business to preserve what we had and slow the spread. The goal was to get survival money out as quickly as possible, hence the $1,200 stimulus checks, small business loans and unemployment on steroids. Granted, this process was and is incredibly flawed, and as many are still waiting for their bailout, billions of dollars have already been disbursed and put back into the economy. But where, exactly, is it going?

Another false positive would be housing inventory. I've said it before and I'll say it again, because it's worth repeating: We could not have entered this pandemic on better footing. Our inventory remains low, months later, in large part due to behavior. Whether a potential seller is holding the inventory back due to mortgage payment deferment options or simply fear of risking exposure to the virus, there is a pent up well of housing waiting to hit the market, thus creating another false positive. Let's flip the switch to another behavior driving the housing market - the need for shelter and safety.

At a time when it's never been so clear and heartfelt, the desire for housing stability being driven by first time home buyers is tantamount to Mario Andretti winning the Grand Prix. And here we are...

"It is reported that DETR currently has 80,000 cases in the system yet to be processed, as people's bank accounts and their patience are hitting zero."

As the jobless numbers continue to see-saw locally and nationally, we have to, once again, ponder the behavior factor. If one is uncomfortable working with the threat of COVID-19, or has small children at home, or simply can earn more as an unemployed person, they may choose the unemployment route. People respond to incentives.

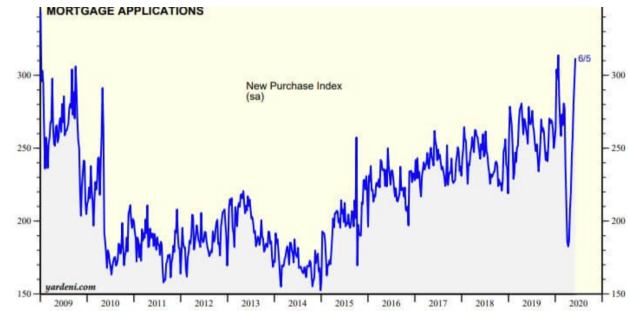
Patience is growing thin for laid off employees awaiting state benefits to kick in.

That's not to say they're bad, but rather that these incentives drive behavior. Thanks largely due to a better than expected turnout in the first two open weekends on the Strip, we continue to see more and more announcements of hotel and gaming opening dates, along with optimism behind the rehiring of staff. And did you hear that Allegiant Stadium is hiring 4,500 employees? Indeed, they are. And the vast majority of them are part-timers that may see somewhere in the neighborhood of 46 work days (events) per year.

While this is a great "filler" position, it won't have a quantifiable impact on full time employment in the city. As businesses continue to right-size, job skills, positions and opportunities continue to evolve. We won't likely know the total impact the pandemic has had on unemployment until the first quarter of 2021.

It is reported that DETR currently has 80,000 cases in the system yet to be processed, as people's bank accounts and their patience are hitting zero. Friday brought a small group of protestors outside the Grant Sawyer building demanding they speed up the processing of payments.

Loan applications from homebuyers are up again for the eighth consecutive week with purchase activity up 13% year-over-year. In true 2020 paradoxical standards, home buyer's consumer confidence is high and interest rates are still historically low - while the mortgage industry credit crunch continues to worsen for the third month in a row out of economic uncertainty.



Loan applications continue to rise even in the face of COVID-19.

Last month did bring only a slight decline in credit availability according to the Mortgage Bankers Association (MBA), which could indicate stabilization. There is no reason to think that demand will collapse any time soon. Pent up demand from the spring season, coupled with equity draws by those in financial need - refinancing to liquidate equity, due to financial duress (even though lenders are not offering the best rates on refinances because of added risk in the market from coronavirus mortgage relief programs). Overall, as businesses open up and the economy shifts into gear, the housing market recovery is doing surprisingly well. Las Vegas put a whopping 1,200+ homes under contract in the last seven days. This is the largest number since the outbreak. We can only hope that credit availability will keep pace and continue to fuel the momentum.

The virus has still zapped much of the commercial real estate sector. Not only are businesses adapting to new standards of health and safety as they reopen their doors, but they're also dealing with the evolution of their customers and employees and how they use their goods and spaces.

Billionaire Sam Zelle, who was recently interviewed on Bloomberg, poignantly stated, “Human reaction creates the scenario...whether it’s justifiable or not.” People have been forced to change the way they work, shop and play for about three months now - just long enough for habits to form.

The cafe culture that Starbucks popularized may be coming to an end because of the limitations of COVID-19.

Business owners and employees alike have found that working from home brings many advantages and is quickly becoming the new normal from large companies to small. Restaurants find their revenue quickly shifting towards a much larger share of take out and delivery.

Just take Starbucks and their complete rebranding, for example. Let’s be honest. They never intended on creating a good cup of coffee. They created culture, the third home, the place you go when you’re not at work or home. Now they’re making a major push towards drive-through only stores and omitting the very piece of culture they built their brand on. The evolution and necessity of traditional brick and mortar is under attack and being redefined, leaving the long term effects on the commercial sector. This is something we will be watching unfold for years to come.

Last week was another one full of 2020 sucker punches. First a left, then a right, and another left, and yet we continue to make small strides. Through the turbulence and chaos, Las Vegas is still hanging in there. Despite the mayhem, we’ve launched a major reopening of the Strip, schools, parks and businesses. We’re getting on with life, even though it may look a little different now. And we have a long way to go. I’ll close this week’s article by circling back to the beginning of it. Only a fool would try to predict the economic outcome of our future, but I’ll tell you, my money is on Vegas. Stay safe out there and stay **#vegasstronger**.

INDUSTRY INTERVIEW:

Implementing Sustainability Practices Key to Regional Growth Strategy

Michael Cooper
Manager, Energy Solutions
Southwest Gas

Michael Cooper moved to the Las Vegas Valley from Southern California 25 years ago. He studied Civil Engineering and Psychology at The University of Nevada Las Vegas and proceeded to work in the Engineering department of Southwest Gas. Michael worked in the fast-paced areas of New Business, Planning and Large Projects, prior to transitioning into the business side of the organization. Currently, Michael leads multiple teams of engineers that oversee and manage all the Key Accounts within Southwest Gas' California, Nevada and Arizona territories. In addition to his engineering degree, Michael holds a Master's in Business Administration (MBA), a Professional Engineering license (PE) and is a Certified Energy Manager (CEM).

What were some of the challenges that Southwest Gas had faced during the most recent construction boom that Southern Nevada was experiencing?

Our company is committed to attracting a diverse and talented group of Southwesters who share our values and want to make a difference in the communities we serve. With the booming economy, competition for top-talent has increased. As a company we have taken several steps to reinforce our position as a company of choice.

Recently, we implemented flexible work arrangements to provide our employees with more balance in their lives. We've also changed our dress code to be more casual. And, we have created a diversity and inclusion initiative to not only attract a more diverse workforce, but to ensure all voices are heard.

To help attract and develop talent, Southwest Gas partnered with the College of Southern Nevada to offer natural gas-focused courses to allow students to get a jumpstart into the energy arena.

> **"The multifamily closing likely peaked in 2017 with 4,050 units and will likely be around 3,500 annually for the next few years."**

The courses are designed by industry to meet industry needs and taught by Southwest Gas employees with diverse, hands on experience and knowledge. Linking student learning to industry standards and practices ensures that students are fully prepared to enter the workforce as productive employees.

Many of the engineers at Southwest Gas are graduates of the UNLV College of Engineering, and our Foundation has partnered with the College as they begin to build a new Advanced Engineering Studies facility. This addition will help future generations of engineers in Southern Nevada, who are looking to make the world better through science, math, research, and innovation, by providing a state-of-the-art facility and resources.

What level of year-on-year capacity growth is Southwest Gas preparing for, and at what levels do you see capacity plateauing?

SWG continues to reinforce the gas system in the NW part of town with the expectations of large master planned communities, such as Lennar's Sunstone, moving forward. Many of the larger productions builders in Las Vegas are projecting a 10%-20% upsurge in their development of lots, which only increases the workload of the SWG contractor base. The total single-family home permits decreased in 2019 (10,563) from 2018 (11,065). Single family home permits have been steadily increasing since 2014 and expectations are for numbers to settle in between 11,000 – 14,000 annually. The multifamily closing likely peaked in 2017 with 4,050 units and will likely be around 3,500 annually for the next few years.

"There are various rebate programs that are available to both productions builders AND to homeowners/tenants."

As sustainability becomes a higher priority in real estate, what are some solutions that Southwest Gas is offering for developers, landlords and tenants?

Affordable, efficient and clean, natural gas offers a compelling value proposition to our customers. Commonly one of the lowest utility bills any of us pays, natural gas is 91% efficient when used as a direct source to heat our homes, cook our meal and warm our water. And, as appliances and homes become more energy efficient, our customers are using less of our product. Further, natural gas is clean accounting for only 4% of the average Nevada home's emissions according to emissions calculators provided by the University of California, Berkley.

Sourced from farms, landfills, and wastewater treatment, renewable natural gas, which is carbon neutral, will further reduce emissions. Fully compatible with existing natural gas infrastructure, Southwest Gas is working to create partnerships between sources of RNG and customers who want to leverage RNG to help meet emissions reductions goals. Our company is involved in several projects throughout our service territory.

Over the last decade transportation has superseded electric generation as the number contributor of emissions in Nevada. While transportation may not be directly tied to real-estate, people's ability to get to and from their jobs and around town makes a difference in our community. So, we have partnered with companies like RTC and Republic Services to provide compressed natural gas for their fleets. CNG burns cleaner than diesel, produces no visible smoke and is quieter.

This makes a major difference for our environment. In 2019, CNG provided by Southwest Gas to our customers displaced 11.7 million gallons of diesel from Southern Nevada fleets. That's equivalent to taking almost 7,300 cars off the road.

SWG understands the impact and importance of promoting and supporting energy efficiency programs. There are various rebate programs that are available to both productions builders AND to homeowners/tenants. Builders can take advantage of a tankless water heater rebate of $225 per qualifying model installed per home. Additionally, there are various rebates for commercially installed heating and cooking models. Homeowners and tenants can also take advantage of the $225 per qualifying tankless water heater installed OR up rebates on up to 30% of the costs for installation of solar water heating.

With an inevitable growth into undeveloped desert land, what is Southwest Gas doing to ensure that they can service these outlying areas?

A lot has changed in Las Vegas since Southwest Gas began serving the area -- including the arrival of more than 2 million people. As Las Vegas has grown, we've grown, but our commitment to customer service and safety continues to drive everything we do.

SWG extends facilities based on accordance with Rule No. 9 of the Nevada Gas Tariff. The length of facilities extension is considered along the shortest practical available route. If providing natural gas service to an outlying area would impair service to existing customers, the cost of the necessary reinforcement to eliminate such impairment may be absorbed as system improvement by SWG.

In 2015, SB 151 was approved by the Legislature to address an issue that prevented SWG's ability to extend service to unserved or underserved areas of the state.

The bill accomplished two things: 1) Allowed the PUCN to apply a balanced and equitable approach in the review and approval of projects. 2) Provided the PUCN with the flexibility, discretion, and authority to consider alternative cost recover based on the facts and circumstances surrounding the individual projects.

Subsequent to the passage of SB 151, the PUCN initiated a rulemaking to develop the administrative process that a natural gas utility would use to file and application to expand natural gas infrastructure.

As a natural gas supplier, what major changes do you see across the Las Vegas valley?

While our community has grown, we have never lost our pioneering spirit, while coming closer together and increasing our unique sense of community. We see this reflected in our employees who contributed nearly $1.1 million to local nonprofits in 2019. A record 78% of employees contributed.

As we have discussed, a focus on being more sustainable is also a change we have seen in Southern Nevada. Through sustainable business practices, we steward our natural resources to reduce carbon emissions. We pursue a sustainable energy future through renewable natural gas, compressed natural gas and energy efficiency programs. We are working towards a 20% GHG reduction from our utility operations' fleet and buildings by 2025.

Navigating the New Normal in the Property Market.

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