

Land Rush in Las Vegas

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Introduction

For decades, Las Vegas has been a favorite destination for fun-seekers who yearn for the glitz and glamour that personifies ‘The Strip’. While visitors came by the millions, few took the step of making Sin City their permanent residence. Oh, how times have changed! Best known as the gambling center of the world, Las Vegas has grown from a desert way-station situated in one of the harshest climates in the United States to a desert oasis that draws over 70,000 immigrants a year. The rapid expansion of the population in Las Vegas has created one of the hottest real estate markets in the country. Between the second quarter of 2003 and 2004, the price of single-family residences in Las Vegas increased by more than 52%, the greatest 12-month increase ever for any metropolitan area².

This article will briefly outline the factors that have contributed to the rapid growth of Las Vegas and the problems that must now be addressed by residents and legislators. While Las Vegas is faced with some unique constraints and obstacles, the underlying problems of growth faced by Las Vegas can also be seen throughout America in markets such as Atlanta, San Diego, Phoenix, Riverside-San Bernardino and many others. This article does not intend to propose solutions to any of the problems faced by these communities, but to illustrate the delicate balance between growth and decay. In addition, the lessons learned in Las Vegas need to be viewed critically by those markets that are on the precipice of dramatic growth so that the growing pains experienced are minimized.

Market Dynamics

Tourism: Tourism is by far the largest economic contributor to Las Vegas and Clark County. Table 1 below shows the relative increase in tourism and tourism-generated revenues.

The Gaming and Tourism industry set record levels for visitor volumes and gaming revenues in 2004. Over the eight-year span highlighted in Table 1, Visitor Volume had a compound annual growth rate of 2.6% while Visitor Spending had an average annual increase of 3.8%. Not only are more tourists visiting Las Vegas, they’re spending more money each year. As the amount of tourists to Las Vegas continues to increase, the Hotel industry is determined to stay on top of demand. New properties,

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including the \$2.7 billion Wynn Las Vegas Resort, which recently opened, are planned to accommodate the demand for 140,000 hotel rooms by 2006 and an additional 30,000 rooms by 2010.

Table 1: Las Vegas Tourism Statistics

Visitor Volume	1997	1998	1999	2000
Visitor Volume	30,465	30,605	33,809	35,850
Hotel Rooms	105	109	120	124
Occupancy Rate	86.4%	85.8%	88.0%	89.1%
Room Nights Occupied	32,464	33,402	37,293	39,776
Avg. Room Rate	\$62	\$66	\$67	\$74
Airline Passengers	30,315	30,220	33,669	36,866
Convention Attendance	3,670	3,544	4,696	4,536
Gross Gaming Revenue	6,152,332	6,347,997	7,211,735	7,671,093
Visitor Spending	24,952,189	24,577,469	28,613,197	31,462,337

Source: Las Vegas Convention and Visitors Authority

Employment Growth: It has been estimated that every new hotel room in Clark County attracts 10 new workers. Las Vegas led the nation in job growth in 2004 at 4.9% and is expected to post a 4.4% gain in 2005. Various sectors across the economy have become beneficiaries of the continued rise in tourism. Although still heavily dominated by the Hospitality industry, Las Vegas has begun to see a significant diversification in the employment base. The business sectors of Transportation (18%), Business Services (11%), Government (11%), and Construction (10%) comprise a total of 50% of the Las Vegas Economy³. Since 1990 Las Vegas has also ranked number one in high-tech job growth.

Land Supply: The Bureau of Land Management (BLM) controls over 262 million acres of land in the United States, or roughly 1/8th of the entire land area⁴. The foundations of the BLM date back to the post-revolutionary days in the 18th century as a method of encouraging settlement in the Western territories. Over the years, the BLM was formed from a multitude of agencies and legislation that culminated in the Federal Land Policy and Management Act of 1976 (FLPMA). The task entrusted to the BLM by the FLPMA is to manage the public lands and their various resources so that they are used in a way that will best meet the present and future needs of the American people.

Today 90% of the developable land in Clark County is under the umbrella of the BLM. Until 1998 and the passage of the Southern Nevada Public Land Management Act (SNPLMA) the BLM's policy was to dispose of land by exchanging it for environmentally sensitive land of equal value that could be used to serve the public

interest. An audit conducted by a Department of Interior Inspector General in 2001 uncovered some of the potential problems that are involved. While noticing the inherent difficulties in appraising land that may be affected by federal decrees on protected habitat as well as limited data on comparable sales, the audit found significant cause for concern regarding BLM land exchange policies. In specific cases, the audit found situations in which federal appraisers overruled local appraisers, disregarded federal standards on land appraisal, and inflated the value of private lands offered in exchange⁵. The SNPLMA amended the exchange program to allow for the sale of federally owned lands in Clark County and for the proceeds to be allocated as follows,

- 85% to United States Treasury which may then be used for acquisition of environmentally sensitive or protected lands
- 10% to the Southern Nevada Water Authority
- 5% to the State of Nevada

Demand: One of the main drivers of the recent surge in housing demand has been the constant immigration of people to the Las Vegas area. Whether moving to fill new jobs created by the booming tourism industry or aging baby-boomers looking for sun and fun, Las Vegas is consistently increasing its population by 65,000-100,000 people per year. Table 2 shows a snapshot of the recent population growth in the Las Vegas Valley.

Table 2: Market Snapshot

	1999	2000	2001	2002	2003	2004
Population	1,321,317	1,428,690	1,498,274	1,578,332	1,641,529	1,747,025
1-Yr Change	74,200	107,373	69,584	80,058	63,197	105,496
Employment	667,632	703,742	725,424	729,478	760,208	811,758
1-Yr Change	50,363	36,110	21,682	4,054	30,730	51,550
Housing Permits	26,624	26,811	29,668	29,427	36,771	36,434
1-Yr Change	(3,767)	187	2,857	(241)	7,344	(337)
Employment/Permit Ratio	1.89	1.35	0.73	0.14	0.84	1.41

Source: The Center for Business & Economic Research - University of Nevada, Las Vegas

The effects of the September 11th terrorist attacks are evident in the Table as the aftermath continued into 2002. The local Las Vegas economy was devastated as occupancy rates fell to nearly 60% and hotels were forced to lay-off almost 15,000 employees. In the state of confusion after the attacks and the uncertainty that followed, many construction projects were put on hold or cancelled. The uncertainty quickly evaporated, however, as the tourists returned and new hotel projects were developed. In the three years since September 11th, employment has increased by over 85,000 jobs and new home permits are again struggling to keep up with demand.

Growth Effects

Las Vegas is currently faced with four major problem areas:

- Affordability
- Quality of Life
- Unrestricted Sprawl
- Availability of Water

It would seem reasonable to assume that the problems faced by Las Vegas can be solved through legislative or public action; and that assumption would be correct. The main problem lies in the divergent relationship that exists between each of the factors in AQUA. The ability to favorably influence one of the factors can have an equal, if not greater, detrimental effect on the others. The Las Vegas Valley citizens and government representatives are now faced with the task of balancing the AQUA factors to best benefit the population, businesses, and environmental concerns. As will be seen in the following sections, the decisions made in the coming years will affect more than just Clark County and Las Vegas.

Affordability: The stories are all true: The one heard from the neighbor down the street who sold his house in two days to someone sight unseen for \$30,000 more than his asking price; the hordes of people sleeping outside the sales trailers of bewildered developers; waiting lists with over 1,000 names and builders who were so overwhelmed they refused to take any more checks. It is hard to imagine, but true. Median sales prices in the Las Vegas Valley have increased by more than 88% since 1999. As housing prices have soared, median incomes have floundered. Table 3 below shows the history of housing prices in relation to median incomes.

One of the largest and most evident culprits in the recent price surge has been the price of land. As described earlier, Las Vegas is not a typical market where ample supplies of land are available through public and private sources. Most of the Las Vegas Valley is controlled by the BLM and the amount of land for sale in a given year is

Table 3: Median Housing and Income Comparison

	1999	2000	2001	2002	2003	2004	% change
Median House Price	\$141,200	\$156,400	\$167,300	\$184,100	\$202,800	\$266,400	88.7%
Median Household Income	\$43,139	\$44,047	\$44,955	\$45,863	\$46,771	\$47,706	10.6%
Price/Income	\$3.27	\$3.55	\$3.72	\$4.01	\$4.34	\$5.58	70.6%

Source: Residential Economic Report - Las Vegas MSA Edition (www.RealEstateEconomics.com)

determined by the federal government with input from local governmental bodies. As employment has increased by over 140,000 jobs since 1999, the demand for housing has been enormous. At several points during 2003 and 2004 the stock of resale houses was down to one month of supply. Accordingly, the demand for new home starts has outstripped the supply of raw land available for sale. When the BLM started the land auctions in Clark County in 1999 they had no idea how dramatic the change in demand would be.

In 1991 a land auction conducted by the BLM generated proceeds of \$47.2 million on the sale of 1,905 acres (\$24,777/acre). In 2003 another auction resulted in 750.5 acres being sold at a price of \$131 million (\$174,550/acre). During the 2003 auction a 1,940 acre parcel went unsold as local developers were concerned that the development costs combined with the purchase price would provide an inadequate return. In 2004 2,532 acres were sold (including the 1,940 acre parcel from the previous year) at nearly \$280,000 per acre. Subsequent auctions have maintained an average price per acre of \$270,000.^{6,7,8}

While the dramatic price increases in land have affected all property buyers throughout the Valley, the groups most affected are entry-level and low-income buyers and renters. Apartments in particular have been hit hard as developers have begun to redevelop apartment stock to condos in order to accommodate entry-level buyers. As of September 2004 only 168 apartment permits had been issued for the year, a 94% decline in apartment construction. In addition to declining construction, over 14,000 apartment units were under, or had completed, renovation to condos. The net effect is an occupancy rate of 98% and increasing rents. According to Doug French, vice president of Silver State Bank, "They're (single-family developers) simply willing to pay more for land than apartment developers, and city planning commissions hate apartment complexes, so they're completely willing to downzone". While costs for land, concrete, lumber, and steel have jumped from 30-90%, rents have increased at far more modest rates.⁹

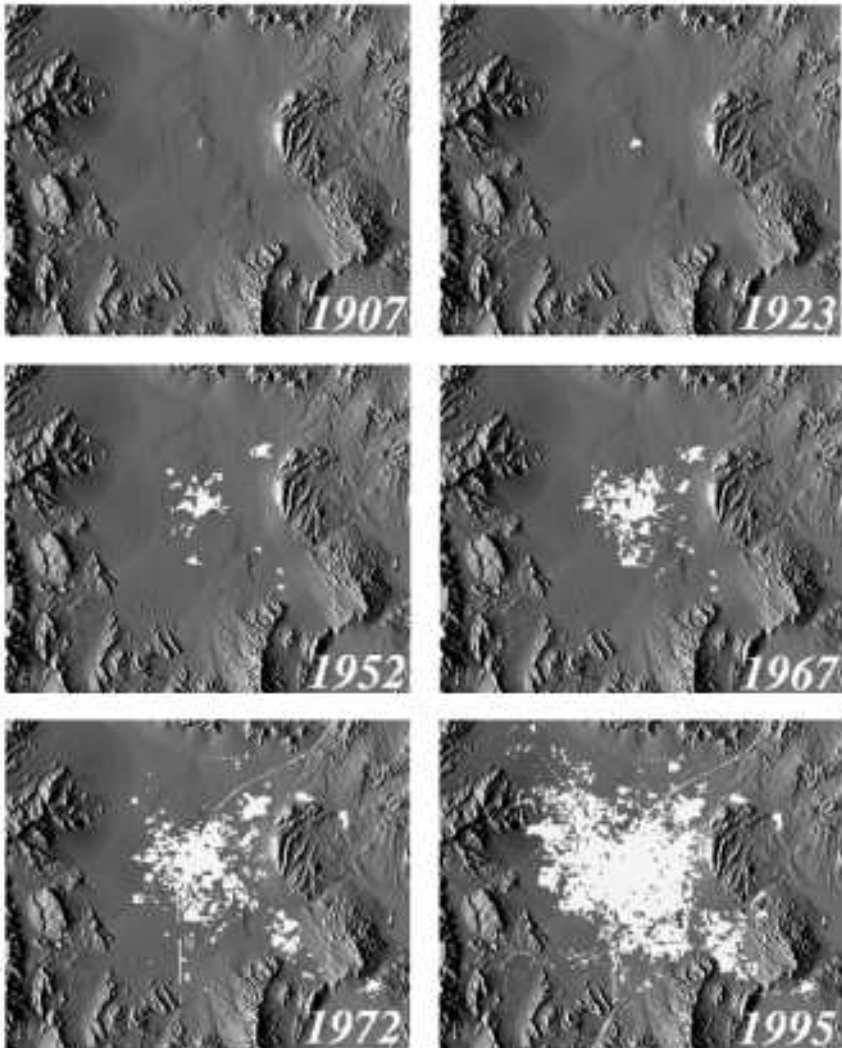
Quality of Life and Unrestricted Sprawl

Residential and commercial construction is currently developing around 8,000 acres per year in the Las Vegas Valley. In Clark County 20,000 acres are being paved over per year, a rate of more than 2 acres of land per hour. The rate of land consumption in Las Vegas is reminiscent of the pattern seen in such communities as Dallas, Los Angeles, and Atlanta. These communities helped the American public understand the word sprawl, and have been a case study on the effect of unrestricted growth on the quality of life of people and the environment. Congested traffic, dirty air, long lines, water shortages and overcrowded schools are common problems in today's metropolitan city, and the natives are getting restless. In 1998, voters approved nearly 200 anti-sprawl

initiatives across the country¹⁰.

Las Vegas is currently in crisis mode as the rapid growth of the Valley has placed acute strains on government services, infrastructure, and environmental management. Some of the key concerns that need to be addressed in the near future include:

Figure 1: Las Vegas Sprawl



Source: http://geochange.er.usgs.gov/sw/changes/anthropogenic/population/las_vegas

- Traffic Congestion – According to an audit conducted by a national

transportation research group, travel in the State of Nevada is increasing at a rate nine times greater than new roadway capacity is being added. Traffic congestion has increased 46% in Las Vegas since 1992 while vehicle travel has increased by 89% between 1990 and 2003¹¹. It is estimated that a 20-minute commute today will take about 50 minutes by the year 2020.

- **Pollution** – The increase in vehicle traffic is producing a dramatic effect on air quality as well. Automobiles and construction traffic contribute over 5,000 tons of exhaust per year. Construction activity alone generates more than 63% of the dust in the Valley’s air, or 46,000 tons per year. The Federal EPA has identified dust and other particulate matter as an important health issue.
- **Schools** – Enrollment in Clark County schools is increasing by 12,000-14,000 students per year. A \$2.5 billion bond passed in 1998 that has allowed the County to construct 88 new schools is about to run out. When the last of the new schools are completed in 2008, projections show that an additional six new schools will be needed to avoid further overcrowding. Nevada currently ranks 47th in the country in per-pupil funding¹² and 49th in public education¹³.

Availability of Water: Clark County is one of the driest counties in the United States with an average annual rainfall of roughly 4 inches. With a population of over 1.7 million and projections for another million residents by 2030, adequate water supply has become a major concern for the region. The Southern Nevada Water Authority (SNWA), which acts as a wholesale supplier to municipal water agencies and is responsible for managing existing and future water resources, manages the supply of water to the city of Las Vegas.

The supply of water to Las Vegas can be broadly categorized as: 1) Colorado River Water; and 2) In-State, non-Colorado River Water. The Colorado River runs through Wyoming, Colorado, Utah, New Mexico, Arizona, Nevada and California and is the primary supplier of water to Las Vegas via Lake Mead. In 1922, the Colorado River Compact apportioned 7.5 million acre-feet (1 acre-foot is defined as roughly 326,000 gallons – or enough water to supply a family of four for a year) to the “Lower Basin” states including Nevada, California, and Arizona. Of the 7.5 million acre-feet, Nevada, which was at the time sparsely populated, was given 0.3 million acre-feet. As late as 1970, Las Vegas had a population of 263,000 and was using only 35,000 acre-feet per year of the allotment of 300,000 acre-feet. Table 4 below shows the annual demand forecast for Las Vegas through 2030¹⁴.

Recently the Southern Nevada Water Authority has entered into agreements with the Arizona Water Banking Authority and the California Water Bank to “bank” unused allocations of water for future use. Unused water is transferred (or “credited”) for use

Table 4: Annual Demand Forecast

Unit(acre-feet)	2005	2010	2015	2020	2025	2030
Annual Demand:	546,000	590,000	664,000	724,000	775,000	808,000

Source: Southern Nevada Water Authority

by the second party who in turn relinquishes the credited amount of Colorado River water in the future to Nevada. Southern Nevada has already banked over 111,000 acre-feet of water with the Arizona Water Bank and is projected to “bank” additional water supplies in the near future, although this projected to be only a short term solution.

As the demand for water increases, more and more of the burden is going to fall on the second, and more unpredictable supplier of water, in-state, non-Colorado River resources. The non-Colorado resources are comprised of the following:

- **Las Vegas Valley groundwater** – The first and most critical resource for Southern Nevada for much of the last century. Estimated yield is 57,000 acre-feet per year.
- **Muddy River and Virgin River surface water rights** – Surface water rights to these two rivers could amount to an annual supply of 118,000 acre-feet per year.
- **Out-of-Valley groundwater rights (including the counties of Lincoln, White Pine, and Nye)** – The transfer of water rights is currently under negotiation. Many concerns have been raised and various groups including ranchers and environmentalists have argued extensively against the plan. If concluded the groundwater rights could add between 125,000 and 200,000 acre-feet per year of potential supply.
- **Recycling water** – The SNWA estimates that treatment and reuse of current and future wastewater could result in an additional water supply of between 50,000 and 80,000 acre-feet annually.

Conclusions

The AQUA factors described above have led many to ponder the need for some sort of growth control, either through restricted water rights to new developments or the reduction of land sales through the BLM. The economy has shown no signs of slowing down as continued hotel development over the next 5 years will generate at least 50,000 new jobs. The people who fill those positions will need housing. The argument for growth limits contends that restrictions on new developments will force

entrepreneurial developers back into the core of the city to: 1) develop the vast pockets of in-fill available; and 2) re-develop deteriorating sections of the city.

The Southern Nevada Water Authority commissioned a study in 2004 in response to these calls to limit growth in the Las Vegas Valley. The results were convincing, if unexpected. It projected that southern Nevada will overtax its existing water resources in the next 15-20 years.¹⁵ The consultants prepared several scenarios ranging from the severe restrictions (affecting 65% of the construction industry) to less severe restrictions (affecting 10% of the construction industry). The results were an economic loss ranging from \$209 billion to \$72 billion. Of greater concern for the rest of Nevada is that any potential decline in Clark County would surely cripple the whole state. Clark County currently represents 71% of the population and generates the bulk of total sales and property taxes. The study concludes that any intervention in normal growth could lead to “an economic downward spiral that would end in a deep recession”.¹⁶

If we are to accept the conclusion that any limitation on growth should be avoided, we are still left with the questions regarding how best to manage growth to mitigate the AQUA factors and their consequences. The problems associated with traffic, pollution, and water conservation are directly attributable to the dramatic sprawl that has occurred in Las Vegas. Developers, in turn, are attracted to the abundant land and the relatively cheap prices provided on the periphery of the city. While the recent boom in high-rises around The Strip has shown what can be done, developers continue to purchase outlying parcels because of economics and consumer demand. If Las Vegas and future high-growth areas are to alleviate these problems, they must

- 1) support in-fill and re-development by making it attractive to developers. Both situations are more difficult, in addition to being more costly, alternatives to sprawl.
- 2) collaborate with developers to provide new concepts that will change consumers thinking about the traditional way of living.
- 3) plan early for the integration of public transportation and right of ways.

Endnotes

²http://money.cnn.com/2004/08/25/real_estate/investment_prop/vegascools/?cnn=yes

³ <http://www.co.clark.nv.us>

⁴ www.blm.gov

⁵ <http://www.oig.doi.gov/upload/01-I-413.txt>

⁶ www.reviewjournal.com/lvrj_home/2001/May-10-Thu-2001/news/16064182.html

⁷ www.lasvegassun.com/sunbin/stories/text/2003/nov/06/110610194.html

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⁹ www.reviewjournal.com/lvrj_home/2004/Sep-19-Sun-2004/news/24665173.html

¹⁰ <http://www.lasvegassun.com/sunbin/stories/text/1999/sep/05/509266662.html>

¹¹ <http://www.tripnet.org/state/LasVegasPR020805.htm>

¹² www.lasvegassun.com/sunbin/stories/text/2005/mar/18/518472059.html

¹³ www.morganquitno.com/edrank04.htm

¹⁴ www.snwa.com/html/news_pubs_wr_plan.html

¹⁵ <http://www.lasvegastribune.com/20050805/headline1.html>

¹⁶ <http://www.lasvegassun.com/sunbin/stories/text/2004/feb/27/516431494.html>