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CityCenter could spell trouble for rival high-rise projects

MGM Mirage bullish in bear condo market

BY TONY ILLIA

MGM Mirage recently opened sales for the residential portion of its \$7 billion Project CityCenter development on the Vegas Strip. Its 2,702 condo and condo-hotel units could spell trouble for competing projects still looking to secure buyers and financing in a softening high-rise market.

CityCenter has added over 1,000 more residences and \$2 billion to its price tag since the project was first announced in late 2004.

"We wanted to make the best and highest use of the land by increasing the density," said Tony Dennis, executive vice president of CityCenter's residential division. "We felt it was more efficient use of time, money and materials to build more now, as opposed to coming back to expand at a later time." MORE IS MORE

More units mean more revenue: CityCenter will have 1,543 condo-hotel units and 1,159 condos in five discrete towers. Residences will range from 500 square feet up to 4,100 square feet, priced from \$1,000 to \$2,000 per square foot. While such prices may seem extravagant to the average wage earner, they're comparable to other luxury Strip high-rise projects.

"In a softer market, price is important but location is king," said Bruce Hiatt, owner of Luxury Realty Group, a Las Vegas high-rise residential specialist. "In order to re-sell it later, location is critical."

And location is just one of the many advantages that CityCenter has over its rivals with a quarter-mile of Strip frontage between The Bellagio and the Monte Carlo Resort & Casino. The 76-acre, 18 million-square-foot development additionally offers a self-contained environment with casinos, theaters, shops, pools, restaurants and convention space.

CityCenter will even have its own fire, paramedic and police substations.

The mega-project also has high-end architecture from some of the industry's biggest superstars, including Rafael Viñoly, Sir Norman Foster,

A rendering of Project CityCenter, as it will be seen from the Las Vegas Strip. The \$7 billion development was recently upsized with an additional thousand condo units.

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Kohn Pedersen Fox and Helmut Jahn.

Their celebrity status creates a unique branding all its own. Viñoly, for example, is responsible for Philadelphia's Kimmel Center, while London-based Foster, a Pritzker Prize-winning architect, redesigned the Reichstag in Berlin. Jahn, meanwhile, created the James R. Thompson Center in Chicago, and Kohn Pedersen Fox completed London's Heron Tower.

Their involvement suggests another level of global maturity, sophistication and cultural appeal to the project.

"There is a premium to deliver these buildings," Dennis said. "From a cost perspective, however, the impact is not that great because we paired the designers with architects of record who do the heavy lifting."

The project's residential makeup will consist of Jahn's twin 37-story ToTowers, combining for 700 condos; Vinoly's 50-story, 1,543-unit "Vdara" condo-hotel; Pedersen Fox's Mandarin Hotel, with 227 condos; and Foster's 228-unit Harmon Hotel & Residences. Construction is now well underway with completion anticipated by November 2009.

GREEN BUILDING EQUALS LONG GREEN

CityCenter will additionally seek certification from the U.S. Green Building Council. The Washington, D.C.-based nonprofit rates project sustainability using a point system called LEED, for Leadership in Energy and Environmental Design. Projects are graded for water conservation, energy efficiency, environmental quality and other 'green' things. The more points, the higher the rating. It goes from basic certification up to Silver, Gold and Platinum.

Nevada recently adopted new language giving tax cuts to private developments that achieve a silver LEED rating or higher. Home buyers, in other words, could get up to a 50 percent, decade-long, property-tax break for living at CityCenter.

"CityCenter is going to capture a large market share, especially second-home buyers and investors, due to its high-quality brand, location and mixed-use environment," said John Restrepo, principal of Restrepo Consulting Group, a Las Vegas-based real estate research firm. "It's definitely going to create stiffer competition for other projects. Everyone will have to be creative to fight for their market share."

CONDO MARKET WORSE THAN EXPECTED

There are currently 92 mid- and high-rise residential projects planned in Southern Nevada, totaling 50,252 units, Restrepo reports. Yet only 12 projects (or 14.5 percent) have broken ground thus far, due to rising construction, land and financing costs. That's an even lower batting average than the one forecast by MGM Mirage CEO J. Terrence Lanni at the 2005 Global Gaming Expo, when he predicted that 80 percent of the condo projects announced for Vegas would fail to materialize.

"Developers increasingly face the realities of the depth of demand, plus high land, labor and material costs," said Restrepo. "There have been notable cancellations and delays, including Aqua Blue, Ivana, Liberty Tower and Icon."

CityCenter is acquiring an 'interest list' it will try to convert into hard-contract sales in January. Buyers will be required to put down a 20 percent deposit, with the remainder due upon completion. Some buyers have reportedly already pulled deposits from other nearby projects in order to reinvest in CityCenter.

"The days of a traditional single-level penthouse with nice amenities is gone," Hiatt said. "Today's projects have to be unique and creative, with a great location and strong branding, in order to make it."

tonyillia@aol.com

702-303-5699