Business PRESS

Tuesday, May 30, 2006

Related's Las Ramblas project is kaput

Talks concerning real estate are heating up with W Hotel co-developer

BY TONY ILLIA
BUSINESS PRESS

Rumors have plagued Las Ramblas, the celebrity-backed mega-project along the Harmon Corridor, ever since it was first announced 10 months ago. More recently, speculation about the project's future has become a popular parlor game at local happy hours and dinner parties. Alas, it now appears that the ambitious $3 billion hotel-condo-casino complex is all but dead.

Developers Related Las Vegas and Centra Properties are reportedly in talks to sell the project's real estate for an unspecified price. The deal is expected to close within the next two weeks. The 25-acre site is located along Harmon Avenue, between Paradise and Koval roads, just west of the Hard Rock Hotel & Casino.

Centra, a project partner, spent $85 million assembling the various parcels of land that included the 996-unit Harbor Island apartments and 14 surrounding quadplexes, totaling 56 units. The deal took 14 months to complete at a cost of $3.4 million per acre. But that was more than a year ago. The site today could sell for significantly more. The Hard Rock, for example, recently sold for $770 million, or $19.2 million an acre, to Morgans Hotel Group. The buyer is likely The Edge Group, say insiders.

CREW, SN - Commercial Real Estate Women of Southern Nevada

Nevada Development Authority

Nevada Small Business Administration

Las Vegas Convention & Visitors Authority

University of Nevada - Las Vegas

Nevada State College

The firm is currently co-developing the $2.5 billion, 4,000-unit W Hotel, Casino & Residences at the northeast corner of Harmon and Koval, just west of the Las Ramblas site.

Edge Group spokeswoman Maggie Feldman refused comment on the possible purchase, but said, "We are big believers in the Harmon Corridor and its future."

When it first went on the drawing board, Las Ramblas was a "can't-miss" condo project. Ten months later, it's nothing but a memory.

IT HAD IT ALL

So what went wrong with Las Ramblas? It seemingly had it all: An experienced development team with Related and Centra; a glossy architectural design by Miami-based Arquitectonica; splashy interiors from Philippe Starck; and a celebrity backer in movie star George Clooney, who was a project investor at one point. Rande Gerber, meanwhile, was tapped to design and operate a series of nightclubs, restaurants and lounges inside the development. Plans called for 4,400 hotel, condo and condo-hotel units in 11 high-rise towers, with a 40,000-square-foot casino, shops, a spa and various eateries.

But Las Ramblas was too big and costly, and came at a time when rival projects were being planned nearby, say industry observers. Condo buyers have also since become more savvy about investing in high-rise projects. Last year's condo euphoria has worn off and many speculators have since left town, leaving fewer, albeit more serious, buyers.

"We cautioned our clients about the project from the very beginning," said Bruce Hiatt, owner of Luxury Realty Group, a high-rise real estate firm. "The Las Ramblas concept and idea was beautiful, but it was too dense with 11 towers sandwiched between Hard Rock and the W. And it had no views of the Strip."

Las Ramblas marks the third failed Vegas project by Related. The company's efforts as master-plan developer of downtown's Union Park and Icon Las Vegas similarly fizzled out, leaving its local future in doubt.

The project's miscues have surprised many considering Related's high profile as a national real estate player, with such projects as Manhattan's $2.2 billion Time Warner Center and the 72-acre CityPlace in West Palm Beach, Fla., to its credit. Its foray into the Las Vegas market suggested a new level of local development maturity.

OVERLY CONFIDENT

Yet, Related may have been overly cocksure of its ability to wheel and deal in Las Vegas, foregoing the market studies and due diligence most developers undertake before entering a new market. Las Vegas is still considered a small real estate market in national terms, despite its rapid growth. Related, by contrast, is jointly headquartered in Miami and New York, two major metropolitan cities where it enjoys a high level of community influence and political power. It may have expected a similar reception in Las Vegas.

"The national perception is that Las Vegas is a third tier real estate market with unsophisticated developers and easy entry," said one industry observer. "Related came here overly confident of their experience and track record, and figured government officials would cater to them. They were going to show everyone how development was done, but they didn't do their homework."

Related first ran into trouble with downtown's Union Park. The firm was tapped as master-plan developer of the 61-acre parcel bound by Grand Central Parkway, Bonneville Avenue and the Union Pacific railroad tracks. After spending roughly $1.5 million pursuing the deal, including a $500,000 good-faith deposit, Related and the city called it off 10 months later. A jointly issued statement cited "skyrocketing construction costs, high land-sale prices and more competition throughout the Valley," as reasons for not being able to work together, but insiders say Related was trying to upstage Mayor Oscar Goodman as the project's developer -- a definite no-no. Goodman is downtown's top cheerleader. And he views the area's renaissance as his political legacy.

Related suffered its second blow last year with the cancellation of its Icon Las Vegas project on Convention Center Drive, just east of the Strip. Plans called for two, 48-story luxury condo towers combining for 514 units. Related, once again, blamed skyrocketing construction costs as reason for the cancellation. A lawsuit filed by Lorenzo Doumani, who planned a competing high-rise nearby, resulted in a six-month delay that caused a gulf between sale prices and construction costs.

CONSTRUCTION COST EXCUSE

"Blaming rising construction costs is the only excuse that is being used for high-rise cancellations. It worked well the first time, and everyone has used it since. It's only explanation that's being offered," said Rod Martin, vice president of Majestic Realty Co., a Las Vegas development firm. "Rising construction costs are nothing new. The increases have been occurring in the marketplace for some time. Experienced developers know better and budget the rate of inflation into the project."

Related may additionally suffer from internal conflicts over its entry into the Las Vegas market. Company Co-Chairman Jorge Perez has been less than enthusiastic about Related's presence in Las Vegas, placing him at odds with Marty Burger, the company Las Vegas division president, said sources. Related, as such, is currently "assessing" its future in Las Vegas, said the source.

"I think they came into the market as a big player from Miami and New York, and figured they could call all the shots," said one real estate observer. "But the casino industry is the big player in town. They may have miscalculated their influence and negotiating ability to broker better construction deals."

tonyillia@aol.com | 702-303-5699