

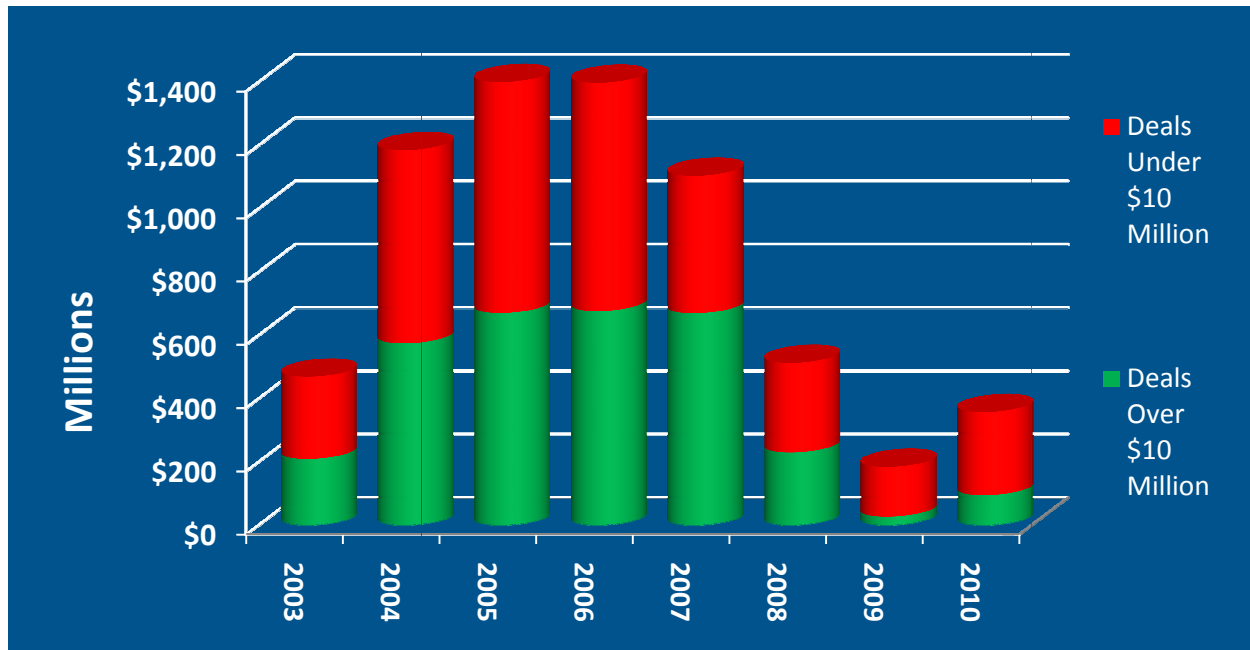
Investments / Multi-Family Market Review

Q410 – Northwestern Nevada Market

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2010 year in Review: Washoe County Sales

Sales transaction volume in 2010 improved over 2009, but is still well below the 2006 peak. Also recall that the vast majority of the 2007 transactions occurred in the first half of the year. My data captures only commercial sales over \$500,000 and includes foreclosures, as they are valid transfers of title, generally at recent appraised value.



Details behind the significant 2010 transactions follow:

Entity	\$	% of total	Comment
Panattoni	53,883,000	15%	4 building, 1.1 msf portfolio sale to Pncal, a Panattoni joint venture with CalSTRS
Prologis	44,596,500	13%	Local portion of a \$1.01 billion sale to Blackstone Real Estate Advisors.
LNR	22,500,000	6%	Foreclosure on Waterford and Northgate Apartments, originally purchased by American Asset Partners at the height of the market in early 2007.
Nevada State Bank	13,400,000	4%	Friendly foreclosure on Eagle Landing Shopping Center that was generating \$600k in annual NOI at the time, due to capital calls relating to appraisal valuation issues.
Basin Street Properties	12,400,000	3%	Purchase of the former Magnolia Dermody, 128 ksf flex project from Wells Fargo Bank - located @ SWC of Mill and McCarran and renamed Hidden Valley Tech Center.
	146,779,500	41%	of total 2010 sales transactions

Given that the Panattoni and Prologis industrial transactions closed in Q410, it is not surprising that 51% of the total year's dollar volume of \$356 million occurred in Q4.

Local real estate news – Q410

ST Residential, the owners of the Montage in downtown Reno, and an affiliate of Starwood Hotels, has hired The Mark Company as their new listing broker. Mark has a huge presence in the SF Bay Area. The Montage has now closed 50 units at an average sales price of \$130 / sf., averaging 6 closings per month. This is great news for downtown, as this pricing should attract more permanent residents to the area.

In November the Reno City Council unanimously approved a one-year extension for Wingfield Towers to record its final map on a proposed 492' high-rise condo project. The Council previously approved a two-year extension in 2008. The project is planned to include 499 condos and 40,000 sf of office and retail space in two towers on the south side of Island Avenue, east of Arlington Avenue.

Just like the Lakeridge Apartments in the spring of 2010, the Meadowood Apartments have now been split. The 498 units on the west side of Neil Road retain the Meadowood name, while the 206 units on the east side of Neil Road have been renamed the Delucchi Lane Apartments and are now being managed by a receiver.

EDAWN reports that, since November, they have tracked 18 site visits by companies potentially relocating to northwestern Nevada. Of course only a percentage of these visits will become reality, but if they did, they would occupy 5 million square feet of space, mostly industrial, and employ 3,000 people – let's keep our fingers crossed.

TMWA reports that they have 142,900 acre feet ("AF") of water rights, of which over 64,000 AF are former irrigation rights converted to municipal and industrial use. They also have 6,000 AF in their "for-sale" inventory at their official price of \$11,750 / AF. Water can be purchased on the open market for \$5,000 – 7,000 / AF, down from the high of \$60,000 / AF at the peak of the residential housing boom in late 2005.

Wither (sic) the Housing Market?

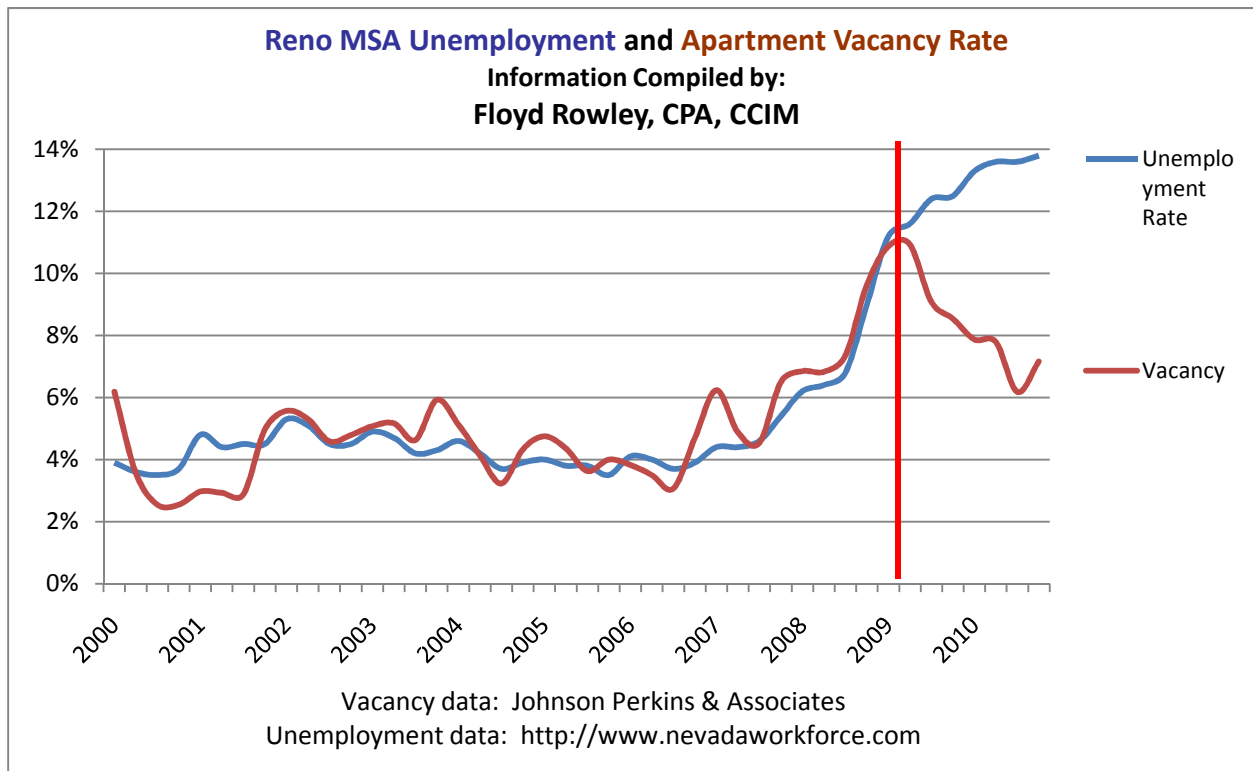
The residential housing market has had a huge impact on the overall economy of northwestern Nevada - both during the boom years and the recent downturn. Since housing has impacts on both employment and the multi-family market, enclosed please find relevant highlights from the recent Reno/Sparks Association of Realtors ("RSAR") 2011 Residential Resale Market Report:

- The median price of resale homes (½ priced higher, ½ lower) has dropped from \$360,000+ in January 2006, to just over \$160,000 in December 2010.
- January 2008 had 19 months of supply in the resale inventory, dropping to a "balanced" market of 6-7 months' starting in July 2010, which continues to this day.
- For re-sales listed under \$400,000 the average supply has been around 7 months, rising rapidly to over 32 months for homes over \$1 million.
- In November 2010 RSAR calculated that 75% of new listings were distressed.
- And finally, 2/3 of today's sellers DO NOT turn into buyers, as neither short sellers nor REO sellers buy replacement homes when they sell.

The implications, while unfortunate for those involved, are significant for the multifamily market. This explains the significant deviation from the historical correlation in the graph below between the unemployment rate and the vacancy rate.

Multifamily Statistical Review

According to the most recent survey by Johnson Perkins & Associates, the overall Reno/Sparks vacancy rate ticked up a full point to 7.16% in Q410, caused mainly by a huge vacancy increase in Northwest Reno from 4.7% to 7.5%. The overall average monthly rent continues its gradual trickle downward, dropping another \$10 to \$824 / mo in Q410. One apartment property in Southeast Reno dropped their rental rates by \$90 to \$150 per unit / month, causing the average rents in Area 10 to drop by \$50, and impacting the overall market average.



Overall, 6 out of the 10 market areas recorded rental rate **increases**, while 7 of the 10 market areas reported **increases** in vacancy. This is not alarming, as Q3 generally has the lowest vacancy rate during the calendar year.

Predictions / Trends for 2011

I have assembled the following predictions, from the cited sources, regarding national predicted trends for 2011 - here is a summary of Kiplinger’s predictions:

1. The economy will start to show more-robust job growth with employers adding 2.5 million jobs, but the unemployment rate still won’t be much below 9% by year-end.
2. Housing prices will slide another 4% nationally due to 2 million foreclosures predicted to occur in 2011. Sales are firming values in the suburbs of D.C., San

Francisco and other CA coastal cities. But inland Calif., parts of Florida, Phoenix, Las Vegas and Atlanta will remain depressed.

3. It will be at least 2013 before Congress grapples with the tough choices needed to reduce the huge national debt.
4. The Dow should top 12,500 by year end, with the rally likely continuing into 2012.
5. The U.S. dollar will strengthen as euro zone finances continue to sour bringing lower prices for imported goods and boosting the cost of exports.
6. Oil prices aren't likely to top \$100 per barrel.
7. About more 100 banks will fail, fewer than in 2010, but a lot more than in years leading up to the Great Recession. The number of banks on the problem list will also decline in 2011.

Freddie Mac Chief Economist Frank Nothhaft, made the following (edited) predictions in the January 12th Wall Street Journal. He expects that the economic recovery should accelerate gradually over 2011, with the second half exhibiting more growth and job creation. Here are five features that will likely characterize the 2011 housing and mortgage markets:

Rental Market Conditions Improve. With limited new construction and household formations running at one million per year, rents are now stable-to-rising and vacancies stable-to-falling in most markets. The National Multi Housing Council reported that rental markets were tightening in metro areas around the US for much of 2010. The rental market is likely to continue gradual improvement in rent and vacancy metrics during 2011.

Apartment Value Recovery. The apartment market bounced back first and strongest from the sharp declines in commercial real estate. The NCREIF property index for Q310 showed values up 3% from a year earlier, with apartment values still 23% below their 2007 peaks. Local markets that have large inventories of single-family homes and REO will continue to see a soft rental market and apartment property value weakness. However, with limited new construction apartment prices as a whole are likely to show additional gains.

Low Mortgage Rates. With Fed observers expecting the central bank to keep federal funds at its current target range of 0% to 0.25% for most (or all) of 2011, low mortgage rates will dominate. While some rise in yields is expected, 10-year Treasuries are likely to remain below 3.5% throughout 2011.

More Mortgage Originations. With interest rates likely to remain low and many apartment loans nearing their term, refinance volume should pick up in 2011.

Delinquency Rates Remain Elevated. The FDIC reported that as of 9/30/10, apartment loans that are 90 days or more past due or in nonaccrual status had edged up to 4.7%, the highest in nearly 20 years. Statistics for apartment loans in CMBS were even higher. Among major loan investors as of September 30, only Freddie Mac and the life companies continued to have 60-day delinquency rates below 0.5%.

Steve Kerch, writing in the January 12th edition of MarketWatch, reported that the housing markets that still face the hardest going, led by Nevada, account for more than 50% of the U.S. housing market, while those that will recover the fastest make up only 20%. Thus recoveries in

those states won't do much to lift overall national housing numbers. The five states where housing will recover the quickest are: North Dakota South Dakota, Iowa, Nebraska and Oklahoma. The real question is why would anyone want to live there? Bitter cold in the winter and major humidity and tornadoes in the summer!

The five states where the housing recovery will take a lot longer are:

State	Mortgage delinquency	Unemployment Rate	Price Decline: Peak to Trough
Nevada	8.3%	14.45	56.4%
Michigan	5.15	13.3	31.7%
California	6.0%	12.4%	40.8%
Florida	6.0%	11.7%	46.9%
Rhode Island	4.9%	11.7%	25.6%

It is indeed unfortunate that Nevada was at the top of all three statistical categories above.

Celia Chen, a housing market analyst for Moody's Analytics, estimates that Las Vegas home prices won't return to their pre-recession peak until after 2032. These are nominal prices: the Inflation-adjusted recovery will take even longer.

About the Author

Floyd joined the Johnson Group in January 2011 to continue his commercial investment real estate brokerage practice in northwestern Nevada, after serving over seven years as a Senior Vice President of the Colliers Investment Services Group. He focuses on representing buyers or sellers in investment property sales: large apartments, office buildings, retail and industrial properties. Floyd also does sale / leaseback transactions. Since mid-2004, Floyd has closed over \$120 million of investment sales transactions in the Reno MSA. Starting in the fall of 2008 he has focused on distressed assets, mainly apartments. Since then he has completed over \$235 million in broker price opinions, resulting in \$24 million worth of apartment listings.



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