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Northern Nevada Commercial Investment Real Estate Report
4th Quarter 2011 - The 99% "we are at the bottom" Issue

Major Transactions this Quarter

As expected, commercial sales activity picked up in Q4, rising to 88 deals totaling $171.3 million, compared to Q3's 66 deals totaling $96 million. 50% of the top deals in both Q4 and Q3 were foreclosures. The top Q4 sale, Classic Residence, is the assisted living facility on Plumas. While it is, of course a business, Washoe County transfer tax was paid on the entire $52 million.

A small, but important, deal was the sale of the Lear Theater, its offices at 528 W First St. and a parking lot, to Artown on Dec. 30. It was originally the First Church of Christ Scientist. Its future is under discussion - a possible use could be a venue for small performing arts groups. A big factor in deciding whether the theater will ever re-open is the cost to bring it up to code. Artown's board must also decide if owning the property is part of Artown's mission.

Transaction	Address	Date	Price
Sale of Classic Residence Reno to Senior Housing Properties Trust	3201 Plumas St	12/19/11	52,000,000
Sale by Pico of 483,000 ac & 800,000 ac of mineral rights to Fountain Investments	Reno to Wendover along I-80	12/08/11	31,000,000
Sale of Eagle Valley industrial by McShane to KTR Capital Partners	555 Milan Drive, TRIC	09/06/11	26,715,000
Sale of Whole Foods center by SPI out of SF to Cole Real Estate , Phoenix	6139 S Virginia St.	11/15/11	18,332,500
GE Credit Equities **foreclosure** on owner of the Reno FedEx facility	1185 S Rock Blvd.	12/29/11	14,250,000
Purchase of 31 APN's of Kiley Ranch by Rising Tide, LLC	Pyramid Way, Sparks	11/09/11	9,800,000
Foreclosure of Village at Iron Blossom	690 E Patriot Blvd.	11/07/11	8,450,001
Foreclosure of Vizcaya Apartments	1350 Grand Summit	11/07/11	8,200,001
Sale of Gametech Building to Kassbohrer All Terrain Vehicles, Inc.	8850 Double Diamond Pkwy	12/28/11	6,125,000
Purchase of former Allison Audi dealership out of **foreclosure** by Findlay Group of LV	9190 S Virginia St	11/29/11	4,200,000
Purchase of El Chaparral Apts. out of **foreclosure** by Weiss Family Trust	2153 Sutro Street	12/01/11	3,250,000

<u>Local News – a lot of items in this quarter's mixed bag</u>

The Reno Gazette Journal ("RGJ") reported on January 25 that Washoe County single family home sales were up 11% in 2011 to 5,922, while the median price dropped 11% from 2010 to \$154,900. Along the same lines, the RGJ reported that the total taxable value of all property in Washoe County will be \$37.7 billion for the fiscal year starting July 1st, down from \$39.4 billion currently, and way down from the \$46.8 billion for the 08/09 tax fiscal year.

Brian Duggan, writing in the RGJ, reported that Reno's Redevelopment Agency voted 4-1 on 12/13/11 to sue Washoe County as part of an effort to clarify a state law that could mean millions in miscalculated property taxes. The dispute concerns a state law that guarantees the Agency coverage for its debt prior to July 1, 1987. The issue boils down to the property value crash in downtown. The district was most valuable in 1996-97 at an assessed value of \$412 million – now is expected to be \$211 million in 2012-13. The Agency generated about \$4.5 million in revenue in 2009 and only \$832,000 this fiscal year, with less expected next year.

It is with a mixed blessing that I report that Audi is back in Reno – the Findlay Group out of Las Vegas reopened the former Allison Audi dealership as Audi Reno Tahoe the week of January 16th. The area certainly needs an Audi store – heck – a few years ago I owned 3 at the same time! It was sad, however to see the old business fold, as it was my 1st ever commercial real estate transaction in Reno in June 2004.

The first floor of downtown Reno's CommRow, which had closed for a three-week makeover in early January, reopened on the 21st. This followed a property review by the investment group underwriting the 60,000 sf property inside of the former Fitzgerald's Hotel and Casino. CommRow features a 164-foot climbing wall on the building's exterior and features a variety of eateries in its 20,000 sf first floor. Fernando Leal, the developer, is planning on refurnishing and opening 151 of the Fitz's 351 hotel rooms by April with more potentially later.

The RGJ reported on January 14 that the Truckee River Flood Management Authority has agreed to provide \$500,000 in local funds to help finance work being wrapped up by the Army Corps of Engineers. The hope is to ensure that the feds will provide the balance for the \$1 million task. The January 1997 flood caused \$700 million in damage and estimates of the planned prevention project are up to \$1.6 billion. The Corps is trying to determine what they can financially support – the project is likely to be scaled back.

Ever since the 2005 flood Reno has been studying options to replace the 106 year old Virginia Street Bridge. The City Council recently selected the "pony truss" design, featuring a 7-foot high, curved railing with no piers underneath. Virginia Street would need to be raised by 3 feet in the area leading up to the new bridge. The bridge will cost \$15 million to build. The pony truss design is similar to the original 1877 bridge that used to span the Truckee River.

The RGJ reported on 11/3/11 that the Reno Planning Commission, by a 3-2 vote, approved the rezoning of 104 acres of UNR land, basically along McCarran where Mill Street dead ends into it, from LLR1 (large lot residential) to PUD, or Planned Unit Development. UNR eventually plans to develop the site into a mixed use project containing office, flex and business park uses.

According to data I analyzed from the Nevada Workforce Informer website Washoe County lost 22,694 jobs in the 3 years between 2008 and 2010 – yikes!

The Northern Nevada Business Weekly ("NNBW") quoted the Legends general manager, Dennis McGovern, that he expects 250,000 sf of additional retail to open by the end of Q112, including Lowe's, T.J. Maxx and Old Navy. Lowes is closing in Oddie Boulevard store.

The NNBW reported on 11/21/11 that Replico, a logistics company that serves the cable TV, technology, education, publishing, and financial sectors, moved its distribution operations from Gilroy to a 150,000 sf facility in Stead, formerly occupied by PetSmart.

The NNBW reported on 11/17/11 that Edgewood Companies, which own 500 acres of land in South Lake Tahoe, plans to erect a $100 million lodge at the Edgewood Golf Course. It is planned for 154 hotel rooms, 40 multi-bedroom units, and a 6,000 sf conference center.

Local Rumors

The successor lender on Caviata, the luxury condo project in Sparks that was eventually leased as apartments, is close to selling its note on the property – final bids were due January 18.

The Village at Idlewild, a 113 unit apartment property, listed for $4.825 million, is rumored to be under contract at $4.4 million, or just under $39 thousand per door.

Prim and Associates have filed as request to add 71 new units to the existing Silver Ridge apartment complex on Summit Drive. They seek to add 18 buildings in 3 phases.

Our (federal) Government at Work – Chapter ??

Fortune Magazine, in its November 21, 2011 issued reported that the Federal Housing Finance Agency, charged with overseeing Fannie Mae and Freddie Mac, has sued 18 of the country's largest banks to recover the $40 billion +/- that Fan and Fred lost when the banks sold them mortgages prior to the housing meltdown. The agency claims that the banks overstated the value of the homes involved – the banks need only prove that the losses were due to the decline in the real estate market, also known as the "are you kidding?" defense. It turns out that Fan and Fred used the same market decline defense in suits brought by their own shareholders. So, we have a government agency spending taxpayer money to sue banks, whose agencies have used the bank's own defense in defending themselves. The banks have to spend millions to fight this suit, along with defending themselves against the 50 state attorneys general, who are suing the same banks for $20 billion in alleged foreclosure-related abuses Perhaps the banks could better use some of this money to make new loans to spur the nascent recovery – or heaven forbid – pay a dividend to their shareholders!

Are We Headed in the Right Direction?

No, this is not a political rant – although tempting. The Wall Street Journal ("WSJ") presented a very interesting graph in its January 3rd, Year in Review special section. It showed the 2011 highs and lows for gold futures, the Dow Jones, Nymex Crude, Euro vs the Dollar, Stoxx Europe 600 index, the Nikkei and the Shanghai Composite. Other than gold, the other seven items reached their 2011 highs between last February 17 and April 30. Other than gold, the other seven items reached their 2011 lows between October 3 and December 28, 2011.

2012 Projections & Predictions

I attended the National Multi Housing Council's annual conference in Boca Raton, FL on January 17th. While the emphasis was (of course) on apartments, the economic forecast was for slightly improving US fundamentals throughout 2012. Inflation should come in at 2%. Government spending will still be a negative drag on the economy as state and locals cut back more. Job growth will remain sluggish, thus leaving the unemployment rate essentially the same in 2012 as it was in 2011. One counter intuitive statement, proven by the data presented, is that apartments do better when home ownership rises – basically due to a booming economy.

Writing in the January 2nd Christian Science Monitor, A. Gary Shilling predicts slow economic growth likely in 2012 – a 2.2% peak-to-trough decline in real GDP that lasts for a year – and it wouldn't take much to push growth into negative territory. That could come from a sizable drop in housing prices and reduced consumer spending. Europe's recession may be deeper with its financial crisis and the region's economic decline reinforcing each other. Combining economic downturns in Europe and the US with a hard landing in China means that a global recession in 2012 is also likely, before the stage is set for a weak US and global recovery in 2013.

Mark Heschmeyer wrote in the January 4th Costar Watch List that commercial real estate will look a lot like it did in 2011, according to CoStar readers. Among top expectations: Banks and servicers will continue to jettison the worst performing assets and seek to workout recapitalization opportunities on the better- assets. Institutional investors will continue to reposition their portfolios away from secondary markets in favor of core stable assets in primary metro markets. Multifamily will continue its hot streak as pent up and new demand will keep vacancies low and spur continued new construction and retrofitting of older other property type buildings. U.S. political inaction / posturing in an election year and world economic uncertainty will continue to weigh down true recovery.

Sandrine Rastello reported on January 17 in Bloomberg that the World Bank has cut its global growth forecast by the most in three years, saying that a recession in the euro region threatens to exacerbate a slowdown in emerging markets such as India and Mexico. The world economy will grow 2.5% this year, down from a June estimate of 3.6%. The euro area may contract 0.3%, versus a previous estimate of a 1.8% gain. The U.S. outlook was cut to 2.2% from 2.9%. The downturn in Europe and weaker growth in developing countries raises the risk that the two developments reinforce one another, resulting in an even weaker outcome. Slower global expansion is already visible via softer trade figures and lower commodity prices. Emerging markets are more vulnerable than in 2008 to a renewed global crisis because rich nations wouldn’t have the fiscal resources they had back then to support their economies.

More proof that lawyers are taking over the world

I remember hearing about this years ago – but did not believe it was true - until now. To set the stage, in September I replaced my 2002 Chevy Tahoe with a 2011 model. The advances in comfort, ride, gas mileage, transmission technology and electronics were amazing, considering that Chevy is still using the trusty old Vortec 5.3 liter V8. To protect my new investment, I purchased a pair of Magic Shade sunshades. I could not help reading the large tag that was attached to each one – before I ripped them off. Direct quote, “Please use caution when opening. Use only in accordance with instructions. Never operate with sunshade in windshield.” I felt slighted – I never got an operating manual - and have so far resisted the urge to leave them on while driving!

Taxing the 1%

Alan Reynolds wrote an op-ed piece in the 12/6/11 WSJ. He concluded his article as follows, "If Congress raises the top tax rates on capital gains and dividends, the highest income earners would report less income [from these sources] and hold more tax-exempt bonds. Such tax policies would reduce the share of reported income of the top earners almost as effectively as the recession the policies would likely provoke. The top 1% would then pay a much smaller portion of federal income taxes, just as they did in 1979. And, the other 99% would pay more. As the CBO found, "the federal income tax was notably more progressive in 2007 than 1979.""

Auctions.com presentation: Las Vegas

In anticipation of being awarded the Cordone Townhome listing I attended a two hour event hosted by Auction.com at the Las Vegas Hilton on December 9th. In addition to the big pitch to us brokers, attendees were treated to a panel discussion by special servicers from LNR and CW Capital. Key takeaways (other than a free lunch and me winning an iPad2!) are as follows:

- $15.5 billion (yikes!) of 2007 vintage loans will mature in 2012, with $8 billion of them projected to go into special servicing.
- As a result, the servicers are predicting a large boost in transactions in the next 18 to 36 months – similar to the RTC cycle in the early 1990's.
- The larger the asset, the better the chance of a loan modification vs a foreclosure.

Government Unions: Facts from the Wall Street Journal

Fred Seigel worked on the 1972 McGovern campaign and was an editor of Dissent, a left-leaning magazine. He was interviewed in the 11/26 WSJ. He is known as "the economic historian of the American city who has spent a lot of time on Wall Street". Below are a few facts from that interview:

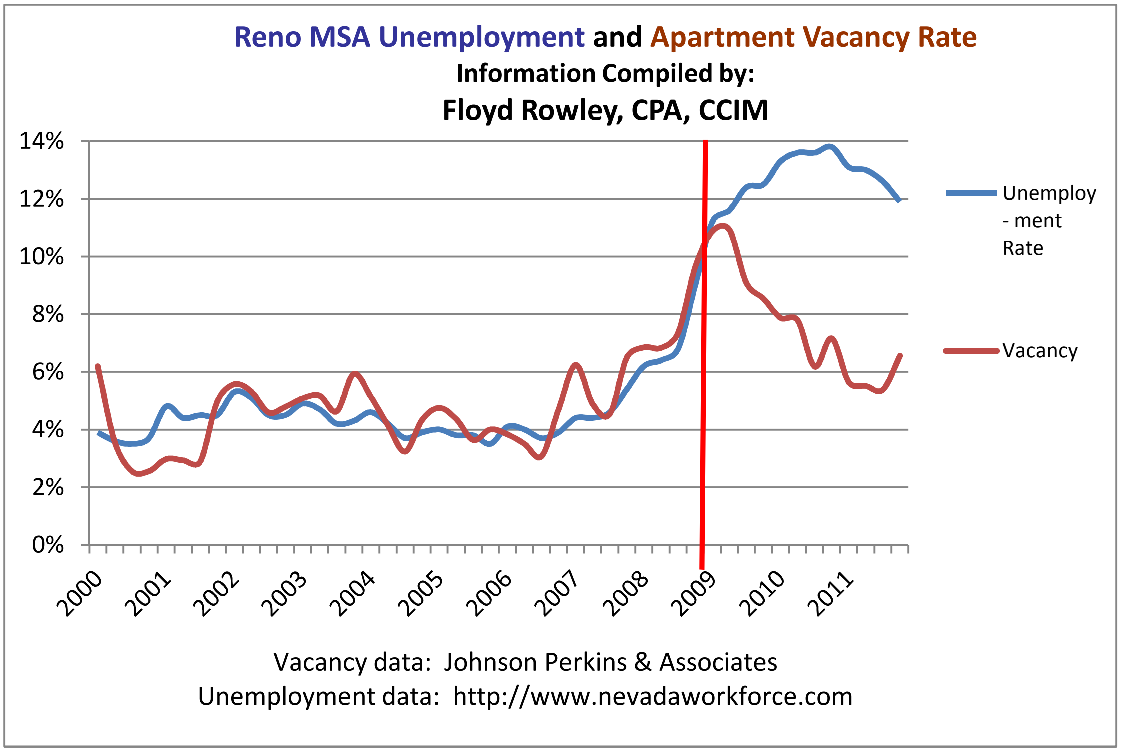
- FDR called the called the idea of strikes by government workers as "unthinkable and intolerable."
- New York mayor Robert Wagner extended collective bargaining rights to city employees in 1958.
- In 1962 JFK signed Executive Order 10988, giving federal workers the right to unionize, but not to collectively bargain.
- By 1980, half of all delegates to the Democratic convention worked for the government.
- Government employee rolls kept growing through the Reagan years.
- Finally, during GW Bush's term the number of unionized government workers surpassed the number of unionized private workers.

Apartment Statistical Review

Thanx to Johnson Perkins & Associates for their Quarterly Apartment Survey for the data in the graph below and to enable me to make the following observations:

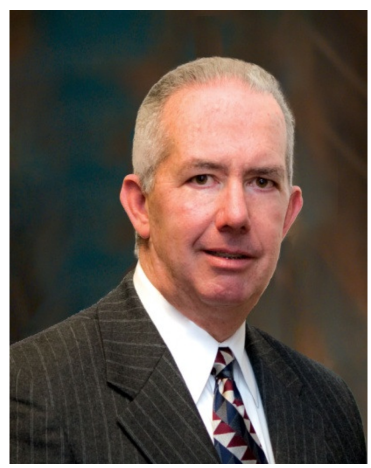
- While hovering in the 5.4% to 5.6% range for the 1st 3 quarters of 2011, overall vacancy in Q4 shot up to 6.56%, compared to 7.16% in Q410, and 8.54% in Q409.
- Vacancy in the Brinkby/Grove and the Airport submarkets continue to fare poorly, coming in at 10.8% and 12.7%, respectively. Vacancy in Lakeridge more than doubled to 6.4% in Q4. West Reno was stable at 3.1%, with all 7 other submarkets reporting vacancy increases.
- The overall vacancy rent in 2bdr 1 bath units skyrocketed this quarter from 3.9% to 7.3%, due to Brinkby Grove doubling to 15% and Airport skyrocketing from 7% to just under 18%.

➢ Similar to vacancy, the decline in overall monthly average rent gave up all of 2011's gains and is essentially even with Q410, but still $26 **below** the $848 / mo reported for Q409.



About the Author

Floyd joined the Johnson Group in January 2011 to continue his commercial investment brokerage practice in northern Nevada after serving over seven years as the Senior VP 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 / leasebacks and negotiates build-to-suit transactions. Since 2004, Floyd has closed $123 million of investment transactions in the Reno MSA. Starting in the fall of 2008 he has focused on distressed assets, mainly apartments. Since then he has completed $266.5 million in 38 broker price opinions, resulting in over $24 million of apartment listings.



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