



TRENDS

Vacancy Rate



Construction



Asking Rents



Summary of Current Market Conditions

Rental Market: Overall market vacancy for 80+ unit properties exceeds 13.18% with a median asking rent of \$844. Apartments located in attractive submarkets show little vacancy and little or no rent growth over 2008. Properties in the 20-50 unit range are most under stress as asking rent reductions, concessions and relaxed qualification standards have failed to achieve normal market occupancy levels.

Economic vacancy (loss to lease, credit issues, skips and waste) has risen to par with physical vacancy in suburban submarkets. Landlords are accepting higher than normal occupancy per unit to ensure adequate resources for rent payment. Turnover in stable submarkets has slowed as landlords struggle to retain occupants, whereas the submarkets serving service and construction employment suffer a chronic lack of qualified tenants despite reduced asking rents.

Sales Market: Sales transaction volume has slowed to unprecedented levels, even in the 1-4 unit range. Commercial acquisition financing and re-finance markets are challenged by FNMA standards which disqualify properties whose vacancy falls below 85% for the three months trailing a loan application. A pattern of punctilious appraisal opinions generated by firms appointed from outside the market area require expensive and time-consuming correction and re-analysis. The median cap rate for offered property is 7.12% with a bid-ask spread of 1.75 bp.

New Construction: Cost to build at current rents has shelved all new construction not otherwise begun or in lease-up. Net absorption of newly built units is in decline as tenants seek the benefits of rental housing in single-family dwellings which are under-managed by owners who must fill their vacancy.

Washoe County Benchmark Rent History

Eight Quarters Trailing Data > 80+ Units

Unit Type	3Q 2007	4Q 2007	1Q 2008	2Q 2008	3Q 2008	4Q 2008	1Q 2009	2Q 2009
Studio	\$526	\$514	\$527	\$524	\$524	\$523	\$523	\$515
1+1	\$754	\$754	\$756	\$752	\$755	\$744	\$727	\$699
2+1	\$818	\$822	\$820	\$814	\$813	\$798	\$776	\$753
2+2	\$946	\$949	\$950	\$949	\$953	\$933	\$914	\$886
3+2	\$1,124	\$1,130	\$1,130	\$1,132	\$1,132	\$1,130	\$1,119	\$1,088

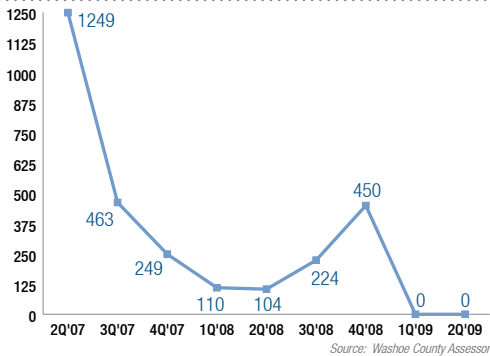
Source: Johnson-Perkins Apartment Survey

Trends & Shifts

- Shadow market rental pool of single-family homes shows a net 14% gain year over year
- Unemployment cascades from small business closures as reduced demand and business credit take their toll
- Condo median re-sales price drops below \$115/SF (CBD) and \$70/SF (suburban)
- Ratio of apartment unit cost-to-build over cost-to buy exceeds 1.50
- Apartment properties operating within 10% of break-even decline as a group with lowered rents and qualification

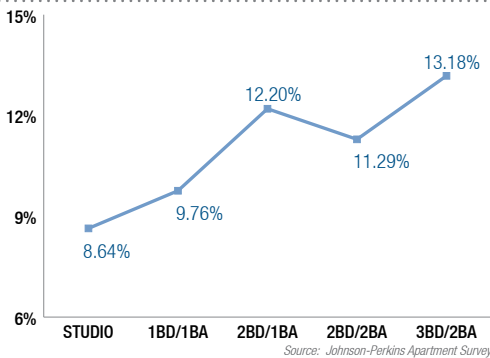


Number of Units Sold | 80+ Units



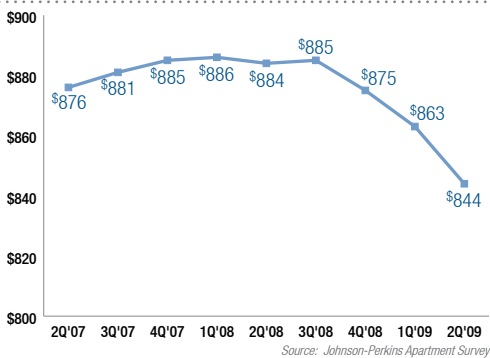
As the bid-ask spread approaches 200 bp, dispositions now focus on the distress market. Financing constraints multiply from underwriting, appraisal, borrower requirements and lenders exiting the loan market. Owners able to de-leverage now must decide whether to exit the market or weather the downturn.

Current Vacancy Rate Per Unit Type



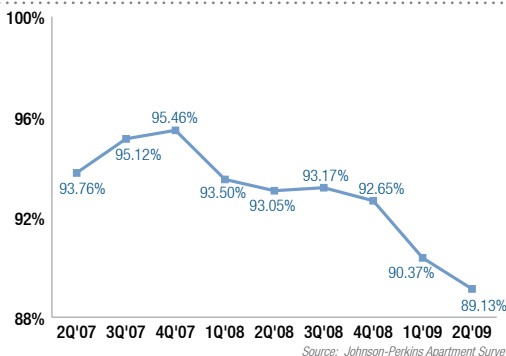
Vacancy rates exceeding 12% threaten to de-stabilize a project when revenue fails to cover debt service and operating costs. Larger units must compete with the shadow market for rental housing at significantly lower rent levels. Even bargain unit occupancy shows the ravages of unemployment and landlord's reluctance to improve rentability.

Average Rental Rates



Median rents continue to fall as concessions are inadequate to achieve normal occupancy. Another 10-15% median rent reduction is forecast for through 2010. The shadow market for single-family rentals may postpone any increase in median rents for 24 months.

Occupancy Rate



The dispersion of occupancy rates across unit styles in all submarkets is a range exceeding 25%. Vacancy in attractive submarkets is nil for well-managed properties; whereas vacancy in submarkets catering to construction and service labor has reached 20% or more. Overall market vacancy is forecast to trend lower by at least 10% before mid-2010.

Regional Apartment Sales

5200 SUMMIT RIDGE | RENO, NV



PRICE	\$56,000,000
UNITS	450
\$/UNIT	\$124,444
BUILT	1997
CAP RATE	7.16

2350 PARADISE DRIVE | RENO, NV



PRICE	\$9,700,000
UNITS	148
\$/UNIT	\$65,541
BUILT	1979
CAP RATE	n/a

1850 IDLEWILD DRIVE | RENO, NV



PRICE	\$4,000,000
UNITS	113
\$/UNIT	\$35,398
BUILT	1973
CAP RATE	n/a

830 N. CENTER STREET | SPARKS, NV



PRICE	\$1,600,000
UNITS	12
\$/UNIT	\$133,333
BUILT	1963
CAP RATE	n/a

232 E. TAYLOR STREET | RENO, NV



PRICE	\$485,000
UNITS	12
\$/UNIT	\$40,417
BUILT	1960
CAP RATE	10.88

328 WHEELER AVENUE | RENO, NV



PRICE	\$500,000
UNITS	10
\$/UNIT	\$50,000
BUILT	1987
CAP RATE	7.90

Sources: Washoe County Assessor Office



Surviving the Downturn: Retention that Works, Rentability that Sells

Suddenly landlords face a rental market as bad as the early 1990s. But skillful management always counts and creative techniques can attract more than your share of good tenants.

Retention that Works: If the tenant is desirable, reach out with a clear invitation to extend, and do so before you receive a notice to vacate. Simply telling a tenant you appreciate their patronage will often elicit their plans to move or stay. Know in advance what a turnover costs you for that unit style and give your manager the authority to deal. What's at stake is often \$ 2,700 to 4,500 per unit in lost rent and costs to make the unit rent-ready. Some good tenants have to move, but you can enlist their help in finding a referral with the proper incentive and the message that you regret they must leave and hope someone they know who is qualified can move in.

Analyzing Vacancy: Most landlords watch gross occupancy tick up or down and measure progress by net move-ins, adjusting concessions to fill vacancies as they come up. In a downturn, you should adopt a very different approach. Let's suppose you have 12 vacancies in excess of normal turnover. Some of those units are known to be hard to rent, due to location in the building or the complex, the unit style, the size, orientation or access to common areas. Isolate those units and adjust the rent to fill them all rapidly with qualified tenants shopping for price. Other units are easy to rent but happen to be vacant and the manager should show them first and fill them quickly. The remaining vacant units should be isolated to evaluate what interior improvements could boost rentability quickly and cheaply. When the easy-to-rent units are filled, the "newer" units should be filled at rents which demonstrate a real comparative value to the tenant. Finally, when you classify each unit in one of the three categories, be sure to focus upgrade dollars where they count—to reduce vacancy and retain tenants long-term.

Rentability is all you have to Sell: Your units appeal to tenants on the basis of location, amenities and price. Most tenants make a snap judgment from the street within 45 seconds after they arrive. You have three chances to sell an apartment: (i) when the tenant arrives at the property, (ii) when the tenant meets the manager, and (iii) when the tenant tours a unit. If you're on top of your game at each stage, you win the occupancy. Focusing improvement dollars at the curb will bring the tenant to the office. Selecting and training for professional management who listens to the tenant and finds what they value most. Focusing improvement dollars on the interiors of units which are neither hard to fill nor easy to fill means your vacancies don't stand idle for long.

These simple disciplines will help you survive the downturn and expand your margins in recovery.



Morgan Walsh

Multi-Family Specialist
mwalsh@naialliance.com
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