



TRENDS:

Building Permits



Home Sales



Home Prices



Defaults



Q2 2009 Overview:

Local businesses, and individuals, continue to face harsh economic challenges. Commercial vacancy rates continue to set new high water marks; fortunately, the pace of the increase seems to have slowed (industrial seems to have even improved slightly). The record high vacancy is providing numerous opportunities, for those tenants able to move around, with the resulting competition among landlords driving lease rates down. The good news is that speculative construction is non-existent; therefore, positive net absorption is around the corner. Residential activity on a project level has come to a grinding halt, but activity by individuals looking for said opportunities is definitely on the rise.

Activity:

When I said Q1 land transactions⁽¹⁾ were dismal, I had no idea how bad things could get. Q2 saw a measly 4 deals totaling 16 acres and \$4.69 million dollars. Luckily Fresh and Easy closed on its North McCarran Crossing site, which was almost half the dollar total, at \$23.60 per square foot (obviously, this deal was negotiated in much better times). These terrible numbers amount to a 62% reduction in volume from Q1 2009, a 92% reduction from Q2 2008 and a whopping 96% reduction from the height of 2005; \$12 million, \$58 million and \$105 million respectively. Q2 2008 was unusually high due to the \$29 million acquisition of Reynen & Bardis's Stonebrook project (apx. 1,600 paper lots). At the time, \$20,000 sounded like a great deal for paper lots with water; now we are seeing finished lot offers in that range!

(1) - transactions defined as commercial entity or bulk acquisitions over \$500,000

Significant Transactions:

The bargain of Q2 is definitely the acquisition of an apx. 7,000 square foot office pad (on 1.43 acres) located on Damonte Ranch Pkwy. The site is fully improved and includes 80 parking spaces, located between the Landmark Homes Office Building and Home Depot. At \$7.23 PSF Shaheen-Beauchamp Builders made a great deal. The largest transaction was the afore mentioned Fresh & Easy deal, with Grand Slam enterprises coming in a close second on 9.55 acres in Mustang at \$3.61 PSF.

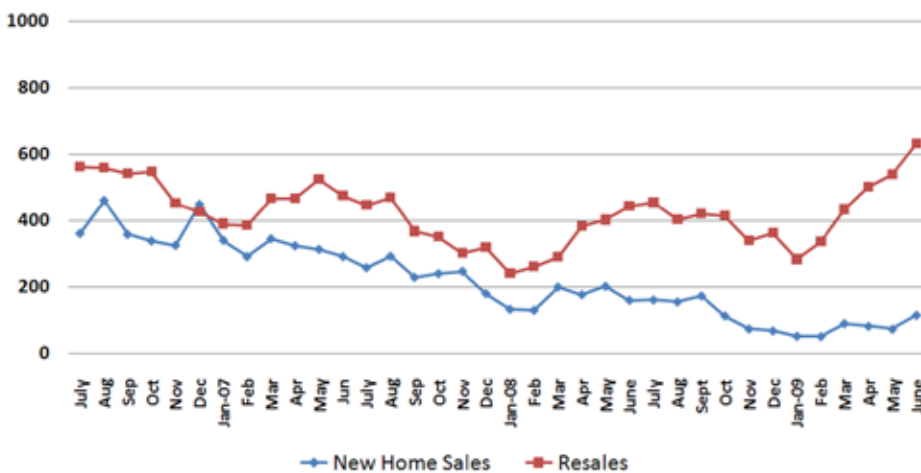
Building Permits:

Building permits issued in Q2 show a 7% increase over Q1. While I'm always looking for good news, the reality is that this increase is typical based on seasonal fluctuations in the construction industry. Annually adjusted numbers reflect that 2009 represents a 48% decline from 2008 and 92% decline from the height of the market in 2005. The drastic reductions have led to partial closures of local agency building departments.

Home Sales:

Q2 continued to show substantial increases in new home sales and resales (up 40% and 59% respectively from Q1). As expected, a comparison to Q2 2008 reveals new home sales down (50%) while resale volume up (36%). Hopefully, the resale market can

Washoe County Sales 2006 - 2009
New Homes / Resales





keep up with the increasing number of foreclosures, discussed below, while new home sales consume excess inventory during this building permit drought. Interest rates have started to tick up, but hopefully the federal tax incentives will keep buyers engaged.

Home Prices:

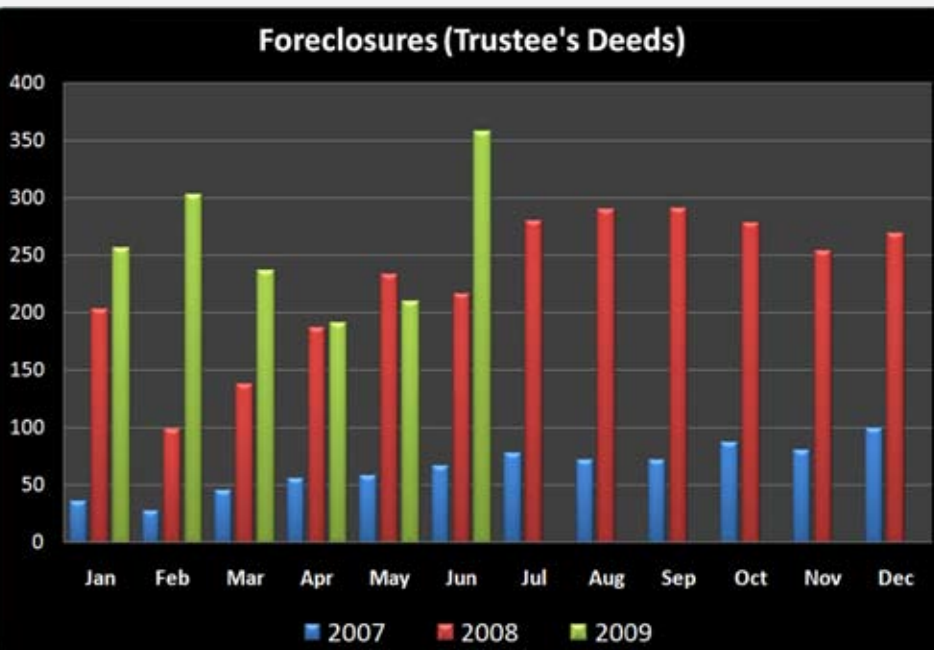
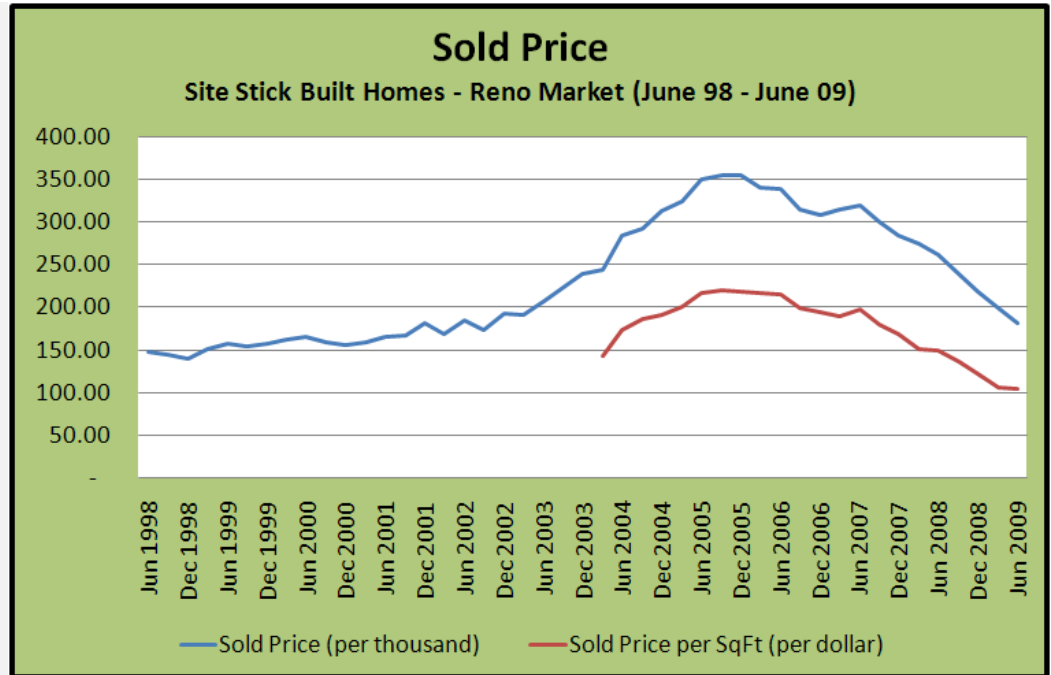
Market saturation of foreclosed and short-sale homes continues to push median home prices lower. The end of Q2 brought a median of \$181,000 (\$104 PSF) which represents a 9% reduction from Q1, a 32% reduction from Q2 2008 and a 49% reduction from the height of the market in 2005. I hear that such great deals on the

market are now creating competitive bidding situations, let's hope this continues and the median doesn't take much more of a beating.

Defaults:

It's official, the foreclosure holiday is over. Q2 residential foreclosures⁽²⁾ saw a June spike that left us with a 51% increase over Q1. Possible silver lining, the number of foreclosures initiated seems to have stabilized. Unfortunately, due to the 4 to 5 month delay between foreclosures, starting and finishing, we will see a continued increase in the number of distressed homes hitting the market. On the commercial front we continue to see residential subdivisions and apartment complexes dominate the foreclosure scene. If the forecasts are true, the number of commercial buildings that can't restructure their debt, and therefore go into foreclosure, will be substantial.

(2) - Trustee's Deeds recorded (finalizing the process) rather than Notice of Default filings (which can be excused)



Outlook:

Continued instability in the residential market, coupled with increasing unemployment, continues to keep investors on the sidelines searching for the elusive bottom. This is represented by the fact that, despite the number of residential subdivisions on the market, not a single project traded hands in Q2. Lender involved opportunities are plentiful, however, the number of lenders willing to adjust to today's values is few. A new reality, based on escalating inventory, will have to be embraced leading to increased activity. The opportunistic buying environment discussed last quarter continues, for how long no one knows. Don't miss it...



For Sale

Washoe Valley Land
Bryan Canyon Road (GR Zoning) (521.22 acres)



For Sale

Ladera Ranch
Golden Valley Road (MDS Zoning) (375 acres)



For Sale

Redfield Parkway Land
Redfield Parkway at Baker Lane (MU/CRC Zoning) (2.65 acres)



For Sale

I-80 & Robb Dr.
Frontage on I-80 South end of Robb Drive (48.8 acres)



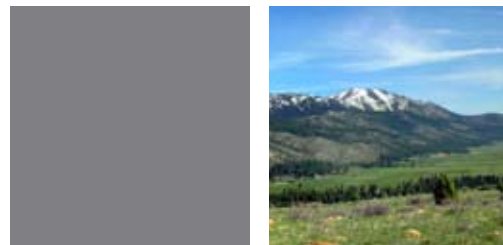
For Sale

Farm View Estates
Emerson Cir. off Farm District Rd. (23 finished lots)



For Sale

Grants Landing (across from ballpark)
Mill Street & E 2nd Street, (Mixed Use) (3.57 acres)



Land Department:



Aaron West-Guillen

Land Specialist | Land Entitlement Consultant

(775) 336-4674

awestguillen@naialliance.com

Aaron West-Guillen joined NAI Alliance to create a land division for the company, bringing 15 years of land acquisition, entitlement and development experience in northern Nevada to the brokerage. Aaron joined Lumos & Associates, a full-service engineering firm, in 1994 where he built a diverse background serving as Water Right Specialist, Construction Services Manager, Project Engineer and Senior Planner. This experience led to him managing the Fallon location of Lumos, from 2001 – 2005, during this time he also led all planning and development activities in Churchill and Lyon Counties. In 2005, Aaron accepted the position of Director of Land for Stockton, CA based Matthews Homes, and created their northern Nevada division. Aaron founded Meritage Consulting in 2007, assisting his clients with all aspects of land entitlement, infrastructure development and government affairs.



Ryan C. Judson

Land Specialist

(775) 336-4641

rjudson@naialliance.com

Ryan C. Judson joined NAI Alliance in September of 2008 as an associate for the Land Department, assigned to researching and maintaining an extensive vacant land database for the Truckee Meadows area. His additional responsibilities include market data mining, researching and tracking distressed properties, and analyzing off-market vacant land opportunities. Born and raised in San Diego, CA, Ryan received his Bachelor's of Science in the Business Administration Real Estate Program from San Diego State University in December of 2007. Shortly after moving to Reno in 2008, Ryan obtained his Nevada Real Estate License while working for NAI Alliance and now assists in the acquisitions and sales of vacant land in the Northern Nevada area. He is also past member of SDSU's Real Estate Society, and has recently joined the Reno-Tahoe Young Professionals Network (YPN). Ryan continues to become more active in the community he now calls home.

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