

Northern Nevada Commercial Investment Real Estate Report 1st Quarter 2012 - The “Hope Springs Eternal” Issue

Just like 2011 we started out the New Year with anticipation that we are “turning the corner” and that our national and local economy is starting to rebound - despite the continuing malaise in Europe and any lack of political cooperation at home. Anecdotal signs abound to support this feeling of increased optimism, but just like the national economists who wonder if the mild winter merely accelerated spring into Q1, we will have to see what Q2 brings – and beyond.

Major Transactions this Quarter

The table below summarizes the 7 Q112 transactions (out of 88) of \$3 million or more– not a bad start to the year. Distress again had a large impact: 3 deals were new foreclosures and 2 deals were sales out of foreclosures. Due to the Manzanita and Delucchi transactions, multi-family accounted for 44% of the Q1 dollar volume. Once again small investors poured into the multi-family market. They accounted for 32% of all transactions, yet averaged only \$212,719 / deal. The Delucchi foreclosure was once part of the Meadowood Apartments. The buyer in 2005 obtained a loan from Citibank on the western 498 units and a loan from Kinecta on the 206 units on the E side of Neil Road. The owner was able to do a workout with Citi in early 2010, but not Kinecta, so he tossed them the keys and effectively split the huge complex in two.

Transaction	Address	Date	Price
Sale of Manzanita Gate Apts by special servicer (Midland) to MG Properties	2475 Robb Drive	02/24/12	27,000,000
Foreclosure of Delucchi Lane Apts by Kinecta Federal Credit Union	825 Delucchi Lane	01/11/12	11,660,509
Foreclosure of 13 ac of Rialto land bet. Galleria Pkwy & Miguel Sepulveda School	391 Los Altos Pkwy	03/22/12	4,816,159
Foreclosure on redevelopers of Shops @ the Village. CVS was not a part.	635 Booth Street	03/16/12	4,500,000
Sale of So. Virginia Storage behind Indian Smoke Shop by the Mugnaini sisters	11420 S Virginia St	02/14/12	4,500,000
Sale of Air Center Plaza @ NEC of McCarran & Longley out of foreclosure	3923 S McCarran Blvd	03/30/12	3,800,000
Sale of former Intuit Building to Renown	1285 Financial Blvd	03/09/12	3,000,000

The Local News Bag

EDAWN, NNDA sign economic development agreement

The RGJ reported on February 28th that EDAWN in Reno, and the NNDA in Carson, have signed a Joint Memorandum of Understanding. The pact defines the Greater Reno-Tahoe region, including the I-80 corridor, under EDAWN, and the Sierra region, encompassing Carson City, Douglas County and rural locales linked by U.S. 50, for NNDA. The top business recruiters in Northern Nevada pledged seamless cooperation in the name of economic development. It always hasn't been that way. Seven years ago, the agencies spent hundreds of thousands of dollars on separate initiatives, Target2010 for EDAWN and NNDA's Northern NVision, which came to the same conclusions on several key industries to attract. With the onset of the Great Recession and last year's overhaul of the state economic development system that's now under control of Gov. Sandoval. The two sides have said cooperation is crucial to their success.

Potential Data Center

The RGJ reported that Reno Technology Park, a proposed 2,220-acre data center project 11 miles east of Sparks, is seeking to attract large Internet firms and the U.S. military. The developers are Stonefield, Inc., the company that runs Wild Island Waterpark, and one of Nick Pavich's companies. The park could eventually include 7 buildings totaling 500,000 sf and a natural gas power plant to eventually generate up to 360 mw of electricity. The 1st phase of the project is expected to be only 11,000 sf. The developers have spent two years getting approvals from the County and regional planners. They are seeking sales tax breaks as server farms must continuously purchase new equipment to keep them running. Facebook doesn't pay \$2.8 million in annual taxes as long as it maintains 35 or more employees at its Prineville, Ore., data center. A \$300 million eBay data center near Salt Lake City will get \$27.3 million in tax breaks over 10 years for employing about 50 people.

Silver Legacy reaches agreement with creditors

Bill O'Driscoll, of the RGJ, has been reporting on the Silver Legacy's negotiations with their creditors to resolve its \$142.8 million mortgage. The restructure plan needed to be finalized by April 30, but has just been extended to May 14. If the plan is not adopted, Chapter 11 BK is a possibility. The BK scenario is the least palatable to all parties, says Bill Eadington, economist and gaming expert at UNR. Under the proposal, the Legacy's creditors would receive 67 cents on the dollar. The Legacy hopes to trim their debt to \$100 million and that their cash flow can cover the debt. Under the plan, the Legacy's creditors would receive \$100 million in cash, paid from a new \$70 million loan, \$15 million from the Legacy and \$15 million split between the Legacy & Circus partners. The creditors would also hold a \$27.5 million second on the property.

Reno turns on Goldman Sachs

On April 11th Brian Duggan reported in the RGJ that Reno is suing Goldman Sachs, Reno's big bank of choice throughout the last decade, alleging they persuaded Reno to issue \$210 million in bonds in the auction rate securities market that the bank claimed was safe even though it knew it could turn toxic. Reno is seeking arbitration against Goldman and seeks to recover damages it sustained due to their alleged misrepresentations and omissions when the City issued the bonds in 2005 and 2006 for the downtown events center and the railroad trench. Reno's filing says that, had the City known the market was so dependent on banks like

Goldman, it would have thought twice about issuing debt in the \$330 billion auction rate market that fizzled in 2008 amid the global financial crisis. Due to the crash, interest rates spiked, forcing the City to refinance with Goldman, which also served as Reno's underwriter and broker-dealer for the bonds. That resulted in millions in extra fees and interest payments, including draining a \$5 million reserve fund to cover interest payments on the event center debt, after the interest rate jumped to 15% and paying an \$8 million termination fee to Goldman to fix the trench debt. Auction rate securities were first introduced to the municipal market in 1988 by Goldman [hmm]. They allow issuers to issue long-term debt at short-term interest rates [dumb] by resetting the rate every 7 to 35 days in a formalized bidding process.

On March 30th the Northern Nevada Business Weekly (NNBW) reported that Prime Healthcare Services of Ontario, Calif., reached an agreement to buy Saint Mary's Hospital. The deal is scheduled to close June 30th and includes a commitment by Prime to invest \$20 million into Saint Mary's over the next three years. Saint Mary's lost \$43.5 million last year.

On April 2nd the NNBW reported that Fitch Ratings has revised its outlook for TMWA's debt to "stable" from "negative." The credit agency says TMWA has done a good job matching its finances to economic conditions.

On April 5th the NNBW reported that the two organizations that had been established to explore a bid for the 2022 Olympic Games at Lake Tahoe have decided to join forces. The group will be known as the Lake Tahoe Winter Games Exploratory Committee.

On April 10th, KOLO's Denise Wong reported that big changes are coming to CommRow. When it opened last fall, its developers were betting (sic) that a place without gaming or smoking could thrive in downtown Reno. But just 6 months later, it's undergoing a major revamp. While the eating and entertainment venue opened last October, by December most of the 1st floor was already under construction again. Management admits some of the original ideas didn't work, such as each bar specializing in one liquor. They're also bringing in a deli which will cater to the downtown lunch crowd. Crews are also boosting the sound system at Cargo, the stage on the third floor. Finally CommRow is pushing back the opening date of the hotel until next year.

Local Rumors

The Delucchi Lane Apartments, which were foreclosed by Kinecta on January 11th, are reportedly under contract for around \$9.2 million - about 94% of its \$9.8 million asking price.

During the quarter two different suitors attempted to purchase the \$22 million note on Caviata from USBank, successor to Cal National Bank. The bank is willing to sell the note at a \$2.5 million discount, but it seems like the owners (debtors in possession) are not in much of a mood to cooperate. On page 3 of my Q310 Investment report I reported that Caviata was successful in securing approval from the BK judge for their 3-year plan of reorganization – even though it is a single asset LLC. Apparently the judge believed (and Mr. Pennington must still believe) his testimony that Caviata could be worth \$34 million in three years – by April 2013 - we shall see.

Mall access plan will worsen traffic

On March 19th, Ken Mattison, a local retail broker, wrote an op-ed piece in the RGJ. Edited excerpts follow - remember these predictions come the 2012 holidays! The pending removal and relocation of the U.S. 395 northbound on-ramps and southbound off-ramps at Neil Road to

the insanely short Meadowood Mall Way with its four sets of traffic lights in just 500 yards is an ill-conceived downgrade that will add to the area's congestion and increase driver frustration. This interchange was originally intended to ease traffic at the intersection of So. Virginia St. and So. McCarran Blvd - it will have no material effect on traffic there. In fact the new interchange will be intentionally avoided by eastbound McCarran traffic heading to the Mall by continuing east when only two lights and a right turn are required to enter the Mall. Why wait through four lights and a left-hand turn? Further, it will hugely inconvenience the 17,000 daily drivers who currently exit or enter 395 at Neil Road who will soon have to enter or exit by crossing Meadowood Mall Way, and who will need to wait for the east-west traffic to clear before continuing. It will also back up drivers on Kietzke Lane and So. Virginia St., who will have to wait for the 20,000 vehicles, headed east-west to clear the Meadowood Mall Way intersections. When asked how traffic flow was to be coordinated, the RTC responded, "We will time the signal lights." [I hear Robin Williams in the background] With more than five times the traffic scheduled to cross South Virginia, coupled with additional delays caused by the expanded left turn and U-turn volumes, plus the yet-to-be-installed median divider, one can only imagine how far traffic will soon back up north- and southbound on South Virginia. Ditto Kietzke Lane.

Our (federal) Government at Work – Chapter??

James Grant, writing in the WSJ Bookshelf column on March 30th, in an article titled, "The Endless Spending Spree", writes that from the days of George Washington to Eisenhower the national debt tended to grow in wartime and shrink in peacetime. Because the dollar was convertible into gold the central bank couldn't print money as the Fed does today. The Treasury could borrow - but not without limit. Congress got its credit card on Aug. 15, 1971 when President Nixon, in a national TV address, declared that the dollar would no longer be defined as 1/35th of an ounce of gold. By cutting the dollar loose from its ancient anchor, federal spending and borrowing duly proceeded to increase.

The Nixon gambit marked a great divide. In the 10 years before 1971, the gross public debt climbed to \$408 billion from \$293 billion, a compound rate of only 3.4% / year during the Great Society and the Vietnam War. In the next 10 years, until 1981, the debt jumped to \$995 billion, a compound rate of 9.3% / year, *even with* the end of the Great Society and the Vietnam War.

There has never been a credit card like the nonmetallic dollar. We Americans consume much more than we produce, and finance our deficits with dollars that we alone may lawfully print. Asian creditors not only accept this money in payment for goods and services but turn right around and invest it in U.S. Treasuries. Not until fiscal 2001 did the debt reach \$5.8 trillion. Yet it expanded by an identical \$5.8 trillion in the four short years between 2007 and 2011. Now the grand total stands at \$15.6 trillion. But still debt piles on debt. Of paper money, there is no end.

Coffee Is an Essential Benefit Too

Allysia Finley, assistant editor of OpinionJournal.com wrote the following (edited) open letter to President Obama on March 12th, which generated 624 comments – the most I have ever seen.

Can you believe the nerve of employers who still seem to think that they should be allowed to determine the benefits they offer? I guess they haven't read your 2,000-page health law. It's the government's job now. That's a good thing, too. Employers for too long have been able to restrict our access to essential health services like contraception by making us pay some of the

bill. It's amazing that we aren't all dead. Now, thanks to you, we'll enjoy free and universal access to preventative care just like workers do in Cuba. Even so, there are still many essential benefits that the government must mandate to make the U.S. the freest country in the world. [The writer then extols her tongue-in-cheek support for such "essential" employee benefits such as fitness club memberships, massages, yoga classes, salad bars and (my vote) coffee].

Studies show that coffee can ward off depression, Alzheimer's, sleepiness and type 2 diabetes, which makes it one of the most powerful preventive treatments. Workers who drink java are also more productive and pleasant. While many offices have coffee makers, some employers, most notably those of Mormon affiliation, continue to deny workers this essential benefit. All employers should have to provide freshly brewed coffee. Republicans might argue that requiring Mormon charities to serve coffee is a violation of religious liberty since the Mormon Church's doctrine proscribes coffee, but this argument is a red herring. Leading medical experts recommend drinking coffee. Moreover, 99% of adults have drunk coffee at one point in their lives (including most Mormons).

Republicans may complain that these mandates represent an unconstitutional expansion of federal government power. However, I'm sure AG Eric Holder, HHS Secretary Kathleen Sebelius and your political adviser David Axelrod could produce a legal memo explaining why these are necessary to promote our general welfare (and of course, your re-election). Besides, if you can justify a mandate on individuals to buy health insurance, this should be a piece of cake.

Taxing the 1% - Chapter 2

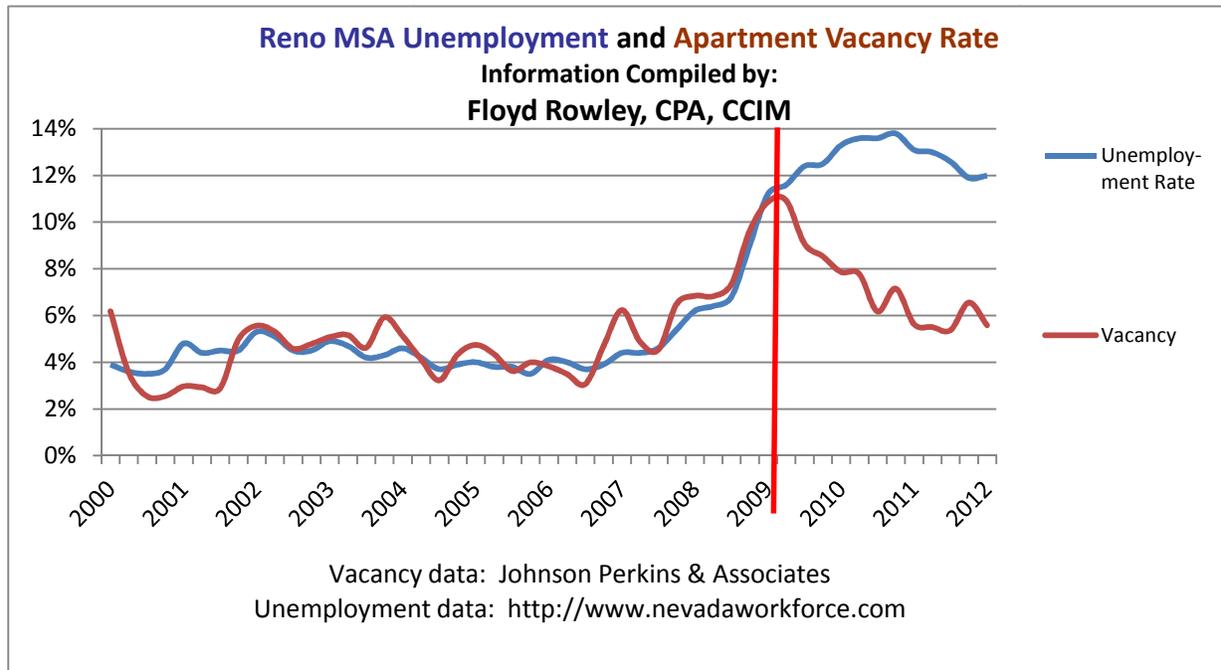
Charles Riley, writing in CNNMoney on April 13th, reported that the White House said that President Obama has a lower effective tax rate than his secretary, Anita Breckenridge, according to White House disclosure forms, earns \$95,000 a year. Obama's 2011 tax return showed adjusted gross income of \$789,674, and an effective federal tax rate of 20.5%. Later that week Obama hosted an event at the White House where, surrounded by administrative assistants and their millionaire bosses, he called for the implementation of the so-called Buffett Rule. The general principle is that millionaires and billionaires like Warren shouldn't pay a lower percentage of their income in federal taxes than middle-class households - specifically their secretaries. Buffett first proposed the idea last August, and in January, Obama made it a centerpiece of his State of the Union address. That proposal is expected to come up for a vote in the Senate but has no chance of being approved by the Republican-controlled House.

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:

- Overall vacancy hovered in the 5.4% to 5.6% range for the 1st 3 quarters of 2011, then shot up to 6.56% in Q411. Vacancy has now dropped back to 5.6% in Q112.
- Lakeridge, NW Reno and East Sparks continue to have the highest rents in the region.
- Vacancy in Lakeridge plummeted in Q1 to 4.6% from 6.4% at year end, moving them into 3rd place behind West Reno, still reporting an amazing 3.11%. SW Reno made an impressive move from 7.24% to 4.24%, taking sole possession of 2nd place.

- The Brinkby/Grove and Airport market areas reduced vacancy by over 2 percentage points each, but still reported the highest vacancy in the region.
- Finally, vacancies in townhomes and 3 X 2's increased, as one might expect in Q1, as these tenants tend to be the first ones to buy homes in this incredibly affordable market.



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 over \$124 million of investment transactions in the Reno MSA. Starting in the fall of 2008 he has focused on distressed assets, mainly apartments, completing \$271 million in 41 broker price opinions (BPO's). Since early 2010 these BPO's have resulted in over \$38 million of listings, mainly apartments.



For further information please contact:

Floyd Rowley, CPA, CCIM

Senior Vice President, Investments

Johnson Group

775-224-3183

Floyd@JohnsonGroup.net