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Northern Nevada Commercial Investment Real Estate Report
1st Quarter 2013 - The "Sequester Yourself" Issue

Don't be offended by the headline – but I have been "sequestering" myself since the summer of 2010. It had been over two years since I had closed a deal of any significance. One day I realized that investment deals were few and far between during the Great Recession and that I was tired of working ever harder like a gerbil in a cage running ever faster in a wire mesh spinner. Working way more hours produced nothing – there were no deals. So, I combined two phrases, "Life is too short" and "work smarter – not longer" into a philosophy of life that will be with me until I die. Taking one day off every 2 weeks (thanx FAA!) to be with your spouse / kids / friends is a healthy way to relieve stress, enjoy life, get healthier and live longer. Try it if you can. Trust me I still work 60+ hours / week – I just enjoy the daylight more.

Major Q113 Sales Transactions

The chart on the next page summarizes the eight Q1 transactions over $3 million. Sales this quarter were $158.3 million, $3.2 million higher than Q412 – a surprising development. I am sure the Boulders deal intended to close last year before the tax law changes took effect in January. Recall that a 3.8% tax on "unearned" investment income is now in effect – see my Report for Q212. Q1 also recorded 30 fewer deals with only one foreclosure in the top deal list.

Multifamily (MF) sales accounted for 48% of all Q1 dollar volume, as the largest three deals (see below) were MF transactions. While these 3 accounted for 90% of the MF dollar volume, once again small MF deals (under $1 million and averaging $219,435 each) – accounted for 82% of the total number of MF deals, with the average deal size slipping noticeably from Q4's $284k.

I am pleased to report that – once again this quarter – I contributed to one of the largest reportable transactions of the quarter – I represented Panattoni in their sale of their North Valleys build-to-suit propperty. I was originally awarded this listing in August of 2008 – before the Lehman meltdown in September and the swift onset of the Great Recession.

I worked with the original developers of Copper Canyon – an extremely ambitious project - consulting on pro-forma's for free in late 2002 – 6 months before I got my NV real estate license. The 1,500 acre site called for 2,109 residential units, a town center retail complex, and over 1 million sf of office and R&D space. They got their approvals and sold the deal for $13 million to SunCal in July of 2005. Lehman was SunCal's main source of capital, so when they pulled their funding, the end was in sight. SunCal missed their July 2007 payment on their $40M loan, and the property went back to the lender in June 2008. The brokers then put the property on the market for $40 million, selling it 5.5 years later for 14% of the asking price.

Transaction	Address	Date	Price
A unit of JB Matteson, San Mateo, CA, sells the 276 unit Boulders apartments sells to the Samuel Freshman Trust of Los Angeles	4775 Summit Ridge Drive	01/31/13	25,047,500
As their 3 year plan or reorganization was expiring, the developers of Caviata sold their Class A property to the Tilden Group from Walnut Creek.	950 Henry Orr Pkwy	03/28/13	24,475,000
CW Capital forecloses on The Villas at D'Andrea apartment community after filing an NOD on 7/27/12	2200 N D'Andrea Parkway	01/03/13	18,512,502
Renown Health buys 59 acres for potential future expansion @ the NEC of Sparks Blvd. & Pyramid.	Pyramid Highway	03/07/13	7,840,800
A TIC comprised of various Hawaiian union pension funds sold this flex industrial property to Industrial Realty Group, Downey, CA	910 Greg Street	02/25/13	5,750,000
A unit of the Fortress Value Recovery Fund sold Copper Canyon, uphill from Sparks Blvd., to the Modesto, CA engineering firm that did much of the work for Sun Cal, who lost it in foreclosure	Salomon Circle & points North, Sparks	02/15/13	5,500,000
Rowley sells Panattoni's build-to-suit for H&E Equipment Services(NASDAQ: HEES) to the Philipson family of Oakland, CA	845 North Hills Boulevard	03/29/13	4,550,000
An affiliate of New Plan Realty Trust sold Kietzke Center to Gator Investments, a private investment firm from North Miami, FL	SWC of Moana & Kietzke Lanes	03/08/13	4,500,000

The Local News Bag

Lenita Powers reported in the 2/28 Reno Gazette Journal (RGJ) that the 40 grad student apartments at 1775 Evans Avenue will be torn down to make way for a 120 unit complex to be built on the same site. It plans to open in July 2014. The $20 million cost will be paid by the PA-based Balfour Beatty Communities LLC. Balfour has completed housing projects on 48 military bases in the US, and is expanding to college markets. Balfour will pay UNR $50k / year in ground rent for the first 5 years, with bumps thereafter. Balfour will collect the unit rents, and UNR's residential life department will manage the complex. After 42 years UNR will own the building.

On February 27th, Dan Hinxman reported in the RGJ that the D'Andrea Golf Course was foreclosed by InSymphony LLC, a Phoenix real estate lender, who placed the only bid - $1 million for the closed golf course at auction on February 26th. They loaned D'Andrea Holdings $5 million in 2004 to buy the golf course. It is not known what they plan to do with the property that weaves through the foothills of east Sparks. Golf could return as a nine-hole course on the upper part of the property where Lennar is building homes - if both InSymphony and Lennar decide this is in their best interests; however neither InSymphony nor Lennar is in the golf business.

Yun Long reported in the 4/12 RGJ that construction has started on the Galaxy IMAX Theatres at the Outlets at Legends in Sparks, off the main courtyard between Scheel's and the Nike Factory Store. The complex will have 12 screens, including 3-D options and Galaxy's first IMAX auditorium. The Construction will cost about $11.5 million, with over$1 million devoted to the IMAX portion, plus $4 million to furnish the theater. There is no opening date set yet. Galaxy owns more than a dozen theaters, including the 10-screen Fandango complex in Carson City.

Mike Van Houten, writing in the "Downtown Makeover" blog posted an entry describing what developers plan to do with the former downtown post office. The landscape plans show a reversion back to be almost identical to the landscaping when the building was first built. The PO boxes themselves will remain when the first floor is converted to retail. The entire 1st floor of the lobby - plus the bathrooms on the 2nd and 3rd floors - are considered historic elements. The new roof will be sturdy enough to hold events on top of it. Developers hope to have it ready in the fall of 2014, but construction of the Virginia Street Bridge might delay that.

You knew this was coming - The broad-based Tahoe Regional Plan (Plan) designed to guide land use at Lake Tahoe for decades is "deeply flawed," fails to protect an endangered environment and should be scrapped, two environmental groups argue in a lawsuit filed recently against the Tahoe Regional Planning Agency (TRPA). The suit, filed in U.S. District Court in Sacramento by the Sierra Club and Friends of the West Shore, seeks to invalidate the Plan, approved by TRPA's governing board less than two months earlier - after years of discussions and attempts at a compromise over a vision for Tahoe's future. See my Q412 report for more details on the Plan.

<u>The Quarterly Apple Update</u>

In a March 31st RGJ article by Jason Hidalgo, he reported that the first phase of Apple's data center project, the 20 ksf "Rapid Deployment Module" was about to go live. The second phase is planned to be completed in August. Apple has reserved 345 acres out of the 2,200 acres that make up the Reno Technology Park, 20 miles east of Reno. Washoe County records show permits for two new server buildings, as well as an administrative building with a loading dock that appear to be related to the Phase 2 construction. Meanwhile, Apple's office in the Tessara District downtown is seen as a potential anchor by Reno officials, who also plan to leverage UNR as a way to re-energize the downtown corridor. Apple has submitted a building permit application but it hasn't been pulled yet. Apple's incentive package, including a 1.5% sales tax reduction on servers, requires them to be assembled in the proposed downtown center.

<u>The Rumor Mill</u>

The Alexander Apartments, on South Virginia north of Wal-Mart, are rumored to be under contract as part of a national portfolio sale by its owner, the Spanos Companies of Stockton, CA.

Prologis is apparently close to selling most of the local properties they bought from Dermody back in June 2006. The deal could close within a month – I can't / won't reveal the rumored buyer.

Foreclosure Shadow Inventory

Steve Schiller, Ticor's president of No. NV operations, developed an impressive / conservative estimate that Washoe County has potentially about 12,000 homes lurking in the foreclosure shadows. The total is comprised of three factors, including the "AB 284 effect" that has dampened the flow of foreclosures. Using the rate of 2102's homes sales of 694 / month, this shadow backlog could take over 17 months to burn off – potentially well into late 2014.

Expansion of Tahoe ski resorts lowers environmental grades

Jeff Delong wrote in the February 12th RGJ that many ski resorts are expanding terrain in the Tahoe Basin, worrying conservationists. This trend was cited by the Ski Area Citizen Coalition's annual environmental scorecard for ski resorts, with 1/3 of the resorts surveyed working on expansions. This year's survey stated that 27 of 84 resorts had expanded buildings, ski runs or other facilities, up 300% from 2011. Some expansions did not result in drops in scores. Squaw Valley kept their "A" grade since their plans stayed within their existing footprint. Northstar plans to add 300+ acres of terrain, 7 new lifts and 11 miles of roads for real estate development. They dropped a full letter grade to a "C". Homewood, also earned a "C" due to its $500 million plans to convert the aging property into a destination resort with a 4-story hotel, ski-in condos, two lodges and retail space. That project received a setback when a federal judge ruled that it requires additional environmental analysis. Ski resorts are making significant efforts to be environmentally responsible. The trend to develop summertime activities on the mountain is vital for resorts to remain competitive and economically viable.

Is the Fed Blowing a New Housing Bubble?

Edward Pinto, wrote in the April 9th Opinion section of the Wall Street Journal, that over the past year the Fed has increased quantitative easing (QE), causing new stock market highs and surging bond prices. Housing prices also jumped 8%, resulting in a ***$1 trillion*** increase in the value of single-family residences (SFR). This wealth effect should cause homeowners to spend more, helping the economy. Data released by the Federal Housing Finance Agency (FHFA) suggest that SFR price increases are not being driven by improvements in the economy. Rather, the Fed's low rates are being capitalized into higher home prices, which does not bode well for the future. Comparing FHFA data from February 2012 to 2013 shows that SFR prices in 2013 cost 9% - 15% more this year. These increases cannot be attributed to higher incomes which rose only 2% in 2012. The data suggests that SFR prices are being raised by QE. Since interest rates ranged from .625% to .90% lower on SFR in 2013, the monthly payment either remained the same or went up by only 3%. The current housing recovery is not normal. The government continues to go to extreme lengths to prop up sales by guaranteeing 90% of new mortgage debt, financing 1/2 of all home mortgages with zero buyer equity, driving interest rates to the lowest level in 100 years, and turning the Fed into the world's largest buyer of new mortgages. Thus, this housing recovery is eerily familiar to the previous government-induced boom that went bust in 2006 - from which we are still struggling to recover. If mortgage rates increased to a moderate 6% in 3 years, a combination of 3 things needs to happen to keep the same level of home affordability: incomes need to increase by 1/3, house prices need to decline by 25%, or lending standards need to be loosened further. Hard to believe any of these will happen. Given our subpar economic recovery and past experience with loose lending, homeowners are best be cautious about spending their new found "wealth." We have seen this movie before.

Apartment Industry & Residents Contributed $1.1 Trillion to the Economy in 2011

Despite the worst economy in a generation, apartments and their residents contributed $1.1 trillion to the national economy in 2011 and supported 25.4 million jobs, according to a report released February 12th by the National Multi Housing Council (NMHC) and the National Apartment Association (NAA). Highlights from the report, based on research by economist Stephen S. Fuller, Ph.D. of George Mason University's Center for Regional Analysis, include:

- The apartment industry spent $14.8 billion on construction in 2011, a year with just 130k multifamily completions. The average pre-recession was 270k completions/year.
- The industry spent $67.9 billion to operate and improve 19.3 million apartments, creating $182.6 billion economic contribution supporting 2.3 million jobs.
- 35 million apartment residents spent $421.5 billion on goods and services, 70% of which stayed within the local economy. This created a total economic impact of $885.2 billion supporting 22.8 million jobs nationwide.
- The combined contribution of apartment construction, operations and resident spending equals $1.1 trillion - more than $3 billion every day.

Like operating outlays for apartment buildings, the spending by renters recurs annually thereby supporting local economies on an ongoing basis. With up to 7 million new renter households forming this decade—almost half of all new households—the dollars and jobs that apartments add to the economy will only grow in magnitude.

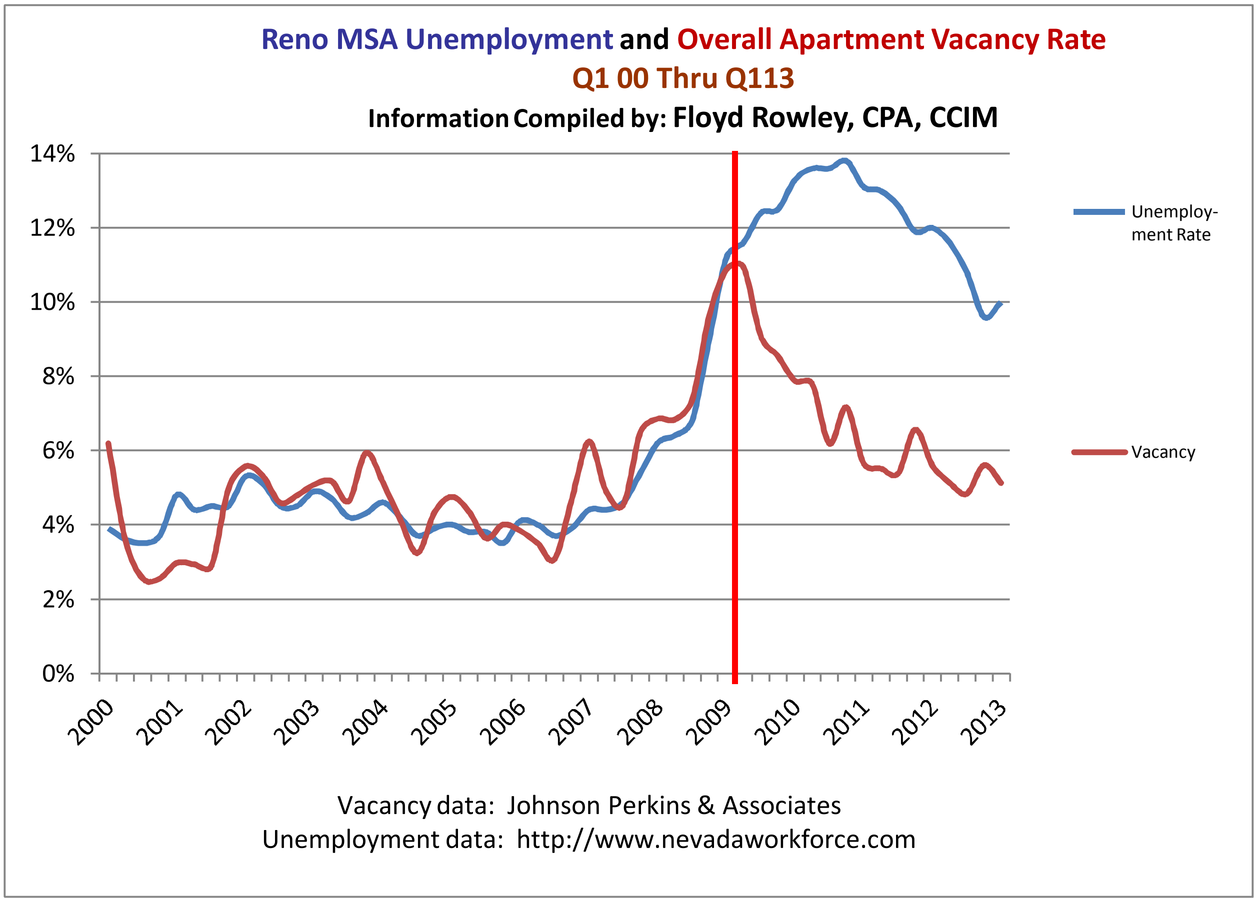
Reno City Council OKs University Farms rezoning

Lenita Powers reported in the March 28 RGJ that the Reno City Council voted 4-2 to rezone 104 acres of its 1,000-acre Main Station Field Laboratory, off Pembroke Drive and South McCarran Boulevard, to allow commercial development. City staff supported the rezoning, which will include requirements for extra flood-prevention measures. UNR President Marc Johnson stated that there are no plans to develop the property. It will continue to be used for agriculture until a development plan is in place. The council's vote means that UNR will be able to protect the value of this property for the highest and best use. The rezoning will protect its value if federal agencies decide to buy the land for flood-control project. UNR's real estate personnel went back to 1910 to determine that the land was not given as a gift and does not have any restrictions on its use or sale. Wolf Pack Meats, UNR's butchering and packaging operation on the site, would not be affected. If the 104 acres is sold, the Farm will still have 812 acres, even with the recent sale of 165 acres on the east side to the RTC for the Southeast Connector.

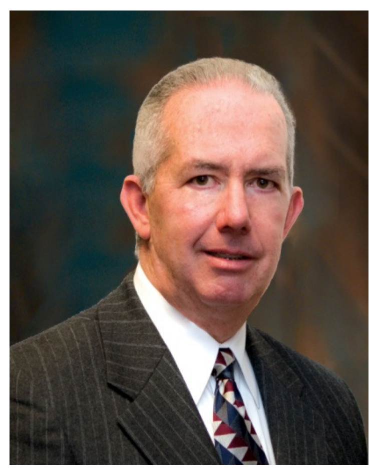
Apartment Statistical Review

My observations from the Johnson-Perkins Quarterly Apartment Survey are as follows:

- The average rent decreased by $5/unit/mo, yet vacancy also declined from 5.6% to 5.12%.
- Every unit type, except 3 X 2's, experienced a drop in vacancy, ranging from 36 to 113 bp's.
- While 5 of 10 submarkets experienced decreases in rental rates, the top 3 continue to be East Sparks, Lakeridge and NW Reno, respectively, at $911 to $942 / unit / month.
- Also, 5 of 10 submarkets experienced decreases in vacancy, with the top 3 – Lakeridge, W Reno and NW Reno all coming in under 4%. Meanwhile Brinkby / Grove surged from 5.34% to 8.11%, and the other "blue collar" submarket - Airport - increased from 7.68% to 8.21%.
- I interpret these vacancy drops to mean that a flight to quality is underway.



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 $133 million of investment transactions in the Reno MSA. Starting in the fall of 2008 he has focused on distressed assets, mainly apartments, completing $297 million in 44 broker price opinions (BPO's). Since early 2010 these BPO's have resulted in $46 million of listings, mainly apartments.

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