

# Market Research

INVESTMENT | SECOND QUARTER | 2009

## Waiting for Seller Capitulation

*Text by, Floyd Rowley, CPA, CCIM*

### Investments

As of June 30, 2009, there have been no investment sales of any substance to report. Additionally, there have been only two apartment sales of which both were under ten units. It is obvious that the market for traditional investment sales in the Reno / Sparks area is at a standstill for the near future. Sellers are holding out as long as they can and buyers are looking for “screaming deals” bringing investment sales to an impasse. Even in deals where the lenders have taken title to the assets at (or close to) today’s fair market value, they or their brokers are listing properties for sale at considerable premiums over the real market. Cap rates for most deals are at, or above 8%, but the lack of closed transactions provides no comps to verify this trend.

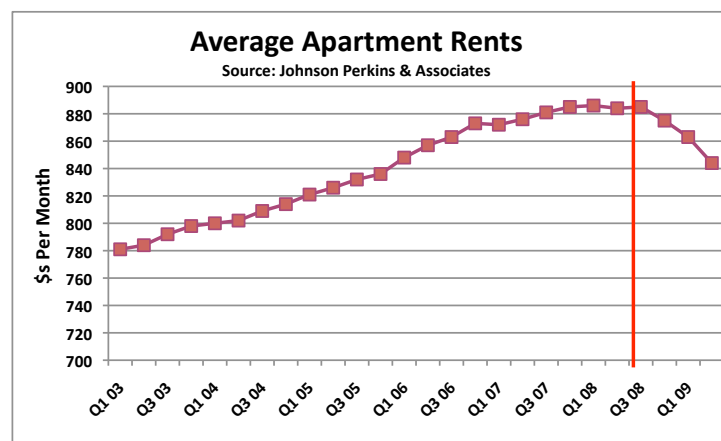
Lenders assert they have money to lend, but most investors seem unwilling to accept the lenders current underwriting criteria. Calculations show that the average loan commitment yields 25% less in proceeds prior to June 2007. This has put another wet blanket on the investment sales market.

### Multi-Family

The Reno / Sparks’s multi-family market ended the first half of 2009 with an overall vacancy just under 11.0%, unchanged from first quarter of 2009, but significantly above the third quarter 2008 rate of 7.35%. More significantly, the average rental rate has plummeted from \$885 per month in the third quarter of 2008 to \$844 in the second quarter of 2009. The significance of this drop is huge: this rent loss of \$41 per unit per month equates to a loss of \$800,000 of value in a two hundred unit apartment property in only three quarters.

At the same time that values are dropping, 1,000 new apartment units were scheduled to be delivered into our market in the fourth quarter of 2009, over three times the average annual delivery of new product for the last five years. The unfortunate fire at the Alexander Apartments in south Reno on July 29 removed 220 units from this delivery schedule, but none of these new

### AVERAGE APARTMENT RENTS



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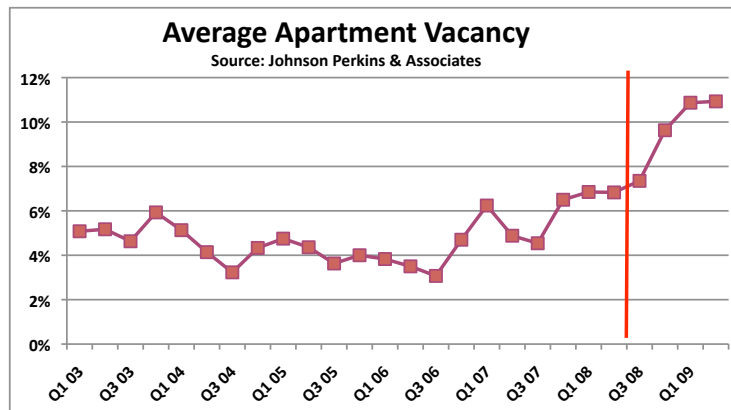
units are yet reflected in the Johnson Perkins & Associates vacancy statistics. Needless to say, the market does not need any more units for the foreseeable future, given the competition from rental houses, people doubling up and moving back in with their parents' etc...

In conclusion, the Reno /Sparks investment properties market has been dismal this year. We have been working closely with lenders and attorneys to source out REO assets for sale, but so far, lenders seem to be as reluctant as sellers as "regular" sellers. This may change as the tidal wave of CMBS and other Wall Street created debt instruments start maturing in huge quantities in the not too distant future.

Hold on! This is going to be a bumpy ride before we return to a normal market.

\*\*All apartment statistics quoted above are from the Johnson Perkins & Associates ("JPA") Apartment Surveys.

#### AVERAGE APARTMENT VACANCY



294 OFFICES IN 61 COUNTRIES  
ON 6 CONTINENTS

USA 94  
Canada & Latin America 39  
Greater Asia 64  
EMEA 97

\$48.1 billion in annual  
transaction volume

1.1 billion square feet  
under management

Over 12,700 Professionals

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