

Market Research

APARTMENTS | THIRD QUARTER REPORT | 2008



MARKET INDICATORS

	3Q 2008	4Q 2008*
APARTMENT VACANCY	↑	↑
APARTMENT RENTS	↔	↔
INVESTMENT CAP RATES	↑	↑
ABSORPTION	↓	↔
INVENTORY GROWTH	↑	↗
JOB GROWTH	↓	↓
*PROJECTED		

Apartment Sales Down, Vacancy Up

Report by Floyd Rowley, CPA, CCIM

Summary

Enclosed please find a brief update on the Reno apartment market. The schedule of year to date apartment sales at the bottom of the next page shows transaction volumes way off from 2007, although the \$23,000,000 sale of Bristle Point closed in August. Also enclosed is a new "Market Intelligence" report that provides information on all the apartment land and development deals that are underway. This report provides real market intelligence and a positive ray of hope in the Reno apartment market – over 2,200 units are either under construction or planned, due to the decline in land prices, apartment development is finally starting to pencil again.

Vacancy

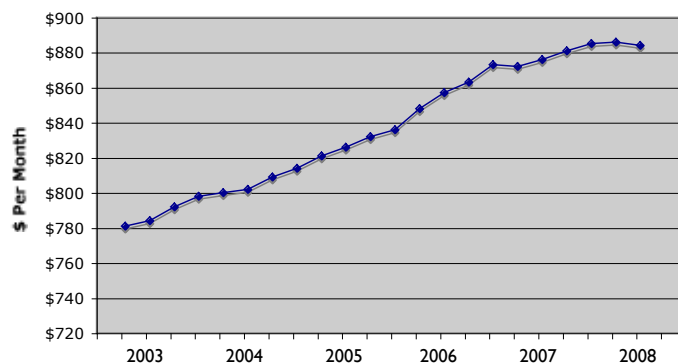
The overall apartment vacancy in the summer and fall of 2007 was in the 4.5% – 4.8% range. As frequently happens most every year, the overall vacancy skyrocketed in January of 2008 to 6.5%. Drilling into the data reveals that townhome unit vacancy soared during that period from 4.5% to 13.4%. This indicates that townhome renters started to buy homes. For example, the Centex Cyan project in the South Meadows has been a huge success – they are selling 1,300 square foot duets for \$201,000. The mortgage payment on these starter homes is almost equal to the rent that buyers were paying for their townhome.

Overall apartment vacancy has remained stable since the January spike, coming in at 6.8% for the past two quarters, according to Johnson & Perkins, the large, local appraisal firm that publishes apartment data for the Reno market.

The vacancy increase has been relatively evenly distributed across the eleven defined market areas of the Reno Sparks apartment market, except for two: the Lakeridge area, where the vacancy

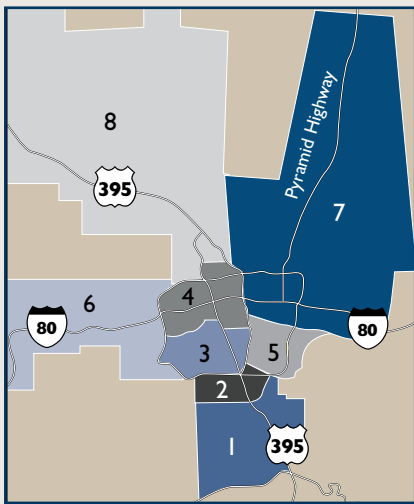
Continue on pg. 2

TABLE 1: 2003 - 2008 AVERAGE APARTMENT RENTS



**COLLIERS
INTERNATIONAL**

www.colliersreno.com



SUBMARKET MAP KEY

ID	SUBMARKET
1	South Meadows
2	Meadowood
3	Southwest Reno
4	Downtown
5	Airport
6	West Reno
7	Sparks
8	Northwest Reno

jumped from 5.7% last summer to 9.3% in July of 2008, and the Southwest area where it jumped from 4.0% last October to 9.8% this July. Both of these areas are small, containing only four apartment communities each.

Rents

For the last four quarters apartment rents for larger, generally Class A apartments has been flat at \$885 per month. Within the eleven market areas there were no significant trends discernable, nor has any particular unit size had any noticeable swings.

Development

A trend I predicted last year is finally manifesting itself. The large national homebuilders have finally lowered prices on their high-density condo sites to the point where the price per unit is now attractive to apartment developers. As a result, Fore Properties purchased 20 acres from Lennar in February and now has 300 units under construction. Spanos broke ground this spring on the Alexander, a 350 unit community that is being modeled after the former Tanamera Apartments that have since gone condo.

Other landowners have lowered their prices as well, resulting in 7 potential apartment communities currently in the planning process, as shown on the attached table.

Overall there are approximately 2,200 apartment units planned or under construction currently, a huge increase over the past five years, where apartment construction has been almost nil. This

drought was due to the major increase in land costs starting in 2003, which resulted in a doubling from \$15,000 per door to over \$30,000 per door. This doubling resulted in almost all multi-family development being condo's, a number of which are still selling out, and two, Caviata and Waterstone, being sold to an owner who is renting the units as apartments for the foreseeable future.

Sales

Sales volumes are way off, with only five transactions YTD through August. Most of reported deals are significantly smaller in size and in number of units than previous years. The transaction details are shown on the Market Activity table below. It is also unclear whether the traditional year-end rush will occur in 2008.

Conclusion

The Reno apartment market is softer than in recent years, but still healthy. Unemployment has trickled up to the 6% range from the low 5% range in the middle of the decade, but there have been no significant physical or economic events to cause any real damage to our local economy. The housing market remains strong: in Washoe County, there are only 1 in 158 homes that are in any stage of the foreclosure process. This works out to 6/10 of 1%.

Overall, the Reno / Sparks apartment market is slow but healthy and poised for a recovery after the election, or whenever Americans get out of the funk they have been in for the last year.

MARKET ACTIVITY

SIGNIFICANT THIRD QUARTER END TRANSACTIONS

SALES

Property Name	Site Address	Price	Units	Price / Unit
1263 E 7th Street	1263 E 7th Street, Reno	\$2,600,000	16	\$162,500
Grove Garden Condos Lp	197 E Grove Street, Reno	\$2,000,000	30	\$66,667
Sunset Ridge Apartments	2190 Centennial Way, Reno	\$5,300,000	104	\$50,962
Prater Meadows	111 E Prater Way, Sparks	\$6,800,000	110	\$61,818
Bristle Pointe	2050 Longley Ln, Reno	\$23,000,000	224	\$102,679

PROPOSED AND PLANNED APARTMENTS

Property Name	Developer	Units	Address	Comments
---------------	-----------	-------	---------	----------

PUBLIC INFORMATION:

Park View Terrace A Park View Terrace B	Fore Properties	216 92	Sutro & Selmi, No McCarran, N of UNR.	Went before City for approval hearing 6/6/07- "A" is currently under construction - "B" is on hold.
Mae Anne Apartments		80	Mae Anne & Avenida de Landa	City approved extension of developer's tentative map - this deal has been listed in Johnson Perkins Quarterly Report for many quarters.
The Alexander @ South Virginia	AG Spanos	350	1135 Old Virginia Road	Approved - sitework completed, foundations underway. Located on 15.2 acres, will develop 35, 3-story buildings. 630 parking spaces, of which 315 are covered. For sale now - asking \$280k / door.
Pioneer Meadows	Fore Properties	300	SW corner of Rolling Meadows Drive & Wingfield Hills Road	20 acre site purchased from Lennar. Currently under construction - underground utilities are now in. Will compete with Caviata and Waterstone and Chamonix - when it is built.

COLLIERS INFORMATION:

The Grove, f/k/a Southern Edge Student Apartments	Unknown - in contract w/ Dave Larson, Keller Realty	191	Terminus of Mica Road, W of N Virginia Street.	Original UHC plan was scrapped - new buyer's SUP was approved by the Reno Planning Commission on 9/3/08. New plan for 191 units will generate 500 bedrooms. Planned to close by end of November.
None yet - referred to as Pavich downtown mixed use project.	Pavich & Associates d/b/a Northern Nevada Urban Dev. Company.	230	Generally bounded by I-80 to 5th Street & S Virginia E to Evans.	Retail, high-density office over 6 blocks to be completed by 2010. NNBW claims over 446.5 ksf of street-oriented retail. Exploring use of STAR bonds.
Cavaillon Luxury Apartments	Tanamera Dev	252	Across N McCarran at the terminus of Keystone Ave.	Formerly owned by a church that has plans for that had plans for a huge cathedral, etc. They put in the roads and then sold. Tanamera is seeking an equity partner.
Chamonix Luxury fall Apartments	Tanamera Dev	294	Within the Kiley Ranch master planned community in Spanish Springs	Seeking equity partner to start construction 2008. Will compete head to head w/ Caviata and Waterstone, both nearby, that were originally built as condo's by Pac West. Tanamera's option has lapsed.
Arrow Creek Town Center Apartments	Ryder Homes	250	Intersection of Wedge Pkwy & Arrowcreek Pkwy	Land was originally purchased as part if the Mountain Gate single family residential development. Moving forward quickly w/ design development of upscale apartment project to be modeled after the Tanamera Apartments that went condo.
Vista Arroyo	Vintage Housing & Candler Dev	416	SWC of Vista Rafael Pkwy and N Virginia Street	21 acre site that runs N-S. Major topology issues - developer is out of Newport Beach, CA. Plan approved by City of Reno 9/08 - seeking a loan and JV equity.

293 OFFICES IN 61 COUNTRIES
ON 6 CONTINENTSUSA 99
Canada & Latin America 37
Greater Asia 62
EMEA 95\$73 billion in annual
transaction volume868 million square feet
under management

11,000 Professionals

CONTACT INFORMATION

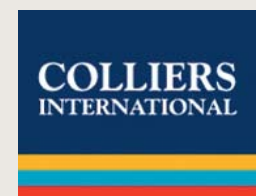
Colliers International
10765 Double R Boulevard
Suite 100
Reno, NV 89521
United States
Tel: 775-823-9666
Fax: 775-823-4699

Tim Ruffin, SIOR, CCIM
Managing Partner
Senior Vice President | Office Properties
Email: truffin@colliersreno.com
Tel: 775-823-4670

Krystal Christiaens
Research Analyst
Email: kchristiaens@colliersreno.com
Tel: 775-823-6626

Author:
Floyd Rowley, CPA, CCIM
Sr. Vice President
Investment Properties | Apt. Specialist
Email: frowley@colliersreno.com
Tel: 775-823-6629

This report and other research materials may be found on our website at www.colliersreno.com. This quarterly report is a research document of Colliers International - Reno, NV. Questions related to information herein should be directed to the Research Department at 775-823-6626. Information contained herein has been obtained from sources deemed reliable and no representation is made as to the accuracy thereof. Colliers Nevada, LLC dba Colliers International is an independently owned and operated business and a member firm of Colliers International Property Consultants, an affiliation of independent companies with 293 offices throughout 61 countries worldwide.

www.colliersreno.com