



# Colliers International Market Report Reno, Nevada



4th Quarter 2006

## Reno 4th Quarter Apartment Market Report - 2006

Two large transactions again dominated the multi-family market in Reno in 2006. This year both deals are slated to become condo conversions, once the low end condo market firms up. Seems like low-end apartment conversions suffer from lack of creditworthy tenants to convert owners.

Condo mania peaked in December of '05. Since then deals for the Virginian, the Chambolle and the Nevadan have evaporated, with a number of others being delayed or shelved. However, two new projects were announced in 2006, Arterra and Wingfield Towers. Still, the jury is out on the depth of the condo market in Reno.

Meanwhile, the Belvedere and the Montage have moved from the "vacant casino stage", with the Belvedere finally working on its interior build-out and finally starting pre-sales. The developer of the Montage, meanwhile claims that 60% of the units have been reserved.

In spite of the perceived softening, there are still six conversions approved or underway, and eight new condo projects proposed or approved.

Rents in Reno continue to climb. Many factors have aligned and will continue to work in parallel to keep rent growth robust going forward:

- UNR's student population has grown by 2/3 since the inception of the Millennium Scholarships in 2000.
- Unemployment hovers in the mid 3% range, even with the slowdown in single family construction.
- The combination of expensive starter homes and mortgage rates above 5% have priced homes out of reach for many young families.
- There has been virtually no apartment construction in the greater Reno market since permits were pulled for 562 units in April of 2005.

FIGURE 1 2003 - 2006 Average Apartment Rents

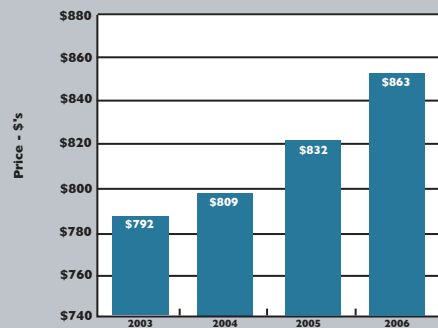
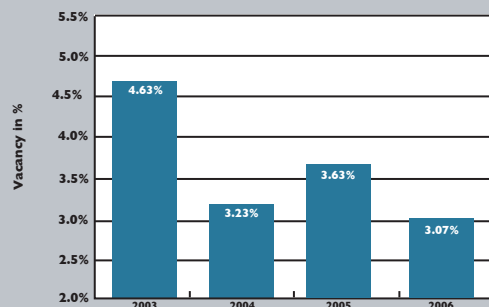


FIGURE 2 2003 - 2006 Average Apartment Vacancy



These factors have collaborated to keep Reno's apartment vacancy below 5% since the spring of 2004 - almost three years ago.

### Downtown Condo Projects

#### Conversion Projects

PROJECT	UNITS
Grand Sierra Resort	846
The Montage	384
Belvedere (Sundowner)	370
DeNovo (King's Inn)	134
The Residences at Riverwalk	125
Sierra Vista Tower	59
<b>TOTAL</b>	<b>1,918</b>

### Downtown Condo Projects

#### New Projects

PROJECT	UNITS
Wingfield Towers	499
Village at Idlewild	218
Arterra	185
The Waterfront	153
Village on the River	137
The Palladio	92
The Freight House	50
Davanti	40
<b>TOTAL</b>	<b>1,374</b>



www.colliersreno.com

Colliers International  
5345 Kietzke Lane  
Suite 100  
Reno, NV 89511  
TEL: (775) 823-9666  
FAX: (775) 823-4699



Continued from Page 1

**Trends Affecting Apartment Rent Growth**

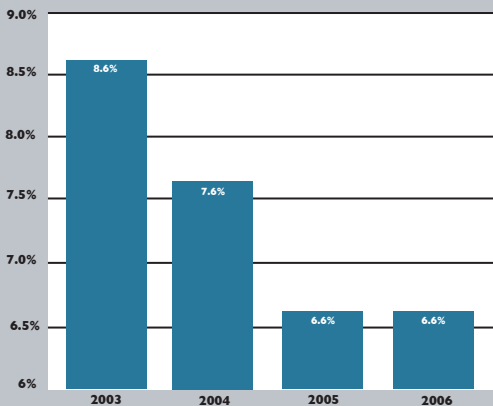
- 1) UNR Student Population Increased
- 2) Unemployment Decreased (3%)
- 3) Price of Starter Homes Increased
- 4) Mortgage Interest Rates Increased
- 5) Apartment Construction Decreased

Cap rates will also stay flat due to the estimated \$4 trillion tidal wave of money that baby boomers have started inheriting, as well as their own cash that they are now investing for their retirement.

Finally, downward pressure on cap rates will continue from the compounded growth of capital that recycles through 1031 exchanges. These buyers pay more than the average investor to defer the recognition of capital gains and the recapture of depreciation. ■

Apartment cap rates stayed flat in 2006, as the cap rate compression caused by California investors in our market over the last 2 years has now extended nationwide.

FIGURE 3  
**Reno Apartment Cap Rates**



**Floyd Rowley, CPA**  
 Vice President, Investment Services Group  
 Colliers International Partnership - Reno  
 5345 Kietzke Lane, Suite 100 | Reno, NV 89511  
 Direct: 775-823-6629  
 Cell: 775-224-3183  
 Fax: 775-823-4699  
 Email: [FRowley@colliersreno.com](mailto:FRowley@colliersreno.com)  
 Web: [www.colliersreno.com/FRowley](http://www.colliersreno.com/FRowley)

No new product came on line in 2006, with Horizons in the South Meadows reaching stabilization.

Looking forward to 2007, apartment rents, due to the factors previously mentioned, will rise almost 4%, with vacancy stabilizing at just over 3%.

To add further demand pressure, apartment conversions have taken over 1,000 units off the market. 2007 will be another great year to buy apartments even at low cap rates on existing income, since in many cases, the loss to lease can be as high as 10%.

With interest rates predicted to remain flat thru the 1st quarter of 2007, and trickle down thereafter, cap rates will likely stay flat in the 7% range, except for apartments, which will stay in the mid 6% range.

