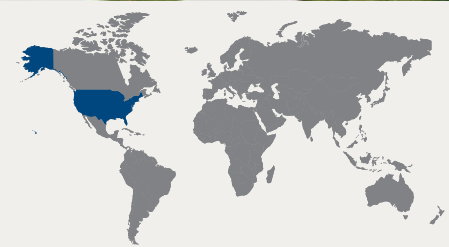




Market Research

INVESTMENTS/MULTI-FAMILY | FIRST QUARTER | 2010



Colliers Reno Investments Report

National Trends

According to a recent email from GlobeSt.com, “A sense of relative optimism has pervaded the investment arena in recent months, with most players confident that the market is at least stabilizing, if not nearing bottom.” The PwC Korpacz Real Estate Investor Survey for Q1 2010 stated, “Investors feel particularly good about multifamily, which is expected to lead the commercial real estate recovery. That’s not to say the sector is performing well.”

The multifamily market, many investors believe, will “bump along the bottom” this year, with conditions changing little. Like in other property sectors, sales activity has diminished for apartments. Overall cap rates for apartments fell in the final three months of 2009, ranging from 5-to-11%, with an average of 7.85%, down from 8.03% in the third quarter of 2009. However, the current cap rate was still 97 basis points higher than it was a year ago. The average residual cap rate is not that far off, coming in at 8.01% this quarter, also an 18-basis-point decline.

According to the results of the National Multi Housing Council’s survey of the Top 50 owners; net sales greatly outpaced net acquisitions in 2009 with sellers shedding 98,919 apartment units, while acquirers added 34,203. The four largest apartment owners all reduced their portfolios last year. The biggest net seller was AIMCO, which shed 25,750 apartments and now owns 133,200, its lowest number since 1998 and a decrease of more than 50% from its peak in 2004. The second largest seller was Equity Residential, whose portfolio declined by 11,272 apartments. Equity now owns 40% fewer apartments than it did at its peak in 2000. Six of the ten largest apartment owners are now affordable housing providers.

Finally, Reuters reported on April 14 that Sam Zell spoke at the recent ULI Real Estate Summit in Boston. While stating that, “If the current situation is indicative of the next half century, I think we’re screwed. [Referring to the current policies in Washington, he allowed that we are] on the cusp of an economic rebound [and] there was not a serious inventory overhang of multifamily units to absorb the potential formation of new households. We could eat through that inventory in three or four months given a strong recovery.”

Local News - Lakeridge East Apartments

Lakeridge East, comprising 312 units of the overall Lakeridge Apartment complex, was purchased at auction on March 10 by the special servicer, CW Capital. It was the most “public” and well attended auction of any commercial property to date. Many observers were amazed at the low price, \$15.75 million against an original loan amount of \$30 million, and consoled themselves that the sale was for “only one half” of the property, which was incorrect.

The 126 units on the west side of Plumas, now known as Lakeridge West, are still owned by a Topol entity and are encumbered by a different loan. This is the site of the proposed Positano condo project, approved by the City of Reno over objection of local residents in the fall of 2008. The project has been on hold ever since due to the lack of condominium demand and a lack of construction financing.

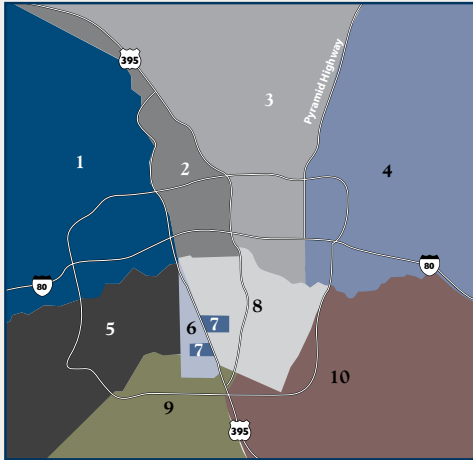
MARKET INDICATORS

	1Q 2010	2Q 2010*
APARTMENT VACANCY	↓	↓
APARTMENT RENTS	↑	↔
CONCESSIONS	↔	↔
UNEMPLOYMENT	↔	↔
CONSTRUCTION	↓	↓

*PROJECTED



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**APARTMENT
SUBMARKET MAP KEY**

ID	SUBMARKET
1	Northwest Reno
2	Northeast Reno
3	W. Sparks/N. Valleys
4	East Sparks
5	West Reno
6	Southwest Reno
7	Brinkby/Grove
8	Airport
9	Lakeridge
10	Southeast Reno

The acrimonious default and foreclosure sale of Lakeridge East resulted in a major lack of cooperation between West and East. Holland Residential took over management after the foreclosure sale and had not a single tool or supply with which to manage East. Also the leasing offices were split, with major street signage directing passers-by to the original leasing office in the Lakeridge Tennis Club, which now “serves” only West. Holland had to set up a leasing office for East in a vacant unit and was forced to change the locks in all the East units.

Local News – Other

Two foreclosed assets of American Asset Partners (AAP) were sold at foreclosure on March 2. The Waterford (240 units) and Northgate Villas (116 units), were originally purchased by AAP in September 2005, subject to BA Commercial Mortgage (BACM) loans and are being serviced by LNR out of Miami. They join 1850 Idlewild Drive (114 units), sold at auction in August 2009, and Manzanita Gate (324 units), which tendered a deed in lieu of foreclosure to the special servicer, Midland Loan Services, in March. This completes the unwinding of the entire four-property AAP Reno portfolio back to the lenders.

Waterstone at Kiley Ranch, my joint listing with Steve Chamberlain, Colliers Sacramento, went through two rounds of offers in February and March. The bank owner and the top finalist are now working to get under contract soon.

The reconstruction of The Alexander is proceeding nicely, with Nick Faklis of Spanos, recently telling me that they are on track for a July completion. Already all the shells and most of the roofs are up on all 220 of the units that were torched by an arsonist the night of July 30, 2009.

Sales in Washoe County continue to be dismal, with only thirty properties over \$500,000 selling for a total of \$61.3 million. The two largest sales were the BACM foreclosures discussed above, amounting to 37% of the volume. Of the rest, none appear to be true investment sales. They are either land sales, user sales or more foreclosure sales.

Q1 10 Apartment Statistics from Johnson Perkins & Associates

An analysis of the Johnson Perkins & Associates Q1 2010 apartment survey reveals the following:

Rank	Vacancy (Lowest)	Rent (Highest)
1	5.18% - Area 4 - East Sparks	\$981 - Area 4 - East Sparks
2	5.79% - Area 6 - SW Reno	\$979 - Area 9 - Lakeridge
3	5.81% - Area 9 - Lakeridge	\$956 - Area 1 - Northwest

MARKET ACTIVITY

SIGNIFICANT FIRST QUARTER 2010 TRANSACTIONS

SIGNIFICANT SALES

PROPERTY ADDRESS	DATE	UNITS	BUYER	SELLER	TYPE
Lakeridge East Plumas Street Reno, 89509	03/10/10	312	Servicer; CWC Capital Asset Mgmt., LLC on behalf of 6002-2008 Plumas Holdings, LLC	Eastside Investment Co.	Multi-Family
The Waterford Nicholas Blvd. Sparks, 89434	03/02/10	240	Servicer; LNR Partners, Inc. on behalf of BACM 2005-6 Nichols, Blvd., LLC	American Asset Partners, Inc.	Multi-Family
Northgate Villas Carville Dr. Reno, 89512	03/02/10	116	Servicer; LNR Partners, Inc. on behalf of BACM 2005-6 Carville Drive, LLC	American Asset Partners, Inc.	Multi-Family

Below the above three areas, the statistics get ugly fast. There was only one area with an average rent in the \$800 range, SE Reno, then four areas in the \$700 range, with the lowest area, Brinkby - Grove, dropping all the way to \$595. This area is populated principally by C units, but has only a 6.92% vacancy.

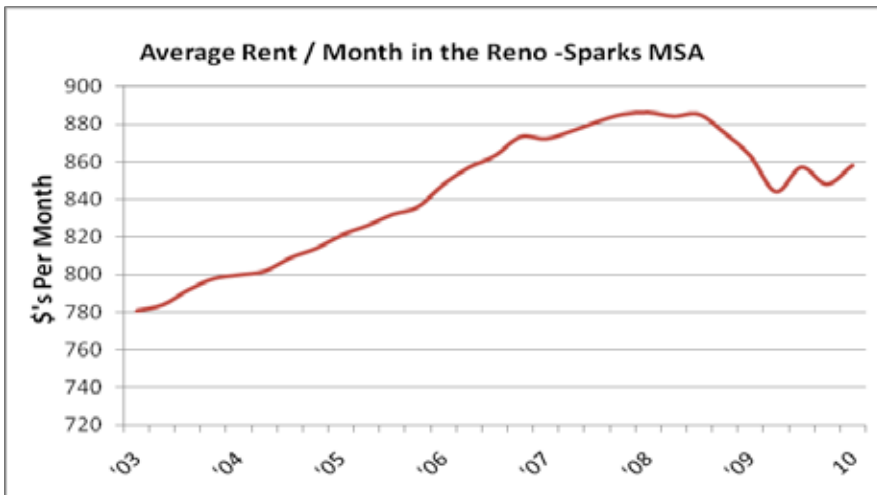
A New Local Trend – Divergence

As can be seen from the following chart, home foreclosures are creating a new trend in the Reno-Sparks multifamily market. For the first time there has been a significant divergence between the unemployment rate and the vacancy rate. Homeowners are moving into apartments when one of the breadwinners loses his/her job - current low rents are easier to handle on one paycheck than the 2006 era mortgage payments based on home values that have dropped 35-to-50%. While the overall vacancy in three-bedroom units remains constant at around 10%, property managers in suburban sub-markets say that they have a very low vacancy for three-bedroom units and “cannot raise rents fast enough.” This is attributable to families wanting to keep their children in the same neighborhood schools.

Conclusion

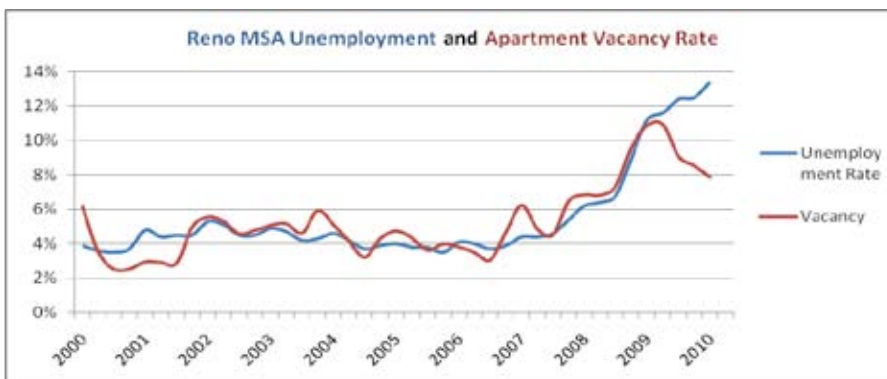
Hopefully the optimistic quotes at the beginning of this report will translate to an increase in investment transaction volume as the year progresses. Inquiries are clearly up – all that is needed now is for sellers to get real to make a deal.

AVERAGE APARTMENT RENTS



SOURCE: JOHNSON PERKINS & ASSOCIATES

UNEMPLOYMENT AND APARTMENT VACANCY



VACANCY SOURCE: JOHNSON PERKINS & ASSOCIATES
 UNEMPLOYMENT SOURCE: NEVADA DEPARTMENT OF EMPLOYMENT,
 TRAINING AND REHABILITATION (DETR)

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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