Market Research

LAND | TRENDS REPORT | 2008

MARKET INDICATORS

	4Q 2008	1Q 2009*
LAND SALES	↑	↓
LAND PRICES	↓	↔
DEVELOPMENT	↓	↔
LAND LISTINGS	↔	↑

*PROJECTED

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Current State of Land Development

Report by Scott T. Barnes, P.E.

Overview

As a result of the current economic climate, most, if not all, residential land development has come to a halt. Currently, the larger master planned communities in our region are all moving slowly. Many of the homebuilders are not building on speculation but rather when a home is sold. Many of the major developments in our area have been land banked or are on hold waiting for a change in economic factors.

Historic building department activity

Our region witnessed the peak of building permit activity about three or four years ago. In 2004, Washoe County issued more than 1,000 single family residential permits. In 2005, the City of Reno issued nearly 3,000 single family residential permits and the City of Sparks issued 1,500 single family residential permits. These numbers represent new construction and, as you can see, activity appears to have hit bottom.

Another perspective of the market can also be observed by tracking the total number of transactions. These transactions also peaked in 2004 for more than 12,000 single family residential units and townhomes. Land transaction sales peaked in 2005 with nearly 2,000 transactions.

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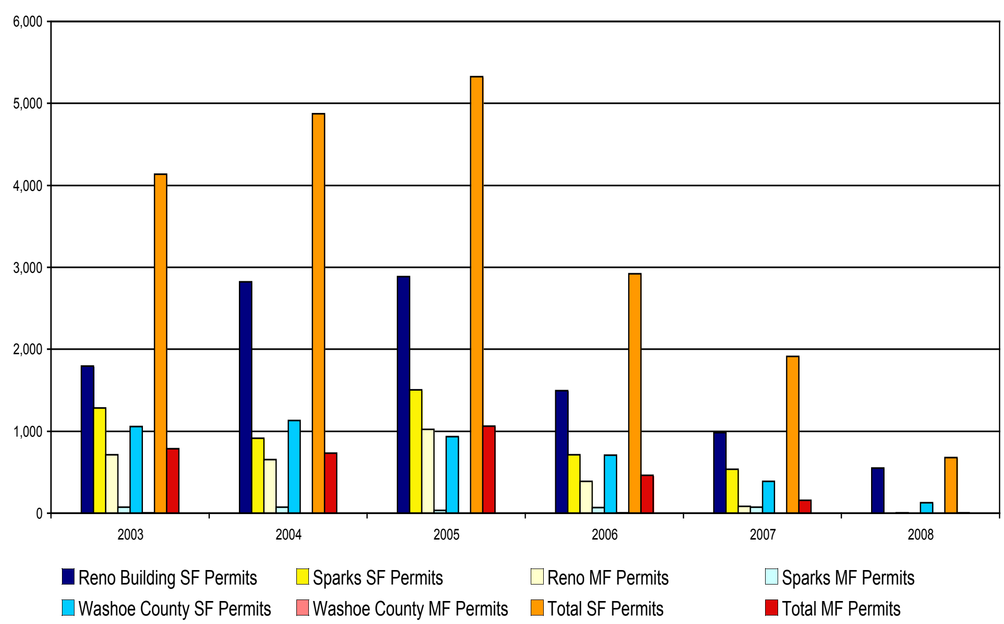
HOUSING CHART



Partially Developed home sites in Northern Nevada

Kiley Ranch in Sparks, NV

Centex Miraposa in Sparks, NV

Many banks and lending institutions have recently taken land back from the developers. These institutions may not be aware of the requirements regarding tentative and final maps. Per NRS 278.360, a final map must be recorded within two years of the tentative map approval, or the map expires. The owner may request a one year extension after the first final map is recorded. When a map expires, the entitlements are lost and the property reverts back to the prior use. The result would be a devalued piece of property.

If there is a "Development Agreement" attached to the project, the timelines and extensions may differ. Either way, it is imperative that the owner stay in contact with their planner or engineer to determine the best course of action. If no action is taken, the result may be the expiration of the tentative map with all entitlements lost resulting in a devalued piece of land with no entitlements.

Currently, Washoe County has submitted a Bill Draft Request (BDR 472) to the legislature that would extend the timeline between tentative to final map approval from two years to four years.

Partially Developed Lots in the region

Several subdivisions in our area have been fully or partially developed. There are a number of finished lots that could be built on immediately once a building permit is submitted, reviewed and approved.

In addition, many developments have been rough graded and could be ready this spring for residential construction. Currently, there are roughly 100 active subdivisions in the Reno/Sparks area, with more than 8,000 recorded lots. These lots may or may not be available for sale at this time, but it is safe to assume that there are some great deals out there just waiting for the right buyer.

As you can see from this image supplied by Brian Bonnenfant of the Center for Regional Studies on page three, the green parcels show subdivisions under construction, the light blue parcels represent proposed-approved subdivisions and the red parcels are developments that are pending approval such as tentative maps and additions to the Truckee Meadows service area.

Future Land Development

Referencing the "Northern Nevada Economic Overview" presented in the fall of 2008 by the Center for Regional Studies, the population of our region continues to increase at an average annual growth rate of 2.6%.

The Washoe County Consensus Forecast also predicts that by the year 2030, our population will increase by 200,000 people. This means that demand for housing will continue to increase. It may be safe to assume that we will need to supply the region with 50,000 more residential units during the next twenty-two years.

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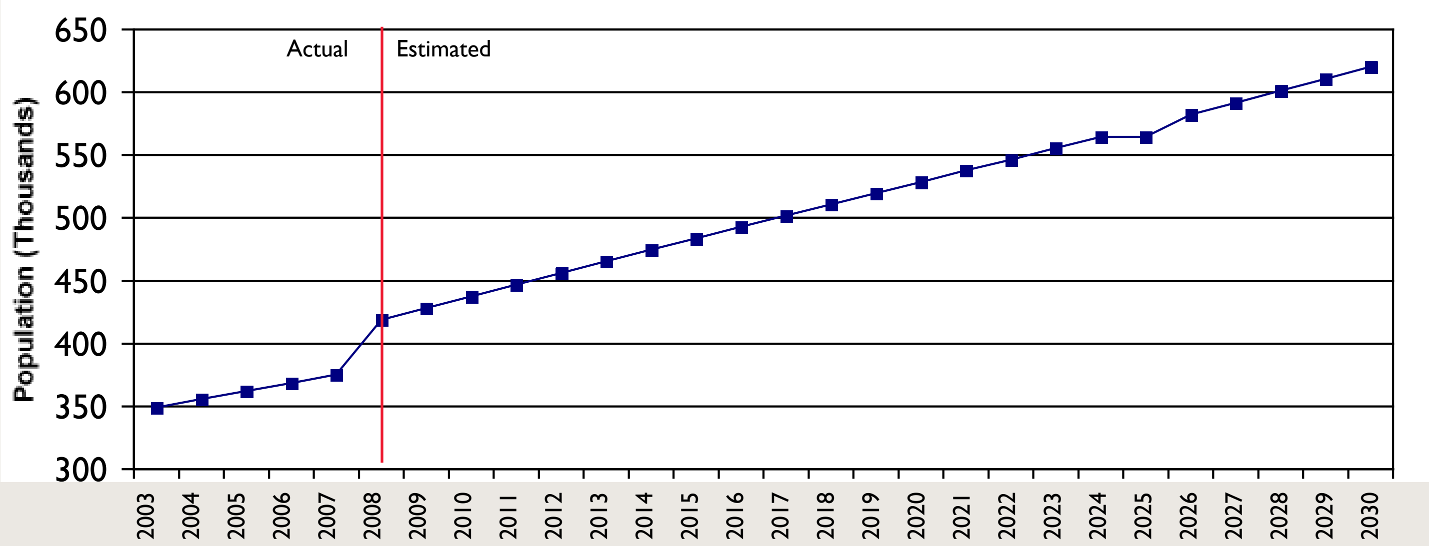
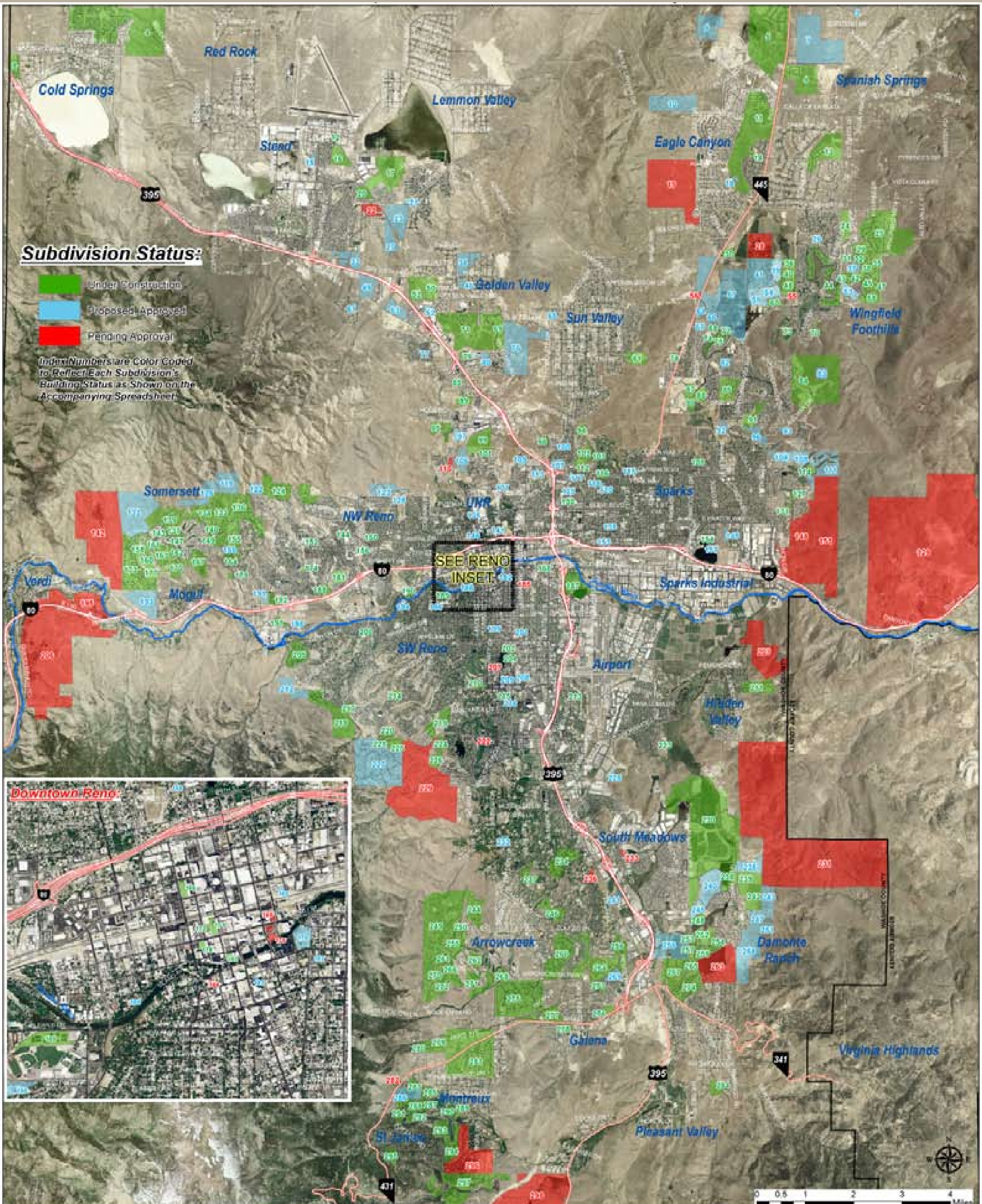
POPULATION GROWTH 2003 TO 2030 (SOURCE: WASHOE COUNTY CONSENSUS FORECAST 2008-2030)



LAND MAP (SOURCE: BRIAN BONNENFANT OF THE CENTER FOR REGIONAL STUDIES)



The timing could not be better to buy for the following reasons:

- *Lower Cost.*

Development opportunities do exist with owners that may have to sell land in order to provide their operation with cash, and to service debt. In some cases, the property has been turned over to the financing entity that would like to recover some, if not all, of their investment.

- *Ample time to perform due diligence.*

During the last five years, home building occured at a very fast pace. Due diligence may have taken a back seat to securing and purchasing land in order to stay ahead of the competition. Developers now have more time to evaluate the conditions of approval for these developments and prepare a better development strategy.

- *Timing for future demand.*

Currently, the supply months of resale inventory, as reported by the Northern Nevada Regional MLS, is showing a decrease of future inventory. When that number falls below twelve months, the result is a seller's market.

One of the most compelling arguments for buying land now is time. Working backwards from project completion to entitlement preparation, we need to think in terms of two to three- years.

- Preparing a package for submittal for entitlement
- Submitting for entitlements and approval
- Preparation of architectural plans and engineering
- Building permit and approval
- Civil construction
- Vertical construction

Each of these tasks could conceivably take six months to complete. Of course, timelines will vary depending on project complexity and cost. We have heard that the economy will turn around and growth will rebound by 2010, so this timeline brings us in line with construction completion around 2011.

- *Fewer projects in the City's review pipeline may result in quicker turnaround.*

For the first time in many years, the number of projects currently being reviewed and approved by the Community Development Departments is extremely low. Even though some agencies have been forced to reduce staff, it is safe to assume that projects may see a faster review timeline.

- *A better bidding climate for civil construction.*

With fewer projects, contractors have reduced their margins to become more competitive. For developers, the bidding climate could not be better. The General Engineering Contractors have been negotiating better deals in order to secure and maintain work.

Conclusion

The timing could not be better to purchase land. Prices are low and numerous properties are on the market. Sellers are highly motivated to sell land in order to generate cash flow for their operations. The housing and real estate market will recover soon, and it's in everyone's best interest to begin any entitlement process now, and to schedule construction accordingly in order to take advantage of the bidding climate. We are weathering the current economic storm, but spring and new growth will be here soon. With methodical actions, the wise will be better positioned when the upswing starts, unlike the procrastinators who may wait until the last minute to act.

293 OFFICES IN 61 COUNTRIES ON 6 CONTINENTS

USA 99
Canada & Latin America 37
Greater Asia 62
EMEA 95

$73 billion in annual transaction volume

868 million square feet under management

11,000 Professionals

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