

# NORTHERN NEVADA LAND RUSH

## Forecast 2008

### WRAP UP

#### 2007 YEAR IN REVIEW

What a change in the home building business the past 2 years! Only 2338 net new home sales were recorded in 2007 for Reno/Sparks. This represents a 13% drop from 2006 and a 47% drop from 2005 levels, making this the lowest number of sales recorded since 1997. New home permits mirrored this trend dropping to 1950 in 2007 from a high of 5300 in 2005. Spanish Springs again led the sub markets in sales with over 800, followed by South Suburban with 639 sales. The number of active communities dropped to 96 in 2007, primarily due to projects going "inactive" versus selling out.

Unsold inventory has been gradually declining since it peaked in the third quarter 2006. It increased slightly in the 4th quarter of 2007, not from new construction, but because of a further drop in sales volume.

The pricing of new homes as been one of the most dramatic indicators of a slowing market in Reno and Sparks this year. The average base new home price has dropped below the 2004 average and is close to matching 2003 numbers in many product categories. When comparing sales by price range, 69% of the market was under \$350,000 this year compared to 28% in 2005. Homes over \$500,000 went from 20% in 2005 to only 8% in 2007.

**"The residential land market essentially shut down this last year while house prices were falling"** Mark Krueger

Land prices tumbled 20% in 2007 and over 36% since early 2006. Average land prices have dropped below 2004 levels. With so few land sale comparables, these values are more determined by calculating a land residual from current house prices. Land as a percentage of the home price have climbed to the point where housing projects are not feasible, reaching 33-35%. Appropriate levels need to be in the 25-27% range.

What has happened to our land supply? Spanish Springs has double the number of lots in active projects (finished lots and final maps) to other submarkets. A 3.4 year supply exists in Reno/Sparks based on 2007 sales numbers. Spanish Springs also led in projects coming online (tentative maps) but South Reno and North Valleys are close behind! There is an 8.2 year supply of this product. North Valleys jumps ahead of Spanish Springs in potential future projects primarily due to the Lemmon Valley and Cold Springs expansions. Future projects represent a 15.8 year supply.

### FORECAST

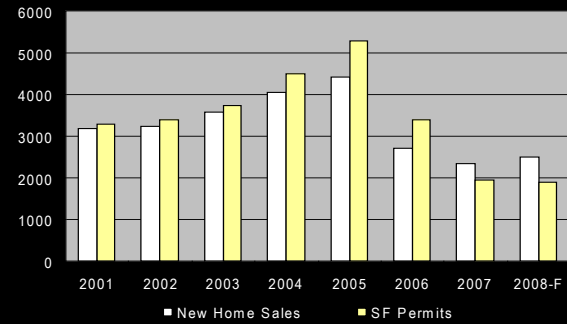
#### WHAT WE CAN EXPECT IN 2008

Land prices should drop another 10% this year but new home sales should improve slightly to about 2500 in 2008. Permits should again stay under 2000 in 2008, keeping new home inventory levels low. The number of active communities should continue to drop into the upper 80's by year end 2008 following the trend of builders putting "holds" on new communities.

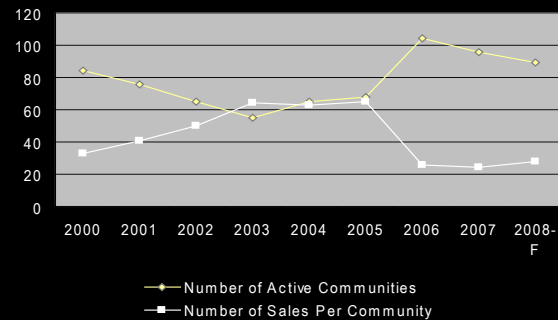
#### '07 TOP 5 BUILDERS

1. Lennar Homes
2. TIE: Centex & Reynen & Bardis
4. KB Home
5. DR Horton

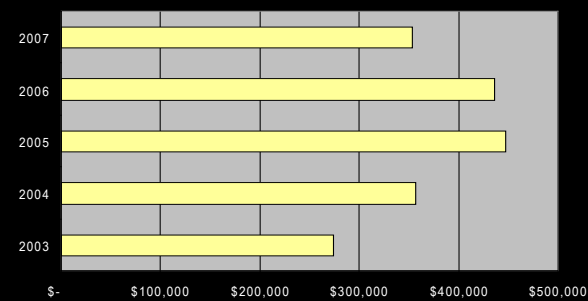
#### SUPPLY AND DEMAND



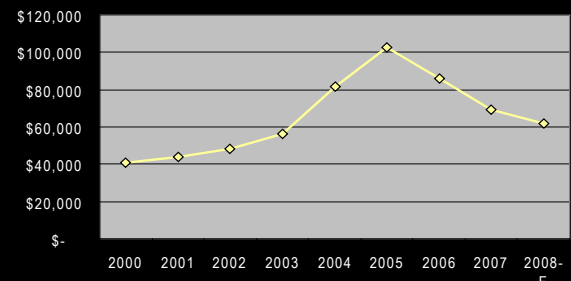
#### ACTIVE COMMUNITIES



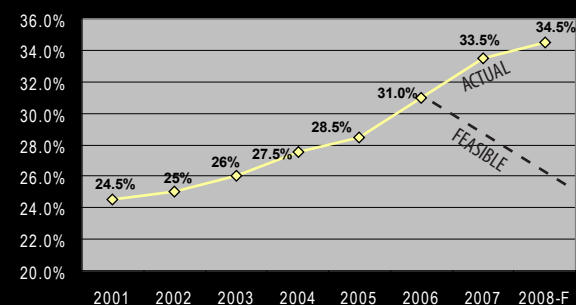
#### AVERAGE BASE HOUSE PRICE



#### LAND PRICES



#### LAND AS A PERCENTAGE OF HOUSE PRICE



## WHERE WAS THE ACTION IN HOME SALES

### SOUTH RENO

Centex' Cyan  
 KB's Monte Sereno  
 Lennar's Derby Run  
 Ryder's Mountain Gate  
 Reynen and Bardis' Damonte Foothills

### NORTH VALLEY'S

Lakemont's Estancia  
 Lennar's Northstar  
 Lifestyle's Woodland Village

### WEST/NORTHWEST RENO

Del Webb's Sierra Canyon  
 Lennar's Sienna Ridge

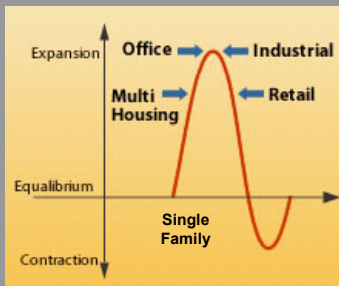
### SPARKS/SPANISH SPRINGS

Wingfield Foothills  
 Lennar's Pioneer Meadows  
 Reynen and Bardis' Riata  
 Centex' Miramonte  
 Ryder's Firenze

## CHANGE THE LAND USE!

### EXPLORE OTHER LAND USES THAT ARE MORE VIABLE IN THE SHORT TERM!

Rental apartments, senior housing, retail, office and industrial are land uses with immediate demand. The graph below shows where land uses may be in the current cycle - residential is near the bottom of the curve.



### RECENT TRANSACTION:

Lennar Reno recently sold 50 acres (300 tentative mapped residential units) in the North Valleys to Panattoni Development for development of a distribution center. Panattoni will be developing two 500,000± SF industrial buildings.

# TRENDS

## 2008 TRENDS

- New home inventories should reach normal levels by the second half of 2008.
- Many tentative maps will expire and final maps will be "moth-balled" as developers wait for market conditions to improve.
- Several hot projects are pushing house prices back to 2003 levels and may exceed the 2005 record sales pace.
- The number of active builders will decline in 2008.
- Land prices will continue to drop until house prices stabilize and builders re-enter the market (2009).
- Speculators will flow into the market looking for distressed property.
- Lenders will become part of the landscape of finished and recorded homesites.
- The new supply of rental apartments will become the incubators for the next wave of homebuyers.

"We will have a demand for 2500+ new homes this year...with many builders packing up, new construction slowing to crawl and less than 3 months of standing inventory....

**WHO WILL DELIVER THESE HOMES?"**

Mark Krueger

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