

CLIFFORD COMMERCIAL MARKET BRIEF

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LOCAL MARKET REPORT

By Kent Clifford, CCIM

According to UNLV Center for Business and Economic Research, in April 2006, 6,784 new residents moved to Las Vegas. This was a 2.8% increase over the same month last year. As of February 2006, Clark County Taxable Sales were \$2,725,193,844 or an 11.2% increase over February 2005. Clark County employment picture is very rosy with a 3.7% unemployment rate or total employment of 907,500. Office-use employment has shown an increase for eight consecutive quarters increasing over 4,000 new jobs during the period from December 2005 and April 2006.

The Las Vegas Housing Market Letter published by Home Builders Research, Inc. states "we are still seeing a lot of mixed signals from our housing market." There were 3,632 new home sales (recorded sales) in March bringing the first quarter total to 9,366 closings. This represents a year to year increase of 1,466 closings or 18.6%. This is the highest figure for closings since Home Builders Research, Inc. began tracking the housing industry in 1987.

The median price of new homes which closed in March was \$316,417. This is a year-to-year increase of \$34,832 or 12.4%. If the apartment conversions are removed, the median price of a single family, detached home was \$343,184.00. There were 690 apartment conversions that closed in March, with an average price of \$191,200.00. Resale homes accounted for 4,454 closings in March, with first quarter totals reaching 10,914, a year-to-year decrease of 1,784 or -14%. The median price of resale closings was \$285,000 which is a year-to-year increase of \$28,000 or 10.9%, and there are currently 17,000 active resale listings in the local MLS system. One of the alarms raised by Home Builders Research was the fact that some of the closings in the first quarter were a carry-over from 2005 because builders experienced difficulty getting final approval from local government entities. I suggest this is a normal occurrence because employees for the local governments take vacations during the Thanksgiving and Christmas holidays and everything slows down. According to Clark County Assessor's records there are 389,661 single family detached homes in the Las Vegas Metropolitan statistical area of which 17,000 or 4% are available for resale. ♦

FED TO CAUSE A RECESSION?

By Kent Clifford, CCIM

Those of us invested in real estate are sensitive to interest rates and there is reason to be alarmed. My personal belief is the Federal Board of Governors has displayed very little common sense since it was created on December 13, 1913. They have never been known to have the ability to know when they are causing more harm than good by raising rates. They contribute greatly to this dreaded inflation they are always whining about.

James F. Smith, Chief Economist of Parsel Financial Management in Ashville, N.C., seems to agree with me. The Fed has raised interest rates 16 consecutive times since June 2004, and Smith believes as I do that the frequency of the rate hikes has been excessive. He warns the clock is now ticking toward the next recession. An astute observer of the monetary policy, Smith's argument centers on the dreaded "inverted yield curve," the point at which all short-term treasuries yield more than longer term treasuries. History shows that when this scenario occurs, the economy begins to slow down. On May 10, 2006, the Fed increased the rate once more. As of this writing on May 22, 2006, the two-year treasuries were trading at 4.92 and ten-year treasuries were traded at 5.24.

In fact, when short term treasuries and long term treasuries are the same or what economists call a "flat yield curve," many economists get nervous. General consensus is the yield curve is likely to invert in the near term, which has historically suggested a recession is looming. All recessions since 1960 have been preceded by an inverted yield curve. However, careful examination of the data shows not all inverted yield curves are followed by a recession.

We have not reached the "inverted yield curve" yet, but, one more increase may cause that to happen. We are dangerously close as you can see. May common sense prevail, and may the economy continue to expand. ♦

Compliments of Kent Clifford, CCIM, and Jerry Shapiro

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CLIFFORD COMMERCIAL REAL ESTATE

CLIFFORD COMMERCIAL WELCOMES THE NEWEST MEMBERS TO OUR STAFF:



Dennis Perri

Dennis recently retired as Senior Planner from Clark County after 25 years of service. He brings extensive knowledge in the entitlement process, title, transportation planning, subdivision mapping & BLM acquisitions. As a life-long resident of Las Vegas, Dennis has been involved in all phases of commercial real estate sales, acquisitions and 1031 exchanges. He has both knowledge & experience from his private investments and professional career to provide the cornerstone to assist clients with their real estate investment & development opportunities.



Shawn Peterson

Shawn is a business entrepreneur who is computer savvy, with high energy and is specializing in site selection, with an understanding of access, visibility, demographics and creating an overall site evaluation report. He has an unquenchable thirst for knowledge and is pursuing the coveted CCIM designation.



Jon Gilleres

Jon joined Clifford Commercial Real Estate fulltime as of May of 2006 after a brief stay with a regional broker here in the valley. He brings 20 years of background experience in the area of building construction and maintenance management to the CCR team. His primary focus of discipline is in the area of industrial and office purchase and sales. If you are interested in purchasing or selling investment property you are well advised to contact Jon.



Vic Adkins, CCIM, ABR
"Vegas Vic"

Vic has been involved in the sale and acquisition of commercial land for self storage units & residential land for homes builders for nearly five years. He is also skilled in site selection, market analysis and completing site evaluation reports. Vic received his coveted CCIM designation after an arduous (200 classroom hours) education program and setting for a six hour exam. Certified Commercial Investment Members (CCIM) have been recognized as experts in all phases of the real estate investment process. CONGRATULATIONS, Vic!

Special points of interest:

- LOCAL MARKET
- FED TO CAUSE A RECESSION?
- NEW RULES ON INTANGIBLES
- RETAIL MARKET
- REITS WINS AGAIN

Inside this issue:

NEW RULES ON INTANGIBLES	2
RETAIL MARKET	3
REITS WINS AGAIN	3
ANNOUNCEMENT OF NEW STAFF MEMBERS	4

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TAX NOTES

New Rules on Intangibles

Accounting standards on disclosure can benefit real estate owners.

By Kenneth J. Rogers, CRE

Many state statutes recognize that a recent sale represents the best evidence of market value for real estate tax assessment purposes. Given the record number of real estate acquisitions over the past few years, assessors have accumulated evidence to support across-the-board increases in assessed values.

Recent financial reporting rules would suggest, however, that reliance on unadjusted sale prices often results in an inflated assessment. With the recent requirement by the Financial Accounting Standards Board (FASB) for disclosure of certain intangible assets, commonly referred to as "FAS 141," investors have the opportunity to use this information to support lower real estate tax assessments.

Unlike tangible assets, intangible assets such as contracts, license agreements, permits and operating rights are generally not taxed in most states. However, to the extent that these intangibles are reflected in the sale price of real estate transactions, assessors are inadvertently including them when reassessing property based on the reported sale price.

Opportunity for clarity

FASB is the designated private-sector body that establishes standards for financial accounting and reporting. The Securities and Exchange Commission (SEC) and the American Institute of Certified Public Accountants recognize FASB standards as authoritative.

In a series of standards (FAS 141-144) that went into effect in 2001, FASB now requires that certain intangibles—namely lease intangibles and customer relationships—be quantified and disclosed in connection with the financial reporting for real estate acquisitions.

The allocation methodology of FAS 141 for real estate acquisitions requires an analysis and allocation of a sale price into the following asset categories:

- The value of land, buildings and tenant improvements as if they were vacant;
- Above- and below-market leases, determined on a lease-by-lease basis;
- In-place leases;
- Customer relationships

FAS 141-144 grew out of FASB's finding that intangible assets are an increasingly larger component of business enterprises in terms of value and importance. With real estate acquisitions now subject to these standards, investors will find that their FAS 141 allocations identify and quantify intangibles that should not be included in assessed values.

Old habits die hard

Although FAS 141 was originally intended to eliminate the disparity in accounting methods for mergers, the SEC extended its application to real estate acquisitions. This was particularly significant because historically real estate investors had rarely gone beyond land and building allocations in their financial reports.

Most state realty transfer tax returns and real estate sales validation questionnaires allow for the deduction of personal property—both tangible and intangible—from a reported sale price. Historically, real estate investors have not taken advantage of this deduction because allocations have not been deemed to be of critical importance to determining a purchase price or closing the deal.

Tax authorities accept the practice of characterizing the entire sale price as real estate because it allows them to collect the incremental transfer and property taxes. Unfortunately, this also reinforces the false notion that intangibles are not included with the transfer of real property.

Real-world applications

Increasingly, sophisticated investors are rethinking their due diligence and closing process to address this situation. By performing FAS 141 allocations before closing, rather than after, investors can provide their transaction attorneys with the information they need to declare personal property deductions on transfer tax returns and related transfer documents.

For example: A partnership acquires a shopping center for \$5 million. It prepares a FAS 141 allocation as described above. It assigns \$4.5 million to the land, building and tenant improvements and \$500,000 to the intangible assets (in-place leases and customer relationships). By virtue of the FAS 141 allo-

cation, the partnership can reduce its real estate tax assessment and, therefore, its real estate taxes by 10%. Recent experience has shown that intangibles represent anywhere from 10% to 20% of sale prices.

This allocation disclosure becomes especially relevant in light of a growing body of case law that permits assessors to rely solely on a reported sale price without consideration of other factors. Therefore, when investors perform FAS 141 or other purchase price allocations after a deal has closed (and the deed filed), the case law permits assessors to disregard them since they were not incorporated into the official transfer documents.

By utilizing the intangible asset analysis required by FAS 141, investors take a proactive approach to minimizing the impact of assessors and school districts chasing the sale. ♦

RETAIL MARKET

By Kent Clifford, CCIM

According to RESTREPO Consulting Group, LLC, the retail vacancy rate in Las Vegas declined to 2.9% in the first quarter of 2006. They indicate we have 226 retail properties with a total of 35,372,329 square feet. One must keep in mind they are not tracking small strip centers. However, they do track **power centers** which is defined as being dominated by several

large anchor stores including discount department stores, warehouse clubs or "category killers." An example would be "The Best in The West" power center on North Rainbow Boulevard with PETS MART, Office Depot, Best Buy, etc. Power centers typically have 300,000 to 600,000 square feet of retail space.

Currently power centers have approximately 2.5% vacancy and, interestingly, there are no power centers downtown, in North Las Vegas or in the northeast or the southwest areas. Recently, Laurich Development announced they will be building the first power center in the rapidly expanding southwest area. **Community centers** typically have supermarkets, super-drug stores and discount department stores and include such tenants as home improvements/furnishings, toys, electronics or sporting goods. An example is the Loma Vista Shopping Center on Decatur and 95 with Mervyn's, ToysRus and Savon Drug. These centers have smaller national tenants in apparel or footwear. All areas in the valley have community centers. Neighborhood centers are usually located on an intersection of two major streets and are situated on 8-10 acres anchored by a grocery store and drug store. There are 115 neighborhood centers in the Las Vegas Valley. They also house the mom and pop tenants, such as pizza parlors, footwear, pet stores, beauty salons, barber shops, tobacco stores, etc.

By-product type neighborhood centers had the highest vacancy at 4.2% while power centers had the lowest vacancy of 2.5%. All product types experienced a drop in vacancy in the first quarter according to the RESTREPO Consulting Group, LLC, and rents declined from a previous \$1.61 per square foot monthly to \$1.54 a square foot monthly—go figure! ♦

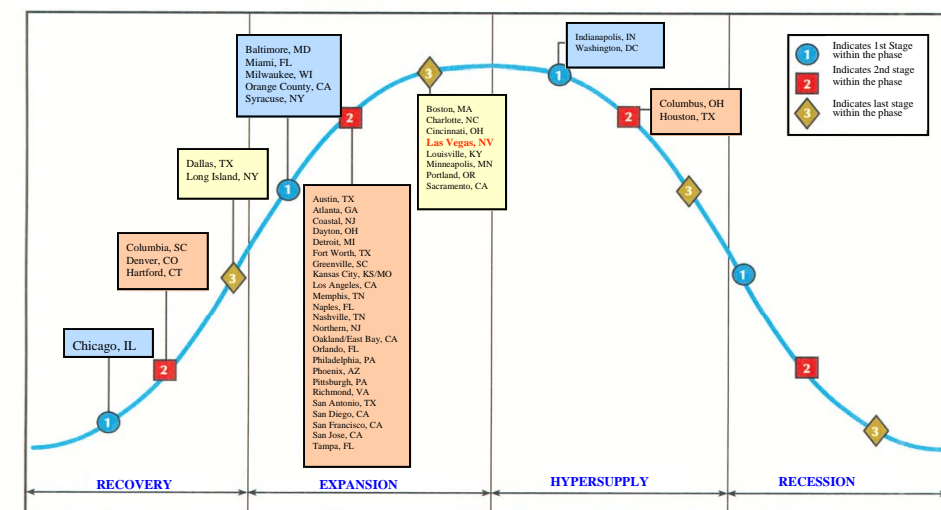
REITS win again

According to INTEGRA Realty Resources, Inc., or (IRR), the Real Estate Investment Trusts (REITS) have done it again. Last year (2005), REITS total return was 11.9% and the return of all REITS was 8.0%, which outpaced the S&P 500 as well as other exchanges. In fact, REITS have outperformed the S&P 500, Dow Jones Industrial Average and NASDAQ. Many short sellers bet that REITS could not continue their good fortune, but as Mark Twain said "The rumors of my demise have been greatly exaggerated!"

At Clifford Commercial we have formed five limited liability companies over the last four years and are returning 16% on all five. We are not only beating the S&P 500, etc., we are also outperforming the REITS as well. ♦

PROPERTY SECTOR CYCLES

RETAIL MARKET CYCLE



POWER CENTERS
EXPERIENCING
2.5% VACANCY RATE
COMMUNITY CENTERS
4.2% VACANCY RATE

CCR
Outperforms
REITS

*City data compiled using the following sources: IRR Surveys, REIS, and Legg Mason
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