

CLIFFORD COMMERCIAL MARKET BRIEF

Volume 4, Issue 2
April 2008

www.cliffordcommercial.com

Clifford Commercial Real Estate
6152 West Sahara Avenue
Las Vegas, Nevada 89146
(702) 889-9898

Recession! Recession! Recession! O'WOE IS ME!

Recessions come and recessions go! The economists changed the rules, now it is called a recession when two quarters in a row do not perform as well as they have in the past.

What started this credit crunch we now find ourselves in, was brought on by many people in our economy. *First*, there were over-zealous or uncaring real estate agents who sold homes to individuals who could not afford the payments but hoped they could. *Second*, there were the mortgage lenders who qualified these same clueless buyers for loans they could not qualify for in normal markets. *Third*, there were investors purchasing homes and getting loans for 105% of their value, hoping they could flip the home in a couple of months and make 15-20% on their non-existent investment.

Then, there were the investment bankers on Wall Street who displayed ever increasing greed and kept financing these sub-prime loans never considering how they were going to be repaid. One more level up were the financial engineers inventing complex and almost incomprehensible debt instruments which were sold to greed-hungry investors at the big banks and investment companies. None of these companies did their "due diligence" because they were blinded by the potential profits.

Did I mention the home building companies that made huge profits during these years as well. Greed ruled the days, months and years. Now "fear" has overcome greed

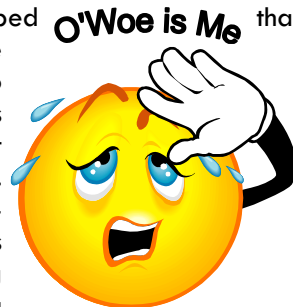
which it always does. When fear strikes the hearts of those who are filled with greed, bad things usually happen.

But, wait—this year is an election year; fear has struck our politicians and they have come to the rescue of all those who misbehaved and those that were incompetent. The president and congress are refunding taxes paid or not paid by the buyers if they made less than \$75,000 in the last tax year or less than \$150,000 if filing jointly.

The Federal Reserve is fully committed to the attack on the economy. It developed its own "Shock and Awe" campaign by infusing overwhelming amounts of money into the system to stop the credit crunch in its tracks. But fear still grips the hearts of weak hearted bankers who are not lending money to their potential clients who are clamoring to build.

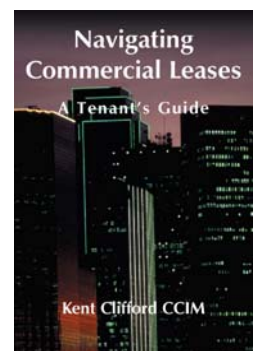
The lenders who are offering loans to their long-time clients are requiring that the developer pay for the land in its entirety prior to the funding of a construction loan. Further, the bank wants the developer to fund 10% to 20% of the construction loan and keep a reserve in cash of 20% of the company's net worth.

In January, there were no commercial mortgage backed securities (CMBS) sold. This is the first time that has ever occurred in the 20-year history of the market. It was not until February 13, 2008 that a \$1.2 billion security was sold on the bond market by



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Call us for a copy

Clifford Commercial Executives

Kent Clifford, CCIM,
President/Broker
kent.clifford@cliffordcommercial.com

Jerry Shapiro,
Executive VP
jerry.shapiro@cliffordcommercial.com

Sally Rycroft, Sr. VP
Land/Investments
sally.rycroft@cliffordcommercial.com

Don Chism, Sr. VP
Land/Investments
don.chism@cliffordcommercial.com

Chuck Haldeman, Sr. VP
Office/Industrial
chuck.haldeman@cliffordcommercial.com

Pete Peterson, VP,
Office/Industrial
pete.peterson@cliffordcommercial.com

Kimmen Olsen,
Broker/Salesman
kimmen.olsen@cliffordcommercial.com

Royden Britsch, Salesman
royden.britsch@cliffordcommercial.com

Dennis Perri, Salesman
dennis.perri@cliffordcommercial.com

Vic Adkins, CCIM, ABR
Salesman
vic.adkins@cliffordcommercial.com

James "Fred" Denton,
Salesman
fred.denton@cliffordcommercial.com

Pete Janemark
Salesman
pete.janemark@cliffordcommercial.com

Tom Tedder
Broker/Salesman
tom.tedder@cliffordcommercial.com

Morgan Stanley and Bear Sterns. This security was comprised of 82 loans weighted in retail. In order to get investors to purchase the security, the bankers had to offer them **235** basis points over 10-year swaps, a benchmark interest rate. To put that into perspective, on the same deal last year CMBS averaged **25** basis points over 10-year swaps.

Most observers expect this year's total of commercial backed mortgage securities to be approximately \$113 billion or half of last year's total.

On a national level, all business conditions are stable. Outside the finance (mortgage) sector, companies have expanded with caution, leaving them in a good position to weather the credit crunch. Since the last recession in 2001, inflation-adjusted investment in new buildings and equipment has grown at a 3.8% annual rate and monthly gains in

private-sector payrolls have averaged more than 70,000 workers.

Labor Department figures show job growth is slipping more because companies have stopped hiring new employees than laying off existing employees. Also, the larger role of foreign trade will help keep the economy rolling. The weak dollar will increase exports and limit imports, supporting capital spending and overall growth. Growth will slow but will remain strong.

What does all this mean to you and me trying to do business in Las Vegas? My gut tells me bankers will gather courage over the next 9-18 months and deals will get done, just not like they have been in the past few years. If you have any questions or would like to discuss this further, call me at **702-889-9898**.—**Kent Clifford, CCIM**

LOCATION, LOCATION, GEOGRAPHY

Although Geographic Information Systems (GIS) have become popular in the last few decades with practical applications like Mapquest and GoogleMaps, the real power behind GIS lies in the ability to *analyze* geographic information. One of the best applications of this technology is the **Constraints Analysis**. This is a simple process of "cookie-cutting" areas that do not meet specific criteria.

In order to demonstrate how effective this technique is, we will apply the constraints analysis to parcels in the Las Vegas valley to see how many meet some hypothetical criteria:

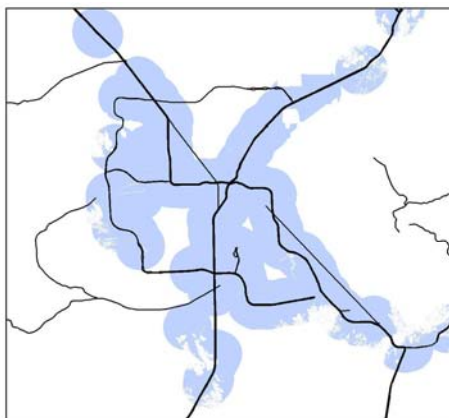
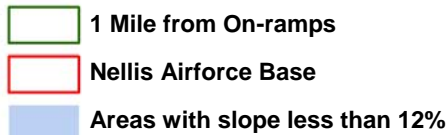
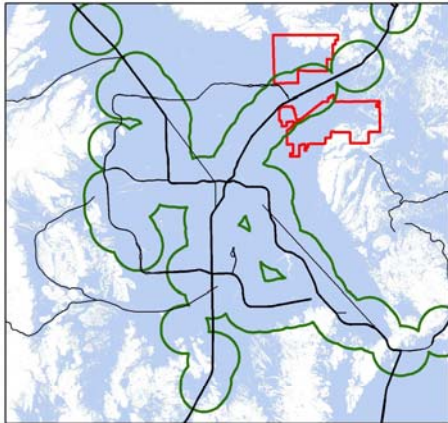
- The slope on the parcel we are looking for will have to be less than 12%.
- It should be no more than one mile away from a freeway on-ramp.

First, since the parcel needs to be on slope less than 12%, we will utilize Digital Elevation data to calculate slope, and thereby cookie-cut out areas that are of greater than 12% slope.



Areas with slope less than 12%

Second, to eliminate areas more than one mile away from freeway on-ramps, we create a 1-mile buffer around each on-ramp. Third, at the same time, we can also reduce the area available by cutting out Nellis Airforce Base.



Resultant Area of Interest

The original area of interest was 1935 square miles. By applying just these three constraints we have reduced the area that could possibly meet our criteria by 79% to 399 square miles

In the next issue we will further reduce the area of interest by applying more specific constraints, and we will look at how to use parcel information to further refine our selection.—**Pete Janemark**

WAS LAS VEGAS COMMERCIAL LAND EVER AT FIVE DOLLARS A SQUARE FOOT?

By *Chuck Haldeman, Sr. VP, Office/Industrial* & *Pete Peterson, VP, Office/Industrial*

Yes, in 1990, there were parcels of commercial land at five dollars a square foot. Yes, this land was outside the then current development areas. However, many investors were concerned that the price was too high for land that was a few years away from getting infrastructure and being developed.

The enlightened investors bought the land and made an excellent investment when compared to other alternative investments. These investors knew that Las Vegas was experiencing a growth cycle and it was inevitable that prices in the right location and with hard zoning would have to increase.

Now, the question is: "Where is the next location with hard zoning that has land prices at five dollars a square foot?" It is 60 miles to the west of Vegas. Yes, it is Pahrump which is also now in the growth cycle. Why, because it is now becoming a bedroom community for Las Vegas. It is an hour away and that seems like a very long drive unless you consider the drive time from Boulder City to Nevada Power on West Sahara.

Pahrump land zoning was finalized in June 2007, and now the town board is able to grant building permits for an approved use without much delay. In the next few years all types of commercial development will be required.

The Pahrump Super Wal-Mart is very busy and ranked high in sales

compared to other Wal-Mart's in the West. Home Depot construction is almost finished and the store will open soon. The new Federal Detention facility is approved and will start construction soon, with a 12 to 15 month construction period, according to the local paper. The casinos are very busy and do not have enough rooms for the visitors on many weekends. There are numerous housing developments in the initial stages which are now in the holding pattern due to the housing crises.

PAHRUMP THE RIGHT PLACE AND THE RIGHT TIME TO INVEST!

Next, the question is: When is it time to buy vacant commercial land in Pahrump? **Now!** Commercial land prices in Pahrump are dirt cheap (excuse the pun). Comparable commercial land on a double section line in Las Vegas is as high as one million dollars an acre, versus five acres for

well under one million dollars in Pahrump.

Another pertinent question may be: Which of the above purchases will achieve the best investment? The answer is Pahrump if you believe the city is in a growth pattern.

We at Clifford Commercial have a number of hard-zoned General Commercial and Neighborhood Commercial land parcels for sale at very competitive prices. If you are interested in land for a food super-market center or a gas and convenience store, please call us to receive information about these parcels. Call Chuck or Pete at **702-889-9898**.

WHAT IS YOUR INCOME INVESTMENT WORTH?

There are three methods of determining investment value that are widely used in our market: *comparable market analysis*; *replacement value*; and *capitalization rate*. If you are seeking a loan to purchase an investment property, a financial institution will use one or more of these methods to make their determination as to value for a proposed loan.

Comparable market analysis is simply described as comparing your property to like properties that have been sold recently in the area to determine the investment worth.

Replacement value of an investment property, simply put, is the cost of the land and building if you were going to rebuild at current prices.

The last method is called *capitalization rate*. If you have read past issues, you will have seen that I have discussed the capitalization rate, or "CAP" rate. A CAP rate is divided by its net operating income (NOI) to determine investment value or price. A simple example for this operation is to take a property that has a NOI of \$10,000 and divide it by, for example, 7%. This operation will give us a selling price, or value of approximately \$142,857.14. Generally speaking, the CAP rates in our market today are

in the area of 7% with the exception of multifamily properties such as apartment complexes which are reflecting lower CAP rates.

The next question you should ask is, "How do I determine the NOI of my investment so I can apply a CAP rate and obtain a "meat and potatoes" price?"

A NOI, generically speaking, is determined from yearly potential rental income and the vacancy factor. Subtracting the vacancy factor from your potential rental income will give you a gross operating income (GOI). Using this GOI, you then subtract all of your operating expenses, and this will give you your NOI.

You may then ask, "What about taxes and my mortgage payment?" These factors are not considered in the NOI because a potential buyer for your property will more than likely have a different tax bracket and loan structure.

These are three methods of determining investment value regardless of the type of your income investment property. For assistance in determining your income investment properties' value, contact me at 702-889-9898 for assistance with these calculations. — **Vic Adkins, CCIM**

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*We Love Our
Country*