

February, 2010

As we end our second month of 2010, the question of home and commercial values continues unabated, but one question that rarely comes up is the value of land. The truth is that the land underneath all of the homes for sale or yet to be sold dropped in value by 40%-60%.

Ignoring land as a measure of real value is, I think, a serious mistake, as land is the base cost to establish the final value of whatever is to be developed. Land is the first thing bought in the string of events that will lead to a finished home, subdivision, hotel, office building or a shopping center. If the cost of the land is too high then the final product cannot be developed or the final price will be too high to be viable.

So what is land doing? I am going to only focus on residential lots to tie in with residential home sales but for a complete run down on subdivision land sales I recommend that you email Mr. Rowley at frowley@colliersreno.com for more complete information on what is going on in the commercial field. I will give you a quick hint though- finished subdivision lots, ready to go, have transacted in the last 12 months on reportedly a range of values from .10 cents on the dollar to .25 cents on the dollar.

Reno/Sparks for sale today are 639 lots with an average price \$308,171.

Total lots in escrow: 23 lots with an average price of \$104,430
Days on market: 214
Average price per acre: \$91,878

Total lots sold 2007: 175 lots with an average price of \$280,046
Days on market: 203
Average price per acre: \$250,818

Total lots sold 2008: 79 lots with an average price of \$239,789
Days on market: 223
Average price per acre: \$110,325

Total lots sold 2009: 89 lots with an average price of \$118,886
Days on market: 250
Average price per acre: \$131,903*

Total lots in sold '10: 5 lots with an average price of \$112,173
Days on market: 182
Average price per acre: \$95,767



Average price per acre dropped from 2007 at \$250,818 per acre to the start of 2010 at \$95,767 per acre (lots in escrow average \$91,878) for an adjustment of -62% in 3 years.

*discounted lots in ArrowCreek and Montreux which are currently our most expensive lots drove up the average sales price but at the same time for them to sell, the lots took severe discounts. Based on current price reductions we can only assume that 2010 will trend below 2009 sold prices.

So what does this mean to home prices and the ability to build a home in 2011 or 2012?

As of February 2010 the current average home sold in the South West markets year-to-date is \$397,450; using a four times rule, to build on a lot means that an average lot value of \$112,173 should support the cost to build a home of \$450,000. When an owner builds a home it should not be priced equal to existing homes and a fair rule of thumb is 20% premium to build above existing homes.

Assuming two homes are built, one built for \$180 per square foot (that includes profit and development costs) and the other for \$220 per square foot and both homes are 3,000 square feet, the \$180 per square foot home will be \$540,000 + \$112,173 for the lot for a total of \$652,173 and \$217 per square foot. The \$220 home will be \$660,000 + \$112,173 for the lot for a total of \$772,173 and \$257 per square foot. That means to build today on lots based on current sold prices would require a premium to build over the current market resale of homes of over 20%+. These numbers suggest that lots that can be purchased on the average of \$100,000 and can now be developed with some safety in value protection. That does ignore the forecast drop in home values over the next two years so it is reasonable to assume that until lots drop below \$90,000, on the average, that lots will remain too expensive to develop for the foreseeable future.

Unfortunately with the average lot being priced at \$381,900 today, or about 3.4 times more than the current average sold lot, on a four time rule the buyer needs to be able to build a home for about \$1,527,600 + \$381,900 for a total investment of \$1,909,500 for the home. That means for the cost of the land the homes tend to be larger and for this example I will use 4,500 square feet. The owner will have over-built for the market by at least 38% or more or over \$600,000. Now I also realize that \$220 per square foot for upper end homes is not very high, the numbers just get more difficult as the costs go up.

For lower priced land the numbers are just as difficult, builders cannot afford to build today and land must drop in price to keep alignment with the resale market and vice versa. Keep in mind as previously mentioned, subdivision land has been doing just that and in four years (maybe a bit sooner) large builders will be able to start building again, but that is another conversation.

The majority of land is priced for 2007 in a market that is now 2000-2001 values (remember the mind bending prices all came after 2003) and land/lots must become priced competitively for current and future building costs and resale housing costs.

Therefore, in the simplest of language, lots need to come down in value substantially to get in line with current housing or land sales need to stay stagnant until home values can justify the cost to build on a lot.

Kind regards,

A handwritten signature in black ink that reads "David Morris". The signature is written in a cursive style with a large, sweeping initial "D" and "M".

David Morris