

Las Vegas Housing Market Outlook

January 2010

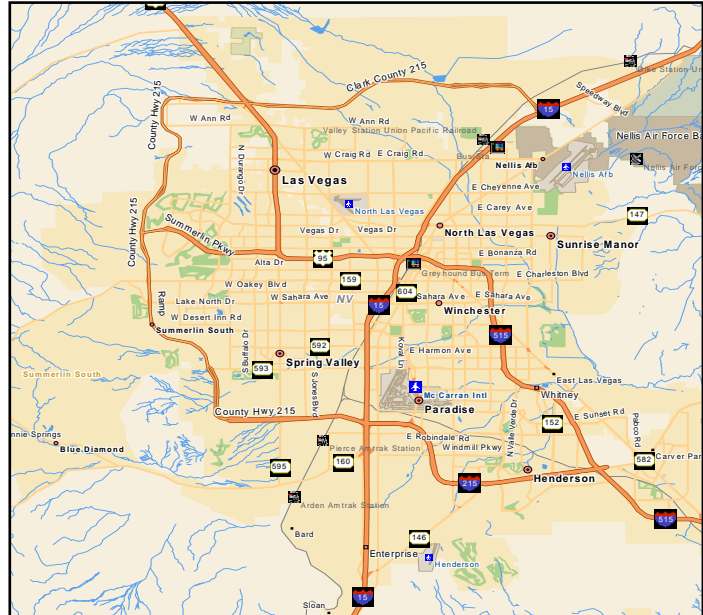
THE
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The following outlines The Concord Group's ("TCG") outlook on the Las Vegas single-family detached housing market¹. TCG's conclusions draw from both demographic and employment driven demand assessments, as well as various tools for evaluating supply levels and absorption velocity. The timing of the housing market recovery drives immediate acquisition, planning and disposition decisions. Our conclusions are derived within the context of our ongoing analyses in the region for developers, builders, capital sources and public agencies.

Executive Summary

The following summarizes TCG's key conclusions regarding the outlook for the Las Vegas housing market:

- Current employment of 850,000, peak-to-current loss of 9.0% (90,000 jobs), return to growth in 2011
- New single-family home sales volume down 45% year-over-year, 75% down from normalized 1996-2001 conditions
- Resale market challenges similar to new market: high competition from REOs (70% of total existing sales in 2009)
- New home prices down 18% year-over-year, with 3% of this decline in the most recent quarter (3Q09)
- Finished lot-to-home price ratios up to 30% in prime locations, 10% to 20% lot-to-home ratios in fringe areas
- TCG projects Las Vegas housing market recovery, defined as three to four home sales per month (per point of sale) and low single-digit home price appreciation, in **1Q12** with demand for new finished lots 12 months prior (1Q11); immediate re-entitlement and repositioning opportunities available in larger master planned communities.



How We Got Here

Las Vegas housing over-inflated more than most markets in the United States. Volumes were not supported by fundamental demographic growth and second-home demand assumptions. Affordability was detached from traditional metrics as buyers were attracted by seemingly limitless appreciation and exotic lending instruments. Investors, who were always a component of the market, were increasingly drawn to Las Vegas in larger numbers given its relatively low cost of entry and attractive demographic and economic story. Builders responded to the increased demand by delivering large numbers of units, in both traditional suburban and transitioning urban districts. New home prices appreciated a cumulative 87% between 2001 and 2005, pleasing builders, banks and customers. Soon thereafter, a sharp housing correction began followed by an employment and spending/tourism contraction, leading the market to its current state.

Economic/Demographic Growth

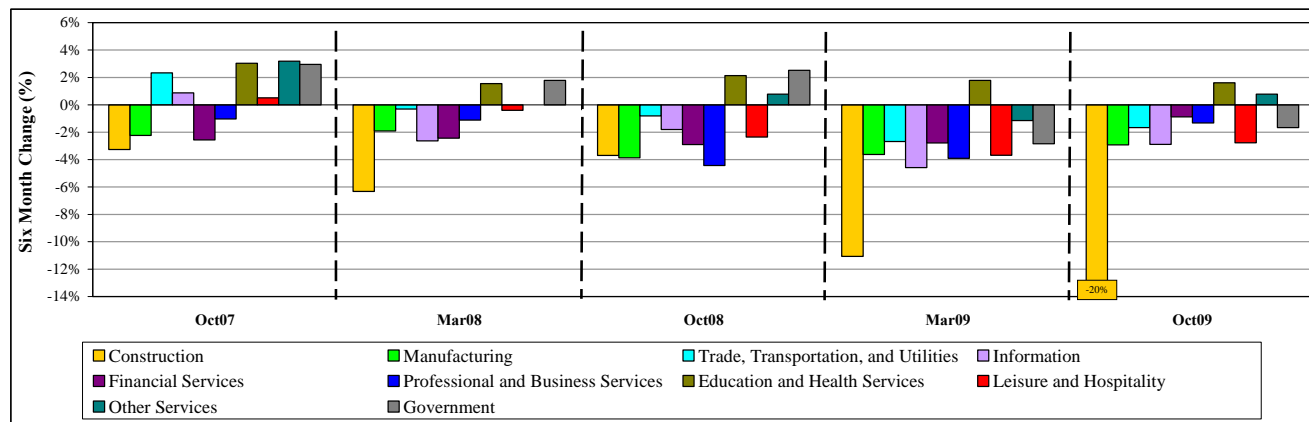
Las Vegas is home to approximately 1.9 million people in 700,000 households. This base is projected to grow by over 18,000 households annually, or 2.5%, over the next five years. Between 1971 and 2008, Las Vegas population growth averaged 5.0% annually and fell below 3.5% only twice (2.7% in 1985 and -0.5% in 2008). Comparatively, U.S. population growth averaged 1.8% during the same period. Similar to population growth, the market endured employment

¹ TCG analysis excludes high-rises along Las Vegas Boulevard and other attached product.

contraction only twice since 1970, with -0.8% in 1982 and -1.0% in 2008 (and a third year of contraction in 2009 once the year is complete). Strong economic expansion in gaming/hospitality, construction and services fueled this incredible demographic growth. Since the peak of the market, as the downturn approaches year-end, employment has declined 9.0% (90,000 jobs), or 7.5% during 2009 (65,000 jobs).

The construction sector accounts for over 50% of all Las Vegas job losses. Leisure and Hospitality, by far the largest employment segment, represents 30% of job losses. Over the past six months, Education and Health Services is the only industry to expand, adding nearly 1,100 jobs. Figure A below takes a detailed look at employment change by industry.

Figure A: Employment Growth by Industry, October-07 to October-09



Source: U.S. Bureau of Labor Statistics

National and local economic woes have hampered the Las Vegas’ hospitality/gaming industry. Convention attendance is down 25% from the previous year and overall visitor volume is down approximately 4%. Several airlines with major Las Vegas service cut routes to McCarran International, leading to a 9% drop in passengers. With the first two quarters of 2009 showing a general decline in tourism, the third quarter provided nominal relief as visitor volume increased 3.7% for two consecutive months. Las Vegas last benefited from consecutive year-over-year monthly tourism gains in November and December of 2007.

Home Sales

New home sales reached 45,000 at the peak of the housing bubble in 2005. Between 1999 and 2001, sales volume maintained a steady average of 24,000, illustrating the swift run-up to the market’s apex. Current sales are still at historically low levels given macro-economic disruptions, difficult lending environment and employment and population declines.

Approximately 4,500 new home units sold over the last 12 months (“LTM”), a decrease of 45% from the previous 12 months and 75% from normalized 1996-2001 conditions (excluding the Central submarkets). The majority of sales were of a single-family detached orientation (4,200). Throughout most of 2009, high-density attached product sales remained negative, as cancellations in mothballed projects dominated the market. However, following price discounts at select projects and moderate mortgage relief in 2Q and 3Q 2009, condominiums managed to generate positive sales over the last three months.

While new home sales volume continues to trend downward, resale volume is picking up steam. LTM resale transactions of 47,000, while down 30% from peak, are up 67% from the previous 12 months. Higher levels of activity are anticipated to continue in the near-term given the preponderance of distressed sales and continued government incentives to purchase a home. Foreclosure sales continue to remain the predominant factor for increased volume, accounting for 70% of total resale volume in 2009, versus only 12% in 2007.

Supply

TCG estimates 25,000 units of competitive single-family detached new home supply are currently available in the Las Vegas market. Competitive supply is defined as standing inventory, lots in actively marketed new home communities and competitive foreclosures (defined as anticipated foreclosures of homes built since 2003). Available and projected foreclosure inventory built since 2003 totals 8,800 units, or 35% of overall single-family detached supply. Attached housing units – townhomes and condominiums – are excluded from the analysis. TCGs outlook on market recovery focuses on the single-family housing market.

Prices

TCG analysis indicates the average new home price depreciated year-over-year at a rate of 18%, down to \$250,000, with 3% of this decline in 3Q09. The price decline is captured as a “same product” metric, which adjusts for differences in product (home and lot sizes) and location. The 18% annual decline is significantly higher in comparison with other major housing markets across the U.S. through late-2009, with only the Coachella Valley (Palm Springs submarket in the Inland Empire region of Southern California) representing a notably steeper discount of 22%.

Land Market

Builder demand for finished lots picked up during the past quarter. Public and private builders with capital are targeting properties with offerings in the range of 25 to 100 finished lots, planning for home closings in 2011. With builders underwriting to smaller net margins and projecting flat to minimal price appreciation, buyers are targeting finished lot-to-home price ratios as high as 30% in the most attractive locations and 10% to 15% in suburban fringe areas. Given the abundance of currently available inventory – units in actively selling and stalled communities, competitive foreclosures built since 2003 and finished lots – the current market for paper lots is minimal.

Market Recovery

TCG defines market recovery as three to four new home sales per month per subdivision (point of sale), with low single-digit home price appreciation. TCG projects a Las Vegas housing market recovery by 1Q12. New housing demand functions as the lever to the recovery. Strong long-term demographic demand fundamentals for new for-sale housing remain strong, which positions the region for recovery. However, current economic struggles, poor consumer sentiment and high foreclosure rates will prevent demand from reaching intrinsic growth levels until late 2011. In the interim, some velocity increase is expected in late 2010 assuming employment projection accuracy and credit market relief.

Demand for finished lots is projected to precede housing recovery by approximately 12 months (1Q11). As such, re-entitlement and repositioning strategies need to commence an additional 12 months prior to lot recovery (1Q10) in order to prepare for lot deliveries in early 2011. When assessing paper lot acquisitions and/or asset management strategies, rezoning or re-entitlement options should be carefully considered. Based on TCG’S experience, reducing density, infrastructure costs (on and off-site) and/or home sizes (and therefore nominal cost and sales price) are key strategies to target buyer preferences and to maximize absorption potential in today’s market.

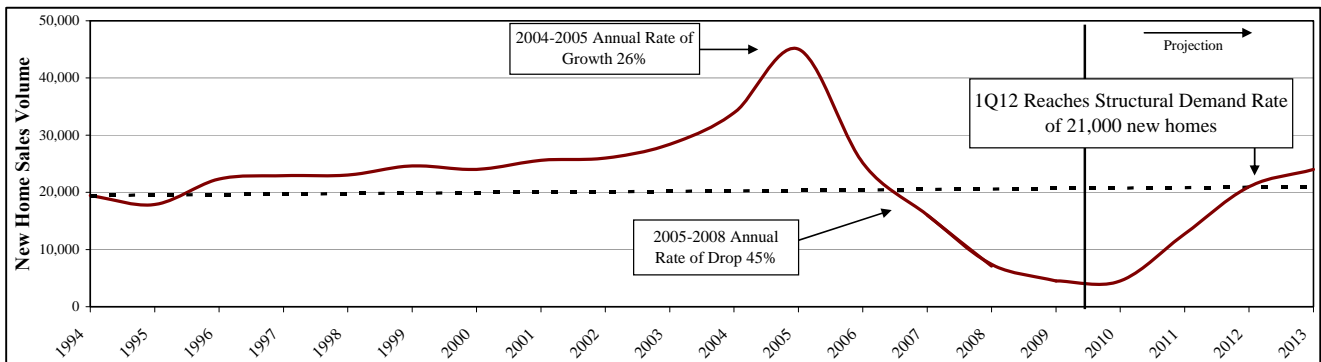
Figure B: Las Vegas Recovery Projections

| Factor | Market Total ⁽¹⁾ |
|--|-----------------------------|
| Demand | |
| LTM Sales (SFD Only) | 4,210 |
| TCG Annual Demand ⁽²⁾ | 21,000 |
| Supply | |
| Units Remaining | |
| SFD | 16,215 |
| Attached | - |
| Competitive Foreclosures | 8,845 |
| Inventory | 25,060 ⁽³⁾ |
| Market Outlook Blended ⁽⁴⁾ | |
| Months Supply | 30 |
| Market Normalization | 1Q 12 |
| Lot Sales Start | 1Q 11 |

- (1) Excludes attached housing product
- (2) Income Qualified annual demand potential for homes priced over \$190K; Demand excludes 10% for high-density buyers; Full Income Qualified Demand = 23,500 units annually
- (3) Includes standing inventory and homesites in actively-marketed and recently- mothballed product. Also includes foreclosures built 2003-08 and projected future foreclosures assuming conservative foreclosure rates.
- (4) Blended sales rate assumes LTM sales rate for next 12 months, mid-point recovery rate for 12 months, then projected full annual demand thereafter

Sources: TCG, Hanley Wood, Dataquick

Figure C: Las Vegas MSA Historical and Projected New Home Sales, 1994 to 2013



Note: Year indicates annual rate of new home absorption as of December 31st.
Sources: TCG, Dataquick, Hanley Wood

Relative to other major growth markets in the U.S., Las Vegas ranks more favorably than Phoenix, AZ and Tampa, FL, but below Sacramento, CA, Denver, CO and Seattle, WA.

Figure D: National Recovery Projections

| Market (1) | Sales | | | Total Inventory (2) | | | Recovery Forecast | | | | New Lot Demand Date |
|-----------------------------|----------------------|----------------|-------------|---------------------|--------------------|---------------------------------|-------------------|----------------------|------------------|--------------------------|---------------------|
| | 2005 | LTM | %Δ vs. 2005 | Unsold | Rem. Comp. Forecl. | Total Competitive Inventory (2) | LTM Run Rate | | Blended Rate (3) | | |
| | | | | | | | Months Supply | Market Recovery Date | Months Supply | Market Recovery Date (4) | |
| United States | 1,440,000 (1) | 417,360 | -71% | 986,310 | 754,924 | 1,741,234 | 50 | 4Q 13 | 30 | 1Q 12 | 1Q 11 |
| Orange County | 5,847 | 1,437 | -75% | 3,626 | 513 | 4,139 | 35 | 3Q 12 | 21 | 3Q 11 | 3Q 10 |
| San Jose | 3,492 | 1,695 | -51% | 3,412 | 672 | 4,084 | 29 | 1Q 12 | 23 | 3Q 11 | 3Q 10 |
| Santa Clarita | 1,407 | 250 | -82% | 1,220 | 281 | 1,501 | 72 | 4Q 15 | 26 | 4Q 11 | 4Q 10 |
| San Diego | 13,282 | 2,016 | -85% | 6,672 | 4,065 | 10,737 | 64 | 1Q 15 | 28 | 1Q 12 | 1Q 11 |
| Sacramento | 15,009 | 3,135 | -79% | 10,532 | 3,913 | 14,445 | 55 | 2Q 14 | 28 | 1Q 12 | 1Q 11 |
| Dallas | 43,144 | 15,028 | -65% | 44,717 | 6,107 | 50,824 | 41 | 1Q 13 | 28 | 1Q 12 | 1Q 11 |
| Denver | 18,913 | 4,491 | -76% | 23,943 | -3,447 | 20,496 | 55 | 2Q 14 | 29 | 1Q 12 | 1Q 11 |
| Seattle | 15,812 | 7,687 | -51% | 22,202 | 2,827 | 25,029 | 39 | 1Q 13 | 30 | 1Q 12 | 1Q 11 |
| Las Vegas (Detached) | 45,413 | 4,233 | -91% | 16,215 | 8,845 | 25,060 | 71 | 3Q 15 | 30 | 1Q 12 | 1Q 11 |
| Orlando | 49,835 | 10,406 | -79% | 41,500 | 10,702 | 52,202 | 60 | 4Q 14 | 31 | 2Q 12 | 2Q 11 |
| Inland Empire | 34,119 | 5,600 | -84% | 29,119 | 4,604 | 33,723 | 72 | 4Q 15 | 31 | 3Q 12 | 3Q 11 |
| Tampa/Sarasota | 46,355 | 7,558 | -84% | 36,691 | 6,763 | 43,454 | 69 | 2Q 15 | 34 | 3Q 12 | 3Q 11 |
| Charlotte | 19,673 | 6,409 | -67% | 32,400 | 776 | 33,176 | 62 | 4Q 14 | 35 | 3Q 12 | 3Q 11 |
| Baltimore/Washington DC | 31,992 | 12,804 | -60% | 47,616 | 10,365 | 57,981 | 54 | 2Q 14 | 35 | 3Q 12 | 3Q 11 |
| Phoenix | 54,464 | 9,766 | -82% | 68,958 | 19,831 | 88,789 | 109 | 4Q 18 | 44 | 2Q 13 | 2Q 12 |
| Coachella Valley | 3,632 | 729 | -80% | 8,940 | 1,451 | 10,391 | 171 | 4Q 23 | 70 | 3Q 15 | 3Q 14 |

Notes:

- (1) TCG Estimates for all sales; U.S. Census/HUD report only covers SFD home sales which peak in 2005 at 1,283,000 sales, and total 376,000 in the LTM period
- (2) Includes standing inventory, currently selling lots and competitive foreclosures
- (3) Assumes LTM sales rate for 12 months followed by recovery rate below long-term demand forecast
- (4) Market normalization defined as one sale per week per product line and single-digit price appreciation

Sources:

The Concord Group; DataQuick; Hanley Wood; US Census Bureau; RealtyTrac

About The Concord Group

The Concord Group is a leading real estate strategy firm with offices in Newport Beach, San Francisco and Boston. TCG's professional consulting staff completes hundreds of assignments annually in the U.S., Europe, Asia and Latin America. Our services include market and consumer analyses, transaction due diligence and asset valuation. Recent private equity assignments have included multiple analyses of distressed assets of commercial banks and new acquisitions for next-cycle development. We also continue to assist developer, builder and financial clients on value maximization of owned-assets. We cover all property types (commercial, residential and land), in all metro areas and work under tight due diligence deadlines.

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