

New bond product could aid high-rise condo market

BY TONY ILLIA

A new bond product could help boost mid- and high-rise residential sales.

Deposit Alternative LLC, a Las Vegas-based firm, offers short- and long-term deposit bonds that can be issued as cost-effective options for new-home purchases. Products can be issued in three-month to four-year terms, with the approval process taking as little as a week. The bonds carry a 4.5 percent interest charge, in addition to application fees and taxes. The product may carry advantages for buyers and developers alike.

Projects typically need about 75 percent of units under hard contract to secure a construction loan. But many developers are having difficulty reaching that mark, with 23,917 single-family homes listed for sale in October, or about a year's worth of inventory, the Greater Las Vegas Association of Realtors reports. Several potential buyers planned on using their homes as equity for other purchases, but lack the hard cash needed for a deposit amid slowing sales. There were 974 home sales in October, 42.3 percent less than in 2006, the association reports.

Real estate investors face a similar hard-money problem with Las Vegas land values dropping in the third quarter as a result of higher development costs, increased interest rates and a housing-market slowdown. Median vacant land prices were \$677,300 per acre at the end of September, or \$41,200 less than the previous quarter, reports Applied Analysis, a local economic research firm. The average price per square foot was \$15.55, which is a 5.7 percent drop from the second quarter.

Changing market conditions have heavily affected the mid- and high-rise luxury market with nearly 56.4 percent of all projects -- 58,461 units worth -- stuck in the planning or proposal stage, Applied Analysis reports. Another 3,877 units have been suspended and 5,253 units have been canceled.

"Reservations don't equal sales," said Brian Gordon, an Applied Analysis principal. "There are several investors placing refundable deposits on multiple projects around town. But when it comes time to sign the contract, they will often re-evaluate their selection."

Homebuyers, however, can now use a bond for purchases. Underwriting criteria examines their credit scores, assets and income. Projects often require a 10- to 20-percent deposit with the rest due upon completion.

"Many potential homebuyers are cash-strapped or were counting on the sale of their home to help purchase another residence," said Todd Andrews, chief operating officer of Deposit Alternative, which plans to issue 2,000 bonds per year throughout the Southwest. "This product enables them to buy a unit with little cash down. It additionally gives them time to sell their home under better market conditions."

A spate of project cancellations has left some buyers wary. Many want to see construction coming out of the ground before committing money toward a purchase. Sale prices, however, often increase from preconstruction to completion.

"Bonds, in addition to aiding sales, also provide a measure of developer security," Deposit CEO Louie Nehme said. "If a buyer falls out, a developer can collect on the bond, enabling sales associates who work on commission to get paid."

Gemstone Development is among the early bond proselytes. The firm is using the product as a sales tool at its \$350 million, 20-acre ManhattanWest project at Russell Road and the Las Vegas Beltway in the southwestern valley. The mixed-use development calls for 700 lofts, condos and brownstones with commercial office and retail space. Residences range from 552 to 1,890 square feet in size. The first phase, which consists of five buildings (two commercial, three residential), is expected to debut in late 2008.

"We think it's a great product. We've gotten approval from our construction lenders to use it," said Mark Chatow, Gemstone Development's vice president of marketing. "We believe it gives us a competitive advantage over other projects. We've already submitted for eight bonds of which six have since been approved."

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COURTESY GEMSTONE DEVELOPMENT
ManhattanWest, a new \$350 million, 700-unit, mixed-use development at Russell Road and the Las Vegas Beltway, is using a new bond product to help increase sales.