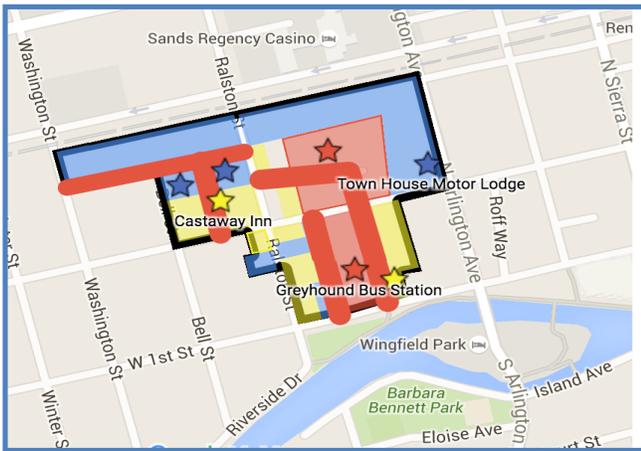


Northern Nevada Commercial Investment Real Estate Report: Q116 The "Reconnecting with Downtown" Issue

Q116 was brimming with Downtown news: the reopening of the Virginia Street Bridge, the West Second District announcement, the Park Lane Mall sale, the ULI event, the Standard student housing project approval; 235 Ralston begins construction.... Read on!

\$1.2 Billion downtown Reno redevelopment vision revealed, explained

Mike Higdon wrote in the 5/1 RGJ that on April 27, Reno architect and developer Don Clark presented the \$1.2 billion [West 2nd District](#) project to the Reno City Council, sitting as its Redevelopment Agency. Clark requested a due diligence report on them, their partners and land acquisitions, which the Agency promptly delayed for a month, Clark had hoped to have his lawyers negotiating with city lawyers as the due diligence was being conducted. The first phase of the project, a 28-unit condo, is breaking ground at 235 Ralston Street. They are also asking for a development agreement, which includes a unique tax increment fund that would allow them to spend \$49 million on infrastructure improvements in the surrounding neighborhood right away, consisting of water, sewer, storm drains, power, landscaping and relocating the UNR Nelson Building and the Greyhound bus station. If their project performs well, with a projected \$100 million property tax increment over the next 8 - 10 years, they would expect the City to reimburse them.



Overall project:

- 30 New Buildings | 2,000 Residences
- 2.3 million sf of residential space
- Inspired Art & Public Spaces
- 450,000 square feet of office space
- 250,000 square feet of retail
- 5,000 Parking Spaces
- Central Plant Heating & Cooling
- Self-contained Organic Water Reclamation
- Two non-gaming hotels

If approved, the plan would roll out in 6 phases over the next decade. The market will dictate how the concepts, buildings, use mix and overall vision evolve. The tallest building is slated for 40 stories. A central park would be constructed, and underneath it, a large-scale water reclamation center will recycle and reclaim water. The goal is to create a significantly reduced water footprint and return clean water to the Truckee River midstream instead of downstream. They plan to build up to 4 acres of solar panels. What is now Stevenson Street would become a no-car walkway leading north to the central park from the Truckee River. Fiber optic gigabit-speed internet will be built into the entire project from day one by CC Communications. Portions of downtown Reno already include gigabit internet for businesses, such as the Reno Collective. Gigabit-speed internet is about 10 times faster than current broadband internet.

Major Planned / Under Construction Apartments (Rowley proprietary research)

Every quarter I make numerous phone calls and send emails to update my survey. In Q1 I discovered 4,753 new planned units – a 79% increase! - mainly in outlining areas such as Pioneer Meadows (1,600 units) Cold Springs (700 units) and adding Copper Canyon back (1,061 units) after its troubles during the Great Recession. Units under construction showed a net increase of 207 units this quarter, reflecting the addition of Harvest at Damonte Ranch, offset by the removal of Frontera at Pioneer Meadows - which are SFR – not apartments, for no change in the # of properties under construction. I am tracking the following projects:

Planned apartments: 33 projects totaling 10,748 units

Under Construction: 7 projects totaling 1,228 units – described below

Total: 40 projects totaling 11,976 units

This compares to **6,362** total units in Q115 and **only 2,420 in Q114**. Active developments include:

- Silverwing’s **Edgewater at Virginia Lake** continues construction with all 48 condos pre-sold. Its 288 apartments are now 63% leased with the balance to be completed in May.
- Silverwing’s **Fountain House @ Victorian Square** starts leasing May 1st w/ occupancy in July.
- **Square One**, LandCap’s 100 “urban style” units at Victorian Square are scheduled for completion July 1st with rent-up starting shortly thereafter.
- **Sterling Summit** student housing apartments east of Valley Road are under construction for 186 bedrooms to be delivered in August of 2016.
- Sitework continues at Ryder’s **Village South Apartments**.
- Sitework is underway at Lewis Homes’ **Harvest at Damonte Ranch Phase I**.

Major Q116 Sales Transactions (Rowley proprietary research)

#	Transaction	Address	Date	Price
1	Sunroad Enterprises from San Diego, purchased Bristol Bay Apartments from Sentinel of New York.	5300 S Los Altos Pkwy, Sparks	2/4/16	35,450,000
2	Yacoel Properties of southern CA purchased Ridgeview Plaza, anchored by Kohl’s, Safeway, Ross & PetSmart from Joseph Lacko of San Clemente.	5150 Mae Anne Avenue	01/14/16	33,000,000
3	NBS of Portland sold a four-property industrial portfolio to the Bendetti Company of Irvine, CA.	900 Southern Way, Sparks	1/20/16	25,820,000
4	USBank sold the Iron Horse Shopping Center out of foreclosure to Shopoff Realty, who will invest \$1 million to revive the 67% vacant center.	593 E Prater Way, Sparks	2/19/16	11,750,000
5	Charles Keith of Chandler, AZ purchased the Silverada Estates mobile home park from the daughters of Charles Stanton Boyd, Saratoga, CA.	2301 Oddie Blvd	3/11/16	8,150,000
6	A TIC composed of 3 California investors sold this warehouse property to an affiliate of the Bendetti Company of Irvine, CA.	655 Spice Islands Drive, Sparks	3/7/16	8,000,000
7	Montreux members purchased the golf course, clubhouse, and land from the Jacsick family.	18077 Bordeaux Drive	3/31/16	7,300,001
8	Renown Health purchased the 445 ksf former Lowe's hardware store location.	2400 Oddie Blvd	1/29/16	6,510,000
9	Grady Kromer from Truckee purchased 21 AC of land from Lansing Companies of San Diego.	N Virginia St. @ Vista Rafael	1/12/16	4,200,000
			Totals	140,180,001

Total commercial sales in Q116 decreased by a seasonally normal \$56.0 million - or 18.3% - from the very robust Q415 - to \$249.9 million. As with Q415 there was only one large apartment deal – Bristol Bay. No cash traded hands in the Montreux “sale” as it was a pre-packaged transfer based on the Club formation documents from 1996, which transfer had been deferred several times starting in 2006.

Q116 Multifamily Sales Analysis (Rowley proprietary research)

Multifamily (MF) sales rose \$9.2 million, or 18.7% in Q116 to \$58.4 million from \$49.2 million in Q415. There were 42 total MF sales in Q116 versus 27 in Q415 – a 55.6% increase. As a result, MF represented 23.4% of all investment sales in Q116. In both quarters there was only large multi-family sale: Bristol Bay this quarter and Canyon Vista in Q4 – both Sentinel deals, who are now totally out of our market. Thus “large” sales > \$3 million only changed by \$25k since these two properties are adjacent and virtually indistinguishable.

In the \$1 - \$3 million price range sales doubled from 2 to 4, with dollar volume increasing by 86.5%. Once again, the real bright spot was small MF sales under \$1 million. The total number of small transactions (< \$1 million) increased robustly from 23 deals to 37 – with Q116 dollar volume jumping by \$6.0 million to \$16.0 million vs \$10.0 million in Q415 – an increase of 59.2%. The average small deal size was essentially flat at \$433.4k, vs \$437.8k in Q415. The small apartment investor continues to be very bullish on our region.

The Local News Bag

The RGJ reported that **the Virginia Street Bridge reopened** April 12th at 11 a.m., with Mayor Schieve leading the ribbon cutting celebration. The four-corner lamp posts were preserved from the original bridge and new lighting illuminates the water and the arches. The contractor was Q&D Construction, with the final costs for the construction coming in under the \$18.3 million budget. City Plaza, the location of the City ice skating rink, also reopened. In addition to the bridge, the project constructed a river access in City Plaza and an interpretive area at the southeast corner of the bridge.

The NNBW reported on March 8 that **the State Board of Finance has approved \$90 million in a housing revenue bond issue to finance The Summit Club** multi-family housing project in south Reno, adjacent to the Summit Sierra mall. Twenty percent of the project’s 584 units are allocated to lower income working families and seniors. The Summit Club is the first project in Nevada to use the bond financing program on a “Class A” location. Developers are aiming for a spring start to construction, with occupancy starting in early 2017. The project will incorporate a village-style design with 12, 18 and 26 unit buildings.

On February 25th Chris Murray reported in the RGJ that **Reno's new United Soccer League team will be called "Reno 1868 FC"**. Reno was founded on May 9, 1868, thus the 1868 name. FC stands for "Football Club." The team will play at Aces Ballpark beginning in 2017. 3,000 fans submitted names over a 4-month period. The team logo, colors and coaching staff will be announced at a later date. The USL is the third tier of pro soccer in America behind the MLS and NASL, with 30 teams currently.

The NNBW reported on February 22nd that **Panattoni has purchased 20.27 acres from IGT**, located between Sandhill Road and Trademark Drive in South Meadows, to be called the South Valley Commerce Center, consisting of 2 high-image industrial buildings totaling 390 ksf +/- of space. The buildings will feature LED lighting and higher level office finishes, and can be demised to accommodate smaller tenants, with sizes ranging from 18,590 to 52 ksf. Then on 4/1/16 the NNBW reported that Alston Construction has begun construction at an estimated cost of \$15.5 million and is scheduled to be complete in December 2016.

Siobhan McAndrew wrote in the April 22nd RGJ that President Marc Johnson announced that the **Nevada System of Higher Education ranked UNR’s plans for a new engineering building its first priority for new construction**. UNR has asked the State to fund ½ of the \$83 million project, with the other half coming via fundraising and self-financing by UNR. Johnson said fundraising is underway for the building’s design, which can be shovel-ready by the end of the 2017 session to open in 2019. It could include 45 labs and 50 faculty office spaces. The site for the property, adjacent to the southeast border of UNR’s main campus, is within a row of 16 properties that are owned by the university on the west side of Evans Avenue.

Seth Richardson reported in the 4/8 RGJ that the **RTC has broken ground on the \$70+ million Pyramid Way and McCarran Boulevard intersection construction project**, a \$73 million federally funded construction project to expand the intersection, with multiple left and right turn lanes in all directions. A paved multi-use path and new sidewalks will also be built. The project should help alleviate congestion and crashes along the Pyramid Highway. The project's anticipated completion date is 2018.

New & More! RNO air services

Jason Hidalgo reported in the 3/10 RGJ that Las Vegas-based **Allegiant Air is starting twice weekly non-stops to LAX** on June 9th. Allegiant's route beefs up the LA to Reno link, which now offers 8 daily non-stops via American, Southwest and United. RNO celebrated its first flight to Orange County via Alaska on March 14. The daily non-stops were announced in November 2015. The OC flight is part of a series new routes recently, including direct flights to Mexico via Volaris and JetBlue's direct flight to New York City. Southwest will resume flights to Oakland this June. Separately, the NNBW announced on March 23 JetBlue's new non-stop daily service to Long Beach starting August 15.

The NNBW reported on March 10 that the Reno-Tahoe International Airport (**RNO**) **saw a 3.9% growth in passengers in 2015**, for the first time since 2005, serving 3.4 million passengers. The rise in counts can be attributed to new air service, with added flights and airlines in 2015. December 2015 passenger counts were up 8.6% over December 2014. RNO has experienced positive passenger growth for the past 7 consecutive months. **2015 was the best cargo year ever recorded** - handling 138.3 million pounds of air cargo, an increase of 7.1% over 2014. Major warehousing, pharmaceutical, e-commerce and distribution facilities in the region played a key role in cargo growth. RNO offers 56 peak-day non-stop departures to 20 destinations on 8 commercial airlines, with 185,508 monthly seats available.

\$9M in tax breaks set for Hyperloop tests

On March 26 the AP reported in the RGJ that the board of the Nevada Governor's Office of Economic Development approved a \$9 million tax incentive application from Hyperloop Technologies, which wants to build its Safety, Test and Development Loop at Apex Industrial Park in North Las Vegas. The transformational technology plans to shuttle people and cargo in pods at speeds around 700 mph. The full-sized project comes as the company is already building a smaller test track at Apex, the park that's also home to electric carmaker Faraday Future. The incentives will reduce their sales tax rate on \$120 million in capital investments to 2%. Tesla CEO Elon Musk first theorized about hyperloop technology, with several companies now working to make the idea a reality. Governor Sandoval volunteered to be the first person to take a ride in a pod. Testing at the track is expected to begin at the end of 2016.

Park Lane Mall redevelopment plans

Mike Higdon, wrote in the April 12 RGJ that Reno Urban Developers owner Chip Bowlby is in escrow to purchase the 45 acre, former Park Lane Mall site at Plumb and Virginia streets that has sat empty for 7 years. The Century Park Lane 16 movie theater is on a separate parcel and is not part of the sale. Bowlby's plans are in line with the Urban Land Institute's suggestions made in their recent presentation in Reno. They said the mall property "bookends" the core of the city with UNR on the north and should include a welcome monument, similar to the Reno Arch. The site makes sense as a mix of apartments and workforce housing priced below market rate. It has no building height limits which would allow for at least 1,000 units. Bowlby said he hopes people will consider the parcel as a part of Midtown once development around the lot builds up. He wants to break ground within a year. Park Lane Mall originally opened in 1967. In 2006, M&H Realty Partners bought it - and then razed it. In 2009 and 2013 M&H submitted plans for a Park Lane Promenade. Both were plans for an outdoor strip mall with a large anchor tenant similar to the Summit.

Why West Elm matters for downtown Reno

In the April 3 RGJ Mike Higdon wrote that Downtown Reno took another comeback step with the announcement that West Elm would fill up the 1st floor of the historic U.S. Post Office-turned-retail center on South Virginia Street. The Williams-Sonoma furniture / home decor brand has about 90 stores. West Elm launched

in 2002 and quickly became a leader in home furnishings that are approachable, affordable and sustainably produced. For West Elm, the historic building fits perfectly into their urban style meant for millennials who don't live in the suburbs. Before West Elm, the last major retail stores in downtown were JC Penney and Woolworths, which both closed about 30 years ago. West Elm will anchor the 1st floor, with small retail shops in the basement and office space on the 2nd and 3rd floors. West Elm hopes to open by fall 2016.

8 Schools Targeted for Potential Double Sessions (this is scary!)

Bob Conrad, writing in the 4/27 daily email from www.thisisreno.com reported that the Washoe County School District (WCSD) Board of Trustees has identified 4 middle schools (Traner, Depoali, Mendive and Shaw) and 4 high schools (Damonte, McQueen, North Valleys and Spanish Springs) for possible double sessions in the next 5 years. The board voted unanimously to look at "conversion thresholds," to determine when schools will be converted to double sessions. A school will be converted to double sessions if enrollment over 3 years is projected to be at - or above - 120% of enrollment capacity (without counting portable units). WCSD will do enrollment counts on August 19th. Enrollment projections will be used to tell which schools reach overcrowding thresholds. No schools are projected to reach thresholds for the 2017-18 school year. A [school bond](#) is [going to voters in November](#) to raise county sales taxes to fund new schools and building improvements. The last time WCSD used double sessions was when Reed High School was being built 30 years ago. Double sessions mean that the first session for high school will begin at 5:55 a.m. and end at 11:55 a.m. The second session will begin at noon and end at 6 p.m. At least four elementary schools will automatically go to multi-track year round schedules for the 2017-18 school year. Another 18 elementary schools have to write a plan for how they will deal with crowding in the coming years.

Urban Land Institute (ULI) Reno visit and recommendations

On April 9th RGJ reporters Mike Higdon and Anjeanette Damon collaborated on an article that Reno spent \$125k for an eight-person panel of planners, market researchers and developers to conduct a study for the City. Their summary gives residents a preview of ideas that Reno could implement to make Virginia Street a better main street. It should be unique, special and different from every other street in town. The ULI's recommendations consisted of:

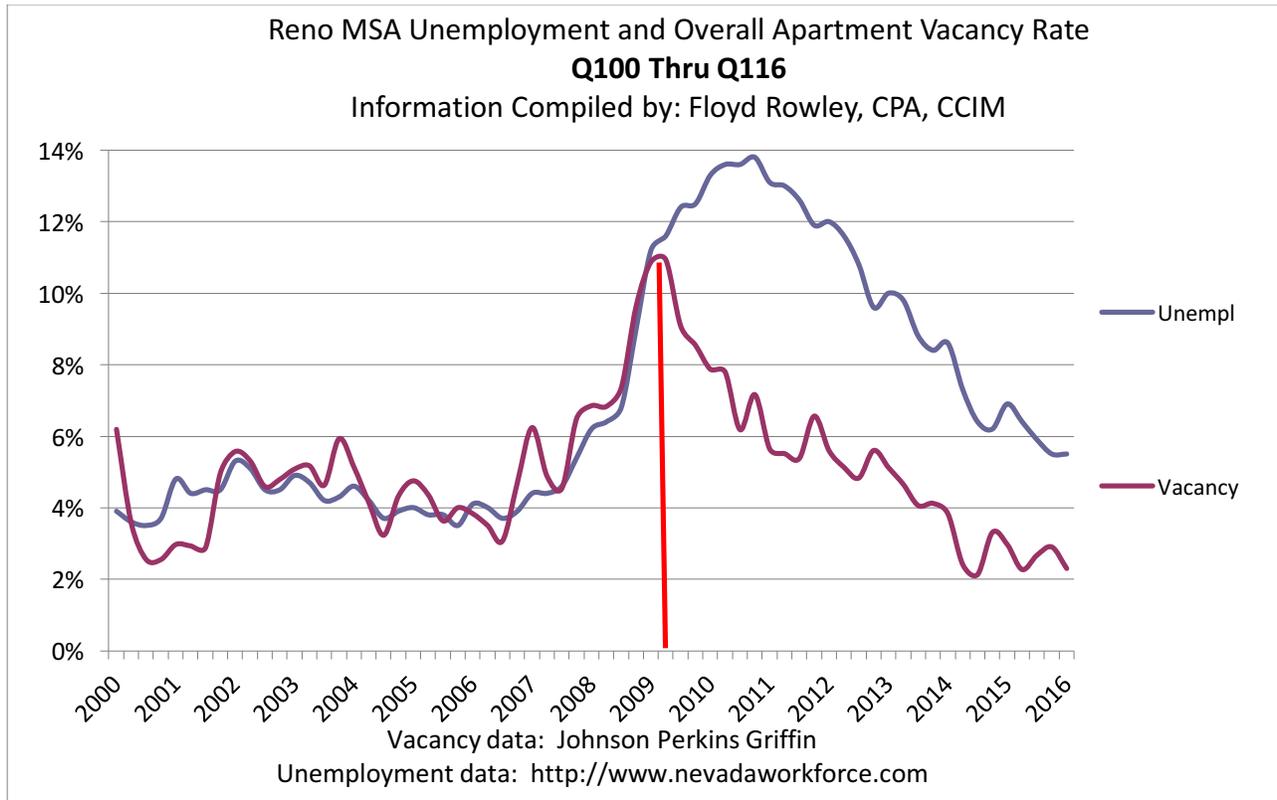
- [Green space corridor](#) - Virginia needs a consistent, flexible, tree canopy from UNR to the Convention Center.
- [Relocate the Wild Orchid](#) – the strip club is a big distraction from the organically-grown Midtown district.
- [Improve UNR's connection to the city](#) - The west side of Virginia Street near the university lacks sufficient student housing, retail and food, especially close to Lawlor. They endorsed the RTC's plans to build a giant roundabout at Lawlor and UNR's plan to relocate historic homes on Center Street - only if it's part of a larger vision for the university to move into downtown.
- [Redevelop all the things downtown](#) - Convert Harrah's and the Cal Neva into office and residential. They suggested converting the vacant bus station across from the National Bowling Stadium into a park and enhancing the train trench cover. They also recommended more infill development, specifically the lot proposed for The Eddy, a proposed beer garden cargo container park.
- [Redevelop Park Lane](#) – See above article re Chip Bowlby' s contract and development plans.
- [Convention Center](#) - The bottom of the Virginia Street corridor needs new retail and entertainment development to compliment the Reno-Sparks Convention Center – and a 3rd welcome monument.

Apartment Statistical Review

The Johnson Perkins Griffin Q116 survey covered 81 properties and 20,658 units – same as Q415. Thus their data continues to be representative of regional multifamily performance. A full copy of the survey can be found at: <http://jpgnv.com/wp-content/uploads/2016/04/Q1-ApartmentSurvey2016.pdf>

- Overall vacancy declined 0.6% from 2.9 % to 2.3% in Q116 – surpassing the lows from the last cycle.
- 8 of 10 submarkets registered vacancy declines – the other 2 had tiny increases.

- Average rental rates rose a healthy \$44 / unit / mo. this quarter, or 4.65%. East Sparks stayed in 1st place at a whopping \$1,135 / mo., with Lakeridge moving from 2nd to 3rd place – trading with NW Reno.
- We now have 4 submarkets in the "\$1k Club" - having topped \$1,000 / unit / month for their average rents. South East Reno joined East Sparks, NW Reno, and Lakeridge - up from 2 submarkets in Q215.
- West Reno reported a zero% vacancy – seemingly impossible – down from 1.33% last quarter. Airport and West Sparks are 1 basis point apart @ 1.24% in 2nd and 3rd. In fact, 6 of 10 submarkets are under 2%!!



About the Author

Floyd joined the Johnson Group in January 2011 as the culmination of his emphasis that had been moving towards apartments throughout his 12-year brokerage career in northern Nevada, interrupted by a brief "walkabout" with a national firm for 13 months. Before joining Johnson Group, Reno's premier boutique commercial brokerage firm, Floyd served for 7+ years as SVP of the Colliers Investment Services Group. Floyd represents buyers or sellers of large investment properties: apartments, office buildings, retail centers and industrial properties. Floyd also does sale-leaseback transactions and build-to suit leases. Since mid-2004, Floyd has closed \$175 million in 58 transactions in our market. Starting in the fall of 2008 he started focusing on distressed assets, mainly apartments. He has completed 56 broker price opinions totaling \$435 million during the Great Recession - resulting in \$56 million of listings, mainly apartments, since early 2010.

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