

## Northern Nevada Commercial Investment Real Estate Report: Q216 The "Please Get on the SOS Education Bandwagon" Issue

I attempt not to inject any political views / bias into my newsletter. I have also refrained from presenting an article on the upcoming school bond issue – until now. Reason: by the time my Q3 report comes out in late October many people's minds will already be made up – after all, it's a tax proposal! Last quarter I did publish an article titled, "8 Schools Targeted for Potential Double Sessions", which introduced the Washoe County School District's (WCSD) current and likely student population increases.

I have personally seen how supplemental educational funding made a huge difference to my children in elementary school in Los Altos, CA back in the 1990's. It was no coincidence that houses in our little town were worth \$100K more simply by being across the street from the exact same house in Mountain View – it was all about buyer's perceptions of quality education – all for the cost of a \$90 / year donation – hint, hint!!! I was the Chair of the Grant Making Committee for the Los Altos Educational Foundation also see: <http://laefonline.net/> Back then we raised \$600k to supplement programs that had been ravaged by California's Prop 13. We paid for teachers and aides in art, music, PE, etc. Now they raise \$3.5 million / year!

Locally, for about a year I volunteered to assist Scoutreach a program of the Boy Scouts that seeks to engage boys from lower socioeconomic backgrounds, focused on meeting at schools, vs the traditional "church" model that generally attracted more affluent (and white) boys. I was astounded at the incredibly shabby conditions of EVERY WCSD school I visited and could not believe kids – and teachers! – actually inhabited these structures. Moreover, it answered my skeptical question as I used to read the Siobhan McAndrew weekly school articles in the Reno Gazette Journal (RGJ) as to how EVERY school she profiled spent about 98% of their budget on payroll - there was NO money for the physical plant!

Education improves our region **and** clearly makes YOUR home more valuable. So, whether you have kids in WCSD - or not – paying an average of \$80 per year in additional sales tax should be a no-brainer – plus sales tax is deductible on your taxes since Nevada has no state income tax. Tourists pay sales tax too! Please see <http://soswashoe.com/get-the-facts/> for more details and vote "YES" on WC-1 in November.

### **Major Planned / Under Construction Apartments (Rowley proprietary research)**

In my quarterly phone calls and emails to update my survey I discovered 1,737 new units this quarter – on top of 4,753 new planned units in Q1. The largest is Chip Bowlby's Park Lane Mall site – 1,200 units. Units under construction showed a net decrease of 351 units, reflecting the removal of LandCap's The Square (100 units), and Silverwing's Edgewater at Virginia Lake (288 units) - both now leasing quickly - offset by the addition of a few small deals. I am now tracking the following projects:

Planned apartments: 34 projects totaling 12,485 units

Under Construction: 7 projects totaling 877 units – described below

**Total: 41 projects totaling 13,362 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** has completed construction with all 48 condos pre-sold. Its 288 apartments are now 95% leased.
- Silverwing's **Fountain House @ Victorian Square** is now 15% leased. Occupancy started August 13 – completion scheduled for March 2017.
- **Sterling Summit** student housing apartments east of Valley Road are under construction for 186 bedrooms to be delivered in August of 2016.
- Site work continues at Ryder's **Village South Apartments**, with several buildings now underway for a January 2107 delivery. The clubhouse is expected to be completed in November.
- Lewis Homes' **Harvest at Damonte Ranch Phase I** continues construction of their luxury apartments for delivery in 2017. Most units will have direct access garages.
- Silverwing's latest Victorian Square project, **The Bridges**, was approved by Sparks City Council in June for 192 units on 1.36 acres, with 19,600 sf of commercial space on the ground floor.

### **Major Q216 Sales Transactions and Multifamily Sales Analysis - RIP**

I regret to inform you that I will no longer be publishing either my list of largest investment sales or my detailed analysis of multifamily sales by size category. I am still tracking all major multi-family sales. However, the process of receiving 3 monthly sales reports from Ticor and First Centennial, then merging and sorting all six into one consolidated quarterly list takes too much time. While I am sure readers enjoy the information comparing quarters, I can no longer justify the time to produce this information due to my crazy brokerage workload, and by my occasional need for sleep, exercise and relaxing with friends and family.

### **The Local News Bag**

**FedEx Ground hosted a groundbreaking event on May 5<sup>th</sup> for their new 344 ksf automated distribution facility** expected to open in July 2017. It is part of the company's expansion of 560 distribution hubs and local pickup-and-delivery stations around the country. FedEx has invested \$1.6 billion this fiscal year in network expansion. FedEx Ground has improved service by at least one day to over 70% of the USA since 2003, while the volume of packages it handles daily has doubled in the past 10 years.

Jason Hidalgo, writing in the May 9 RGJ reported that **the sale of the Nugget Casino Resort to Marnell Gaming was finalized on May 6<sup>th</sup>**, adding the property to their portfolio that includes the Colorado Belle and Edgewater casino resorts in Laughlin. They will keep the Nugget name and will focus on improvements to the 1,400 room property. Marnell plans to spend \$25 million in the next 18 - 24 months to renovate the two hotel towers and convention center. Many of the 1,000 slot machines in the 75 ksf casino will also be replaced, but the Best in the West Nugget Rib Cook-Off will continue.

Writing in the Aug. 4<sup>th</sup> RGJ, Mike Higdon reported that **Patagonia is coming to The Hudson Project on Center and State Streets in downtown Reno** as early as November. The new 17 ksf store will replace the current Patagonia Outlet Store at their warehouse on (way!) West 4<sup>th</sup> Street to make more space for employee day care out there. The downtown building was originally a car dealership for Hudson Motor Car Company in the 1940's, and housed Machabee Office Environments before they moved to Sparks in 2006. Brian Egan purchased the building and refurbished it while searching for a major retailer.

Writing in the 7/21 RGJ, Jason Hidalgo reported that **the Safari Club's annual convention is returning to Reno in January 2019** with a minimum three-year commitment. The Club's decision a few years ago to pull out of its planned 2015 event in Reno was a big blow to the area's convention and tourism business, which brought in \$21.6 million in economic impact in 2013. The Club cited air travel as a key reason for pulling out of Reno and committing to Las Vegas instead for seven years. Since then our airport has added 11 flights in the last 14 months. Getting nonstop service to Washington, D.C., remains a top priority.

Darrell Moody, wrote in the 7/14 Northern Nevada Business Weekly (NNBW), that **Stan Jaksick has bought the Thunder Canyon Golf & Country Club**. He developed the Montreux Golf & Country Club with his late father, until turning the Jack Nicklaus-designed course over to the membership in March.

Jaksick left because Montreux was an equity course, and eventually it would be turned over to the members. He purchased Thunder Canyon from longtime owner Gayle Block, re-named it Toiyabe Golf Club and made it semi-private. The course was originally named the Lightning W Ranch by then-owners Bob and Cathy Weise back in 1994, and when the Blocks bought the course it was renamed Thunder Canyon.

The NNBW reported on July 14<sup>th</sup> that **Station Casinos filed an application for a special use permit to build a casino and entertainment facility across from the Convention Center**. They will also file an application with the Nevada Gaming Control Board to relocate the grandfathered, non-restricted, Reno Turf Club gaming license to that location. The Turf Club license was taken by the City of Reno in 2004 via condemnation to facilitate the construction of the ReTRAC project. Construction of the 84 ksf casino project on 8 acres will cost \$50-70 million and will create 350 construction jobs and 150-200 jobs upon completion.

### **New! & More! RNO air services – continued**

**Beginning Dec. 19, Delta will fly Boeing 757's nonstop between RNO and Atlanta** - the gateway to the South. Delta flew this route from 2004-09 with a high load factor of 84%, with the vast majority of passengers connecting to domestic or international destinations. The resumed route will offer connection opportunities to 90 destinations. The flight will run 3 times per week during the holidays, then weekly on Saturdays only, starting January 7, 2017.

Writing in the July 7 RGJ, Jason Hidalgo wrote that **Southwest Airlines will be adding a nonstop flight from Reno to Dallas' Love Field** once a week from Jan. 7 to March 4. Southwest continues to provide more flights in the Reno market than any other airline. Love Field provides an alternate for Southwest passengers who do not want to go through the busy Dallas Fort Worth (DFW) airport. There are currently 3 daily non-stops to DFW via American. Since Love Field is Southwest's headquarters it has several connections through the airline's network. This is the 11<sup>th</sup> new flight added to RNO in the last 14 months.

### **Tesla updates \$2 billion Gigafactory spending plan**

Benjamin Spillman wrote an article in the 8/5 RGJ about Tesla's 2<sup>nd</sup> Quarter 10-K that was just filed with the SEC. According to the filing, Tesla has spent \$430.7 million so far on the Gigafactory in Storey County, with \$117 million spent during the first half of this year. Tesla's contribution to the facility is expected to be about \$2 billion. With the gigafactory estimated to cost \$5 billion, it suggests Panasonic will be paying the bulk of the cost. It also reflects ramped up construction efforts at the factory in order to meet the company's ambitious production goals for Model 3 car batteries and other products. The filing stated that Tesla expects Panasonic (sic) to be producing battery cells in Nevada by the end of the year. The filing states, "Panasonic has agreed to partner with us on the Gigafactory with investments in production equipment that it (sic) will use to manufacture and supply us (sic) with battery cells. Under our arrangement with Panasonic, we plan to purchase the full output from their (sic) production equipment located at the Gigafactory at negotiated prices." The factory will start producing cells for use in Tesla's residential and commercial stationary storage products and then begin producing cells for Tesla vehicles. The company is facing a self-imposed July 1 deadline for production of the highly anticipated Model 3 vehicle, although Tesla founder and CEO Elon Musk said that the Model 3 would likely not be in "full production" at that point. The filing states Tesla management expects to have enough cash to last through the fiscal year, which ends September 30<sup>th</sup>. It also said a pending \$2.6 billion purchase of solar panel maker SolarCity could require additional capital and that "we may evaluate alternatives to pursue liquidity options to fund capital intensive initiatives."

### **Tahoe's Cal Neva files for bankruptcy**

An Associated Press article in the July 13<sup>th</sup> issue of the RGJ reported that the owner of the shuttered Cal Neva Lodge & Casino, the historic 10-story hotel and 6,000-square-foot casino straddling the California-Nevada border once owned by Frank Sinatra, has filed for bankruptcy protection, again jeopardizing plans to reopen the resort. Criswell-Radovan, a California-based developer, purchased the property in 2013 with ambitious renovation plans. Work on the project came to a halt in December 2015. Criswell-Radovan filed for protection from creditors in June so it could reorganize. Criswell-Radovan has a permit allowing construction

until October 15, 2018. They owed \$27 million to creditors affiliated with the project, including \$7 million to the lead contractor, Las Vegas-based Penta Building Group. Criswell-Radovan has canceled numerous announced grand openings for the property over the last several years, most recently this spring. During its 1960-63 heyday when it was owned by Sinatra, the Cal Neva became one of the most famous resorts in the country. Frequent visitors included fellow Rat Packers Dean Martin, Sammy Davis Jr. and Peter Lawford, and stars like Marilyn Monroe and Joe DiMaggio. Monroe spent her last weekend alive at the Cal Neva before she died of a drug overdose in Los Angeles in August 1962.

### **Renown, Stanford deal 'a game changer' for Northern Nevada**

Jason Hidalgo wrote in the 6/29 RGJ that Renown Health announced a “game changer” partnership with the following Stanford University health entities: Stanford Health Care, Stanford Children’s Health and Stanford Medicine. This expands the specialty services available to Renown patients who will now have access to advanced care available in Stanford’s network. Patients can be seamlessly transitioned to higher levels of care without having to worry about how to pay for it, since Stanford will be covered as an in-network benefit for Hometown Health members. This also reduces the need for patients to travel to centers for high-level care. A Renown analysis found that \$40 million in healthcare spending leaves the region by patients seeking advanced care elsewhere – plus \$20 million in costs and expenses. The agreement allows some Stanford staff to be based in the area and provide care locally. Putting the partnership together took 18 months. Stanford, no stranger to partnerships with other healthcare organizations, called the deal with Renown a natural fit. This arrangement allows Renown to better use limited dollars on other aspects of care without the need to invest large amounts of money on new specialty programs that don’t have the track record that places such as Stanford have – such as heart transplants. The Stanford partnership is important to our region given the influx of new businesses to the area, including those from Silicon Valley, that are already very familiar with highly regarded centers such as Stanford.

### **Let's not fear unprecedented growth in Reno-Sparks area**

Mike Kazmierski, writing in the June 19<sup>th</sup> RGJ stated that he has already being asked by some in the community to stop, or at least slow down, EDAWN’s job of bringing quality companies to the region. Yes, Reno-Sparks is growing. More than 18 months ago, when EDAWN announced we would be adding over 50,000 new jobs to the region in five years, there was skepticism. But now that we are continuing to announce new companies (more than 100 in the past 4 years), seeing the Tesla building grow, and feeling the increased traffic and activity in nearly every industry - there is fear. The growth we projected is happening and it is a once-in-a-lifetime opportunity for our community. The reasons we should embrace this long-sought economic revitalization, rather than fear it are as follows:

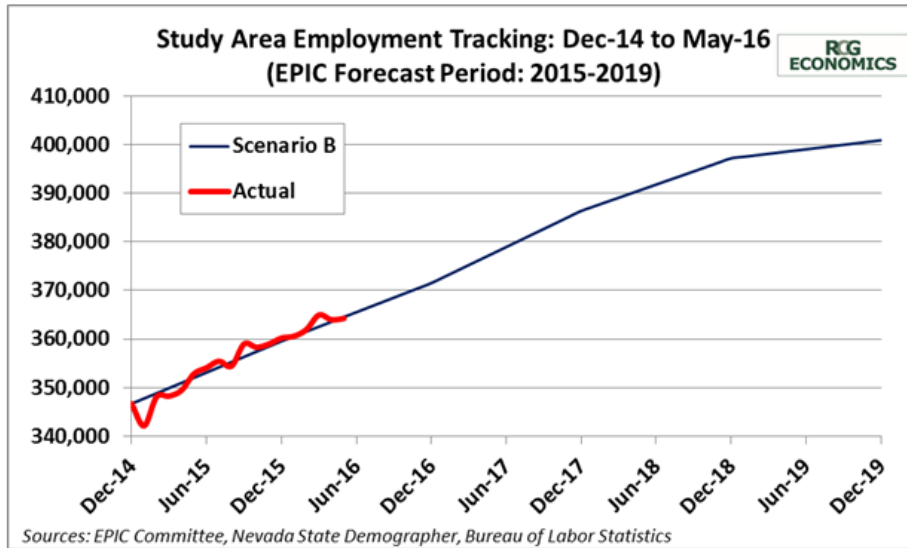
**Opportunity** – A community cannot change or improve without growth, which brings outside investment, public-private partnerships and increased tax revenue to address the challenges we face. Growth can be harnessed and managed to a large degree to revitalize or reinvent a community.

**Action** - There are challenges associated with growth, and in most cases we are making necessary accommodations to mitigate them. We are shifting to a “let’s get this done” attitude. The motivation of a deadline is impressive when it comes to getting things done. We are making progress on affordable (workforce) housing, school infrastructure funding, downtown revitalization and workforce development.

**A better quality of life** - Improvements like job security, a quality job, a pay raise, home value increases, having your kids close to home because they can now find a job, more activity at your business, and more revenue for local governments transcend complaints of more traffic or longer lines at restaurants.

**Vitality** - The excitement and energy associated with growth brings talent to the region, more diversity in our job market, and more events and entertainment to the area. Growth brings more restaurants and retail stores. Growth gives our youth hope and motivation with the promise of a quality job as they sharpen their skills though education. Growth gives generations of our sons and daughters the opportunity to come home, as many were forced to leave for jobs that did not exist in Reno-Sparks before.

EDAWN will not stop attracting, retaining and growing quality jobs because once growth is turned off, it is very difficult to turn it back on. EDAWN has modified its attraction efforts to focus on higher-paying jobs and company headquarters, adapted retention efforts to highlight workforce development, and renewed emphasis on advancing the entrepreneurial ecosystem. As a community we have worked very hard to reinvent our economy. Let's enjoy and embrace the many blessings associated with this growth.



Jobs	Dec-14	May-16	# Change	% Change
EPIC (B)	346,680	364,511	17,831	5.1%
Actual	346,680	364,219	17,539	5.1%

Note: Scenario B of the EPIC Forecast projects an increase of 52,400 new jobs to the Study Area between December 2014 and December 2019.

### Apartment Statistical Review

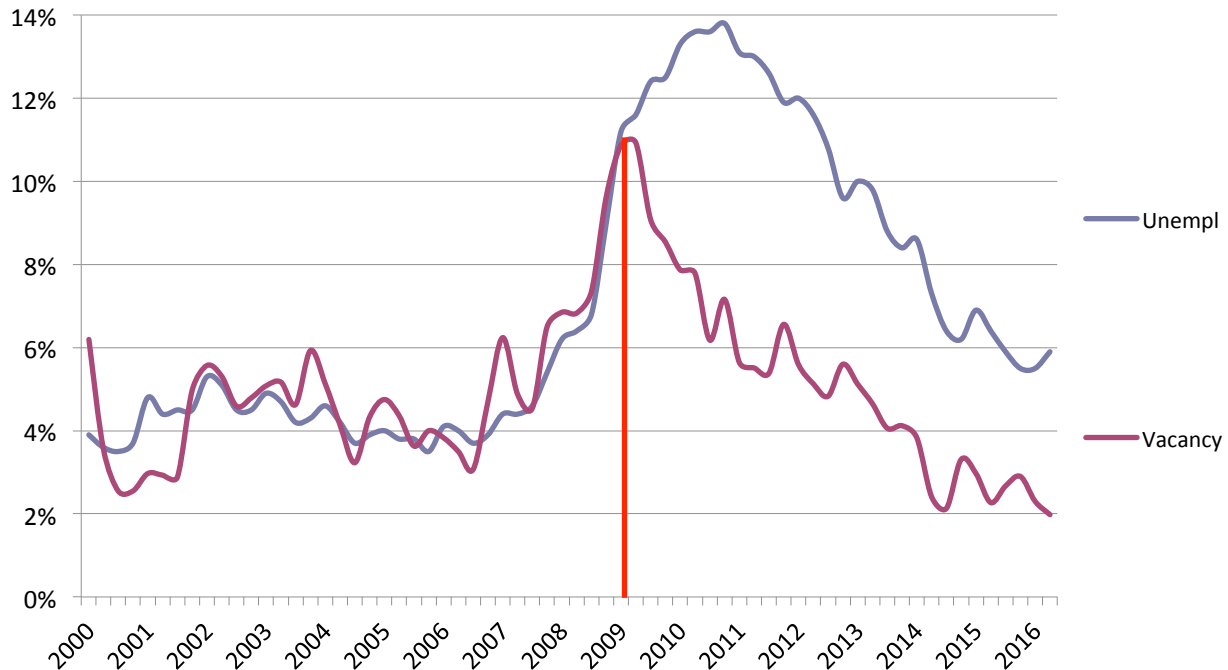
Both the Johnson Perkins Griffin (JPG) Q1 and Q216 survey covered 81 properties and 20,658 units. Thus their data continues to be representative of regional multifamily performance. A full copy of the survey can be found at: <http://jpgnv.com/wp-content/uploads/2015/04/Q2-ApartmentSurvey2016.pdf>

- Overall vacancy declined 0.6% from 2.3 % to 1.98% in Q216 – again surpassing the lows from the last cycle. The only way this figure can be accurate is if managers are reporting their preleased figures.
- Only 4 of 10 submarkets registered vacancy declines. SW Reno went from 6.62% to Zero this quarter. Brinkby Grove had a healthy 2.3% decrease. – the other submarkets had small increases.
- Average rental rates rose a healthy \$39 / unit / mo. this quarter, or 3.9% - another great quarter for landlords. East Sparks continues to stay in 1<sup>st</sup> place at a whopping \$1,176 / mo., with NW Reno staying in 2<sup>nd</sup> place and Lakeridge staying in 3<sup>rd</sup> place.
- We still have 4 submarkets in the "\$1k Club" - having topped \$1,000 / unit / month for their average rents, consisting of SE Reno, East Sparks, NW Reno, and Lakeridge. From there the drop off is steep: the closest submarket is NE Reno at \$930 / mo.

The conclusion I draw from the JPG submarket data is that there is a huge amount of bottom-up compression occurring – the blue collar submarkets are now full again. They have all recovered from the Great Recession and rents have nowhere to go but up as workers continue to flock to our region. While there are thousands of new units in the pipeline, most of these are Class A units – which might start to cause top down compression – especially among the older "A" properties. The good news is that all classes of apartments now have the cash flow to tackle deferred maintenance that has accumulated since 2009.

**Reno MSA Unemployment and Overall Apartment Vacancy Rate  
Q1 00 Thru Q216**

Information Compiled by: Floyd Rowley, CPA, CCIM



Vacancy data: Johnson Perkins Griffin  
Unemployment data: <http://www.nevadaworkforce.com>

**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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