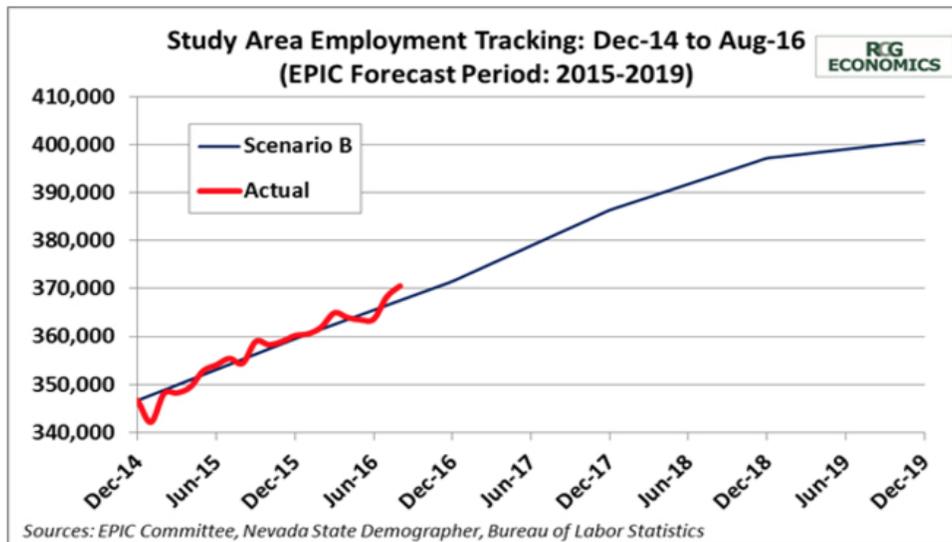


Northern Nevada Commercial Investment Real Estate Report: Q316

The “Expansion Continues to be Robust” Issue

I was recently asked how our region is progressing towards EDAWN’s January 2015 **very public** projection of 50,000 jobs in 5 years. As a result, I moved the latest EDAWN graph from Page 5 of my report to Page 1 for a very simple reason: **48% of the projected new jobs are already here in only 20 months – or only 33% of time.** See EDAWN’s graph and chart below:



Jobs	Dec-14	Aug-16	# Change	% Change
EPIC (B)	346,680	367,500	20,820	6.0%
Actual	346,680	370,523	23,843	6.9%

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.

This explains why apartment rents continue to show robust growth AND why vacancy continues to drift along at its physical lower limit. While developers have worried about a possible glut, I personally believe that many / most of the new, higher rent units will go / have gone to our newly-arrived workers.

Major Planned / Under Construction Apartments (Rowley proprietary research)

In my quarterly phone calls and emails to developers to update my survey I added 1,532 new units this quarter – and removed 950 units that I now don’t believe will be built – for a net increase of 573 units – after a few adjustments to certain properties. Units under construction showed a net increase of 130 units, with no removals this quarter. I am now tracking the following projects:

Planned apartments: 37 projects totaling 13,058 units

Under Construction: 11 projects totaling 1,007 units – described below

Total: 48 projects totaling 14,065 units

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

- Silverwing's 220 unit, **Fountain House @ Victorian Square** is now 25% leased. Occupancy started August 13th – overall completion scheduled for March 2017.
- Site work continues at Ryder's 252 unit, **Village South Apartments**, with several buildings now underway for a January 2017 delivery. The clubhouse is expected to be completed any day.
- Lewis Homes' 278 unit, **Harvest at Damonte Ranch Phase I** continues construction of their luxury apartments for delivery in 2017. Most units will have direct access garages.
- Basin Street's 94 units, called **3rd Street Flats** - the HUGE renovation of the former Kings Inn - are nearing completion for a December opening.

Major Sales Transactions and Multifamily Proprietary Sales Analysis - RIP

Just a reminder that - effective with my Q216 report - I am no longer 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, but 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 enjoyed the quarterly comparisons, I cannot justify the time to produce this information due to my crazy brokerage workload, and my occasional need for sleep, exercise and relaxing with friends and family.

The Local News Bag

Marcella Corona wrote in the June 9th Reno Gazette Journal (RGJ) that **the USA Parkway extension is scheduled to open two years earlier than expected**, possibly attracting an estimated 16,000 workers to the area, according to NDOT. The road, to be designated State Route 439, is now expected to open in late 2017 – instead of 2019. The \$75.9 million project is extending the road 12 miles through Storey and Lyon counties to connect I-80 to U.S. 50. The extension will reduce travel times by up to 38% according to NDOT. Crews will add guardrails and relocate fire hydrants along the existing roadway in the near future. Major construction began in June with the removal of brush along the roadside, NDOT officials said. Two safety undercrossing will be installed to help reduce vehicle-animal crashes. For an amazing aerial tour of the Parkway under construction, please see the following video, produced by Evan Petty, Owner of Aerial Imaging - Aerial Video & Photography Services: <https://youtu.be/Ewd6BW3JC5A>

On the Downtown Makeover website on October 18th, writer Mike Van Houten posted a construction photo tour of a **nearly-complete bocce ball area of the Renaissance Hotel**. The Siena continues to make its transformation into a Renaissance, Marriott's high-end brand of hotels. It will be non-casino-gaming, non-smoking. It's a unique use of the former cavernous casino space. It's not the only Marriott property with bocce ball courts. There's all some really classy looking shuffle boards, and skee-ball. I like the color scheme and finishes, and look forward to seeing the finished product. Check out the pictures @ <http://www.downtownmakeover.com/Bocce-Courts-Marriott-Renaissance>

Mike Higdon, in the 9/1 RGJ wrote that **Lithia Motors has submitted a proposal to the City of Reno to convert the vacant, blighted corner of Kietzke and Plumb Lanes into a car dealership for Volkswagen and Chrysler Jeep** with an auto-body shop in the middle. Lithia Motors (NYSE: LAD) is a Medford, Oregon car dealership franchise network. A memo between Lithia and the land owner states that Lithia would enter into a 15-year lease with an option to buy or continue leasing for another 20 years. The proposal includes a complete rehabilitation of the parking lot, removal of the abandoned gas station, installation of new landscaping with 112 trees and lighting.

Mike Higdon in the RGJ wrote that on **September 8 the Courtyard by Marriott Reno Downtown Riverfront hotel held its grand-opening** on September 8th. The hotel next to the Greater Nevada Field soft-opened in August. It includes a bistro, fitness area, flexible meeting space and an indoor-outdoor swimming pool. With its central location it expects to draw downtown business travelers, leisure travelers, baseball fans and travelers associated with the University of Nevada, Reno and the two nearby hospitals.

Annie Conway, writing in the 10/5 Northern Nevada Business Weekly (NNBW), reported that Vintage Housing and Greenstreet Companies held a **ground-breaking ceremony on October 3rd for Vintage at The Crossings, a 230-unit affordable senior apartment complex** in South Reno just north of Wal-Mart. It is the first large-scale affordable housing project to break ground in 10 years. The four-story complex will consist of one and two bedroom apartments ranging from 580 - 800 sf with large 3-4 ksf community rooms. The project is designed for low-income residents 55 years and older. The location affords easy access to many retail, medical and commercial services. The project is funded in part from the Nevada Housing Division and from the Washoe County HOME Consortium. Rents will range from \$500 to \$700 / mo. The complex will also be pet-friendly. Neeser Construction is the contractor. Construction is underway on the 5-acre site that will take 15-16 months to complete. It is expected to open in summer 2017.

A City of Reno Council meeting update email dated 9/16, reported that the City Council unanimously approved City Staff to enter into a 45 day, exclusive negotiating agreement with the Reno Puck Club and the Reno Sparks Convention and Visitors Authority (RSCVA) to negotiate terms of an agreement for the financing of **\$5.7 million in improvements to support a minor league professional hockey team at the Reno Events Center**, and for the management and operation of the facility. The team would play in the ECHL [basically Double A] and be affiliated with an NHL team - possibly the planned Las Vegas NHL team. The Club wants to assume operation of the Center and undertake the renovations and upgrades to meet ECHL standards. The Club also intends to actively market the Center to attract additional events, increasing its financial viability, while attracting more business to downtown Reno.

The NNBW reported in its 10/10 edition that **UNR welcomed 21,353 students to campus this fall**, a 2.2% increase over fall 2015. Undergraduate student enrollment increased 2.9%, while graduate students increased 1.3%. There are 3,361 freshmen this fall, an 8.8% decrease over last fall. UNR purposely slowed enrollment growth to reduce the student-to-faculty ratio by adding 60 faculty additional positions this fall. From the fall of 2014 to the fall of 2017, UNR will have added 166 faculty positions on the way to the goal of 400 new positions by fall 2021. Contributing to the enrollment increase is the fall-to-fall retention rate of 81%. The undergraduate student population remains at 70% Nevada residents, with the incoming freshmen class coming from 16 Nevada counties, with the most students coming from Washoe County at 1,143.

First look inside retail renovation of the former Reno Main Post Office

Mike Higdon wrote in the RGJ that West Elm opened on August 11, the first new major retailer in downtown Reno in 30 years. It is the first West Elm in northern Nevada, a hipster version of the Williams-Sonoma brand, and the second in the state. West Elm operates 90 stores world-wide with many of the recent stores opening in historic buildings. West Elm designers used the 3 walk-in safes to create small room displays: a bar in one and a tiny dining area in another. In the center of the room, seasonal space featured items such as fall furniture or Christmas ornaments. It, and the rest of the main floor, are illuminated by a giant skylight revealed during renovation. West Elm's product lines change four times a year, with this store starting with their fall line. Local makers and designers are also featured in a corner display with wooden animals, handmade soap, screen printed totes, watercolor purses and letterpress cocktail coasters. West Elm joins 13 other business in "[The Basement](#)", which can be reached by a protected stairway on the south side of the store or from the loading dock on Center Street. The second and third floors will eventually be filled by offices. The synergy within the post office will be joined by the Renaissance Hotel, a Patagonia Outlet, an apartment building, restaurants and coffee shops coming nearby. On the north side of the river, the Virginian Hotel reopened this summer; the City of Reno purchased the dilapidated Cal-Nevada parking garage; and the Virginia Street Bridge and City Plaza opened with tremendous fanfare earlier in 2016.

Park Lane Mall redevelopment plans revealed, project in line for \$3.5M subsidy

Mike Higdon and Anjeanette Damon, reported in the October 12th RGJ that the developer of the former Park Lane Mall presented its plans to the Reno City Council on October 12th. Council unanimously gave staff the go ahead to negotiate a way to give Reno Land \$3.5 million to assist in reconfiguring the sewage and storm drain systems on the 45-acre parcel – on top of the \$11 million cost to the developer. One proposal is that the City waive \$3.5 million of the estimated \$6.9 million in sewer connection fees the developer would have to pay for the project. The project achieves a council goal to promote urban infill development. The architectural firm MVE+Partners created the design, with inspiration from Uptown in Newport Beach, A-Town in Anaheim, and The Park and Village in Irvine. The renderings show one large anchor tenant, four major retail tenants, restaurants, shops, a drug store, a small grocery, a bank and a hotel, with the current Century Park Lane 16 with new parking behind it. Work is planned to begin next spring, consisting of two distinct apartment neighborhoods totaling 725 units, consisting of five-story wrap structures and the rest urban-garden apartments. Unit types range from studios to three-bedrooms. The next phase would consist of 110 ksf of retail and restaurant space, 100 ksf of office and another 510 five-story wrap units. All the buildings will be framed within extensive landscaping and green space. The residential will be on the edges of the development along Plumb Lane on the north and Grove Street on the south for a total of 1,235 new units. The developer estimates property tax revenue of \$77.8 million, and sales tax revenue of \$25.1 million. They also estimate that 3,200 construction jobs will be created, with 700 permanent jobs once completed.

Sandoval signs Raiders stadium bill

In the October 18th RGJ, the AP reported that Governor Sandoval signed a bill clearing the way for a Las Vegas stadium that could be home to the NFL Raiders. The UNLV football team would also use the 65,000-seat domed stadium. Sandoval said, "Las Vegas is ready for this. Nevada is ready for this. The best brand on the planet is coming together with one of the best brands in professional sports." Nevada lawmakers narrowly approved a deal in a special session that increases hotel taxes in the Las Vegas area to raise \$750 million for a stadium and more than \$400 million to expand and upgrade the Las Vegas Convention Center. In raw dollars, it's the largest public contribution ever toward an NFL stadium, although the public's 39% share of the total costs is on par with stadiums in other similarly sized cities. Billionaire casino mogul Sheldon Adelson is putting \$650 million toward the project, while the Raiders and the NFL will kick in \$500 million. Any relocation needs approval from three-fourths of NFL team owners - a historically conservative bunch that has shied away from Las Vegas because of its legal sports betting. A stadium close to the Las Vegas Strip would be a boon for UNLV, which now plays at a field seven miles from campus. UNLV has been trying to break its reputation as a commuter school and elevate its academic and sports programs.

Flirtey teams with Domino's Pizza for first-ever pizza drone delivery

In its 8/25 edition, the NNBW reported that Flirtey, a local Reno drone startup, and Domino's Pizza announced they have completed the first commercial pizza-by-drone delivery in Auckland, New Zealand on August 25th. Flirtey plans to offer flights to customer homes later this year from a select New Zealand store. The delivery also utilized state-of-the-art packaging that retained the temperature and taste of the freshly cooked pizza during the delivery. Domino's has repeatedly invested in new delivery technology, including DRU, the Domino's Robotic Unit, a land-based delivery robot. Flirtey's autonomous technology will allow them to scale rapidly for other delivery-based businesses. With new U.S. drone regulations that took effect on Aug. 29, Flirtey is positioned to bring the revolutionary drone delivery service to the US. The Flirtey delivery drone is constructed from carbon fiber, aluminum and 3D printed components. It lowers its cargo via tether and has built-in safety features such as low battery "return to safe location" and "auto-return home" in case of low GPS signal or communication loss. Flirtey has also signed a deal with 7-Eleven to deliver over-the-counter medicine and convenience goods in the US.

Reno home prices down, Sparks up as unit sales see record September

Jason Hidalgo reported in the 10/19 RGJ that after an extended period of sizzling price growth that culminated this summer, "flat" is the new normal for Reno-Sparks residential real estate. The market posted

a median price of \$310,000 in September for an existing single-family (SFR) home, according to the Reno/Sparks Association of Realtors (RSAR) - a 9% increase from the same period last year (YOY) but unchanged from August. The flat pricing occurred despite a 6% YOY increase in the number of houses sold to 626 — a record for September and the second-highest number reported in 2016. RSAR figures are limited to stick-built, SFR and do not include condos, manufactured houses and new homes. The flat rates are a far cry from the double-digit gains seen early in the housing recovery. Appreciation has averaged in the single digits in 2016, though it was still high enough to raise concerns about affordability earlier this year. Reno continues to set the pace for the region, alternating between flat pricing and slightly lower or higher numbers in the last few months. The median price of an existing single-family house in Reno in September was \$319,900, up 8% YOY but down 2% from August. The post-recession peak for Reno was \$331,000, which it reached in June, which is still 15% the last cycle peak in June 2006. It is still a seller's market with only 3.4 months of inventory on hand – 6 months is considered a balanced market.

UNR ranked "top tier" public university for seventh consecutive year

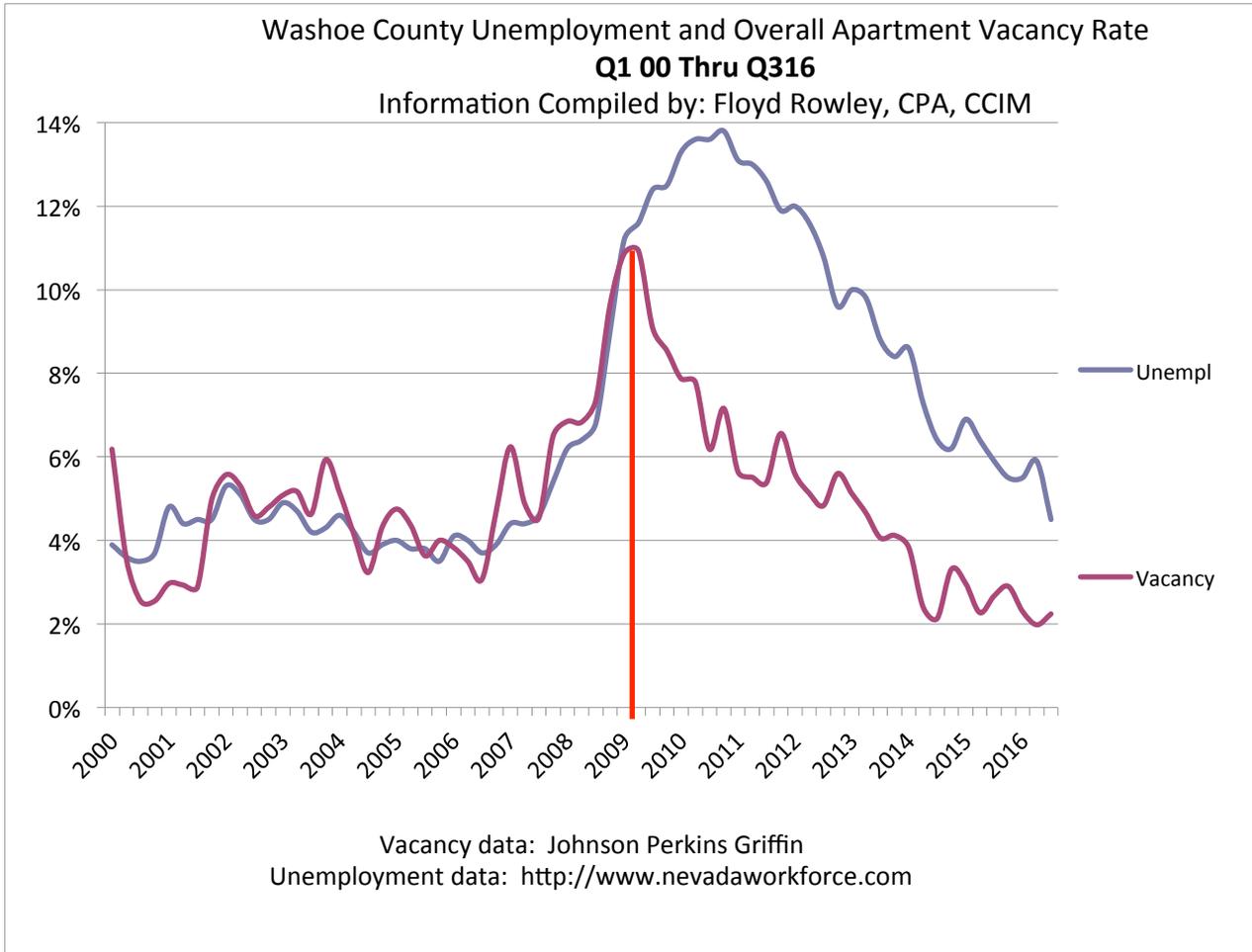
The NNBW reported on September 21, 2016 that, for the seventh straight year, UNR has again ranked in the top tier of "best national universities" by U.S. News & World Report, coming in at # 197 according to a Washington Post analysis. In the category of "best colleges" for undergraduate engineering programs, the College of Engineering is ranked No. 151 and 133rd for the grad school, with the College of Business ranked 248th. Three additional grad schools had a strong showing in the annual rankings: College of Education, UNR Med School and Orvis School of Nursing, with an additional 18 program areas ranked. The Washington Post ranks UNR as one of the fastest-growing flagship universities in the nation in undergraduate enrollment, based on analysis of federal data for fall 2013 enrollment. Schools are ranked in order of percentage growth since the fall of 2000 [when the Millennium Scholarships went "live"]. Measures contributing to the rankings include graduation rate performance, faculty resources, student selectivity and preparedness, financial resources, alumni giving, reputation based on input of high-school counselors and a peer-assessment survey with university leaders nationally.

Apartment Statistical Review

Both the Johnson Perkins Griffin (JPG) Q1 and Q216 survey covered 81 properties and 20,658 units. In Q3 they added two properties, bringing the total number of units in their survey to 21,082. 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/2016/10/Q3-ApartmentSurvey2016.pdf>

- Overall vacancy increased 0.26% from 1.98 % to 2.24% in Q316 – a statistically insignificant increase. This is now 10 quarters in a row that the Reno / Sparks apartment market has been UNDER 3% vacancy.
- Like Q2, only 4 of 10 submarkets registered vacancy declines. SW Reno went from Zero % in Q2 back to a normal 3.04% this quarter. Brinkby Grove had another healthy 1.35% decrease, meaning the C region's units are now almost full again.
- Average rental rates rose \$25 / unit / mo. this quarter, or 2.4% - another good quarter for landlords. East Sparks fell to 2nd place by staying flat, with NW Reno falling to 3rd place. Lakeridge reclaimed 1st place with a \$90, or 8.2% increase – likely due to the renovated units at Lakeridge West coming on line.
- We continue to have 4 submarkets in the "\$1k Club" - topping \$1k / unit / month for their average rents, consisting of SE Reno, East Sparks, NW Reno, and Lakeridge. From there the drop off continues to be very steep: the closest submarkets are NE Reno and SW Reno both within \$1 of each other @ \$970/mo.

The conclusion I continue draw from the JPG submarket data is that there is a huge amount of bottom-up compression occurring – the blue collar submarkets are now almost 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 they have accumulated since 2009.



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 \$172 million in 63 transactions in our market. Starting in the fall of 2008 he started focusing on distressed assets, mainly apartments. He has completed 61 broker price opinions totaling \$457 million during the Great Recession - resulting in \$47 million of listings, mainly apartments, since early 2010.

Floyd Rowley, CPA, CCIM

Senior Vice President, Investments

JOHNSON GROUP

5255 Longley Lane, Suite 105, Reno, NV 89511

775.224.3183

Floyd@JohnsonGroup.net

<http://www.johnsongroup.net/floyd.html>

Founder, Northern Nevada Executive Council www.nnec.biz

