

Northern Nevada Commercial Investment Real Estate Report: Q317

The "Our Market is Taking a Slight Pause" Issue

As you will read later on, both the single family and multi-family markets took a slight respite from recent torrid growth in Q3. Perhaps, my "invisible hand" theme of my Q2 report is working its magic. It was rewarding that the Reno Gazette Journal (RGJ) Editorial Board essentially stated this in its August 27th editorial, and I quote, "Home prices and rents are doing what they are supposed to do. When there's more demand than supply, prices go up. This inspires more building, more renovating, and more residents to rent out basements and remodeled garages. Over time, prices will naturally stabilize. This is what markets do. At least for now, it's a good problem to have. It means people are seeing a bright future in Reno and want to move here." That same editorial also quoted Councilman McKenzie after his outburst at the City Council meeting of July 27th [also summarized in my Q2 report], "I know that our decision just to look into rent control has caused a jump in rents from people saying, 'OK, if they're going to do it, then we want to get ahead of it and raise rents up now.'" I guess that qualifies as an apology...

Everyone I know in all industries is crazy-busy and everyone is trying to hire more staff. The City of Reno is moving methodically to adopt its updated master plan. Leaves are turning. Mount Rose is open already and making snow. Rocket Man's nuclear mountain collapsed in North Korea – all is good.

Major Planned / Under Construction Apartments (Rowley proprietary research)

My quarterly phone calls and emails to developers revealed that they may also be taking a "pause" as no new apartment construction projects started in Q3. There are only so many contractors! The good news is I identified 3 sites that are perfect for workforce housing – accounting for the 902-unit increase in the "planned" category. Note that I take a more "expansive" view of "planned" than Johnson Perkins Griffin does in their report – as a way to counter our apartment shortage. I am now tracking the following projects:

Planned apartments: 36 projects totaling 14,142 units

Under Construction: 16 projects totaling 3,547 units – same as Q2

Total: 52 projects totaling 17,689 units

Here are the major apartments currently under construction:

1. ERGS' **North Peak Apartments** is underway with 104 units @ Military & Lemmon.
2. Silverwing continues construction of 194 units in Victorian Square, called **The Bridges**.
3. Kromer's 210 units, **Vineyards at the Galleria**, now has 4 buildings open + 2 more on the way.
4. Kromer's 336-unit JV with Maddox continues construction, called **Sierra Vista** on ArrowCreek Parkway.
5. Nearby, Ryder's 252 unit, **Village South Apartments** also continues building and leasing.
6. LandCap's 209 unit, **Waterfront at the Marina** is "wrapping" their ultra-luxury apartments.
7. Guardian Capital has resumed construction at their 312 units called **Vida** @ Sharlands & Mae Anne.
8. **Summit Club**, by Reno Land Development, has finished grading its 580-unit site by The Summit mall.
9. Lewis' 278 unit, **Harvest at Damonte Ranch Phase I**, continues construction and leasing up.
10. Lewis is underway with 148 units called **Latitude 39**, on Double R, N of South Meadows Pkwy.
11. Blake Smith continues construction of 280 units called **Lyfe at the Marina** in Sparks.

12. Sunroad is progressing with their 330 units at **Lumina**, up in Pioneer Meadows.
13. Greenstreet' s **Vintage @ the Crossings** is rising just NE of the Southtowne Crossing Wal-Mart.

The Local News Bag

Jason Hidalgo wrote in the 9/13 RGJ that **the first Sprouts Farmers Market in our area opened at S. Meadows Parkway** as part of an ongoing nationwide expansion for the company. They opened 36 stores in the US last year. A second Sprouts is slated for the Sparks Galleria on Disc Drive. Sprouts gives Reno-Sparks residents another option besides Whole Foods and Trader Joe's. Sprouts positions itself as more affordable than Whole Foods, which recently started reducing prices after it was acquired by Amazon.

The 9/20 Northern Nevada Business Weekly (NNBW) reported that **BIG Shopping Centers USA and RED Development are adding 75 ksf to the Outlets at Legends in Sparks**. The Outlets has 40+ stores and restaurants, anchored by Scheels and Nevada's only IMAX Theatre. The new stores will be a 40 ksf Burlington Coat Factory, Habit Burger Grill, Jersey Mike's and Chik-fil-A. Nearby, two hotels are under construction. The Outlets experienced YOY sales growth > 10%, vs the national average of 5.6%. In the last year the Outlets has welcomed H&M, Fragrance Outlet, Buckle, and the area's first F21 Red. At full build-out, The Outlets will surpass 1.2 million sf.

The NNBW reported on August 10th that **Panasonic has leased 220 ksf in TRIC**. The warehouse space at 2777 USA Parkway will be used as a staging and storage center for product related to the Tesla Gigafactory. This is Panasonic's first large occupancy in the Northern Nevada industrial market.

Sally Roberts wrote in the NNBW that a **groundbreaking ceremony was held on August 18 to kick off the "new" Park Lane**. The 46-acre parcel will contain 1,600 apartments, retail, dining, parks and outdoor concert space. It will retain the Park Lane name and even the vintage sign will have a place of honor. The developers are working with Century Park Lane Theatre, who plan a major renovation with luxury seating and concessions. Tenants are expected to start moving in by the end 2018. The project is expected to provide 3,200 construction and 700 permanent jobs. It is expected to contribute \$77.8 million to the City's General Fund, the School District and Redevelopment District #2, plus \$16.2 million in development fees.

The NNBW reported on October 12th that **the Sparks City Council granted a 9-month extension for Syufy Enterprises to complete the renovation of the Galaxy Theater in Victorian Square** and to install a direct entrance between the theater and the city-owned parking structure. The council also approved an amendment to the agreement to reduce the number of theaters from 14 to 13.

EDAWN reported in its CEO & Business Development Update of August 2017 that **Interbike will be largest trade show ever held in the Biggest Little City**. The RSCVA was successful in moving the annual bicycle trade show to Reno-Tahoe-Sparks from 2018 to 2022. Interbike is the largest annual bike trade show in North America. Several candidates such as Denver submitted strong bids to host the event, but ultimately, Reno won out due to a combination of lifestyle and locational (Lake Tahoe!) factors.

Siobhan McAndrew wrote in the Sept. 8 RGJ that **UNR will sell a Stradivarius violin to help pay for its new arts building**. The violin was a gift from Edwin L. Wiegand to UNR's music department in 1974. It was made by Antonio Stradivari in Italy. Considered to be the best in quality, there are about 650 Stradivarius violins in existence. In 2011, a similar violin sold at auction for almost \$16 million. Wiegand was an electrical engineer who pioneered the use of electricity for heating in the early 1900's. His foundation also donated \$8 million to one of UNR's most recent construction projects, the E. L. Wiegand Fitness Center.

The NNBW reported on 8/7 that **UNR unveiled plans to develop a joint computing cluster with Switch to boost research capacity** to better support research. Switch and UNR previously collaborated on The Innevation Center, the downtown incubator. Switch is providing \$3.4 million in technology infrastructure support services for 5 years housed at Switch TAHOE RENO, The Citadel



Campus. The new cluster, named Pronghorn, is expected to offer 30 times more computing power than the university's existing system. The partnership is a real coup for the growing university, freeing up space on campus and providing a secure backup system.

Duane Johnson, writing in the 9/29 NNBW, stated that **Denise and Dale Barcomb have opened "THE" Urban Market, a downtown Reno grocery and marketplace in the Third Street Flats**, the new apartment complex that Basin Street remodeled out of the ruins of the old Kings Inn. The 2,780 sf store is a hybrid: part-grocery store, part C store and part social hangout. Big-screen TVs hang from the ceiling so customers can watch TV while shopping or sitting in rest areas. Another space includes a community bulletin board. They have also partnered with several local vendors to sell product on their shelves.

PR Newswire announced on October 12th that **Switch the closed its IPO of 35.9 million shares of Class A common stock at a price of \$17 / share**. The shares began trading on the New York Stock Exchange on October 6, 2017 under the ticker symbol "SWCH."

Clair Cudahy, writing in the 8/21 Tahoe Daily Tribune, reported that **Halferty Development began construction of the Bijou Marketplace in South Lake Tahoe to be anchored by Whole Foods 365**. The former Knights Inn was demolished at the corner of U.S. 50 and Ski Run Boulevard. It took about four years of working toward a deal, with construction to be completed by the end of next year. Whole Foods has wanted to be in South Lake Tahoe for years.

Fourth Street's future continues to unfold

Bill O'Driscoll, now writing in the 9/18 NNBW (sic!) reported that fountains are in the future for Fourth Street in west Reno. The Carriage Inn at Washington St. was demolished as part of Jacobs Entertainment's plans for a "Fountain District" running from Keystone Avenue east to downtown Reno [**ed note:** my big 2016 project]. Chairman and CEO Jeff Jacobs, who had acquired the rundown motel, said details of the plans will not be divulged until spring. The broader mission of renovating Fourth Street will show marked improvements. That will include fountains along Fourth Street, along with roundabouts at the intersections with Washington and Ralston streets. The district will be anchored by the Gold Dust West gaming property at Fourth and Vine streets and the 833-room Sands Regency Casino Hotel, which Jacobs Entertainment acquired for \$26.5 million earlier this year from Truckee Gaming LLC, at Fourth and Arlington Avenue. The Carriage Inn had 606 police calls since 2014, officials said at the demolition ceremony in which Mayor Schieve took the helm of the heavy equipment taking the first bite out of the building. "This speaks volumes about private and public partnerships," she said of the effort by Jacobs and the Reno Housing Authority to relocate Carriage Inn tenants. "Every one of those (tenants) has been relocated to something more livable."

New Law Keeps Nevada at the Forefront in Race for Self-Driving Technology

The August edition of, "ECONOMIC PULSE", published by the Governor's Office of Economic Development (GOED), announced that Nevada's strategy to embrace innovative industries gained a boost with the adoption of AB 69, which aims to make Nevada a leader in autonomous vehicle policy, R&D, and the testing and operation of fully autonomous vehicles. AB 69 ensures that the biggest names in tech will be able to call Nevada home for the work necessary to make driverless technology a reality. It had wide support from GM, the Self-Driving Coalition (Waymo, Uber, Lyft, Ford, Volvo), and the Alliance of Automobile Manufacturers. AB 69 simplifies and clarifies the legal authority to operate autonomous vehicle on highways, authorizes the use of driver-assistive platooning technology, authorizes the use of fully autonomous vehicles for transportation services – and regulates autonomous vehicle network companies. It also includes local pre-emption, adopts definitions that track industry definitions, and allows for thorough testing to include a wide variety of climates, terrain, and traffic density. This law is part of the state's larger strategy to become a hub for companies seeking to redefine transportation, from Tesla to Hyperloop One to Waycare and Nexar – two predictive analytics firms that recently launched pilot programs with the Nevada Center for Advanced Mobility, a GOED initiative. The Waycare and Nexar pilots will enhance near-term road safety by helping to prevent collisions and in the long term could provide data to enhance the operation of autonomous vehicles.

Libor Funeral Set for 2021 as FCA Abandons Scandal-Tarred Rate

Suzi Ring, writing in Bloomberg.com on 7/27 stated that the London Inter Bank Offered Rate (Libor), the nearly 50-year-old global borrowing benchmark that became a byword for corruption, is headed for the trash heap of history. The U.K. Financial Conduct Authority (FCA) will phase out this key interest-rate indicator by the end of 2021 after it became clear there wasn't enough meaningful data to sustain the benchmark that underpins more than \$350 **trillion** in securities. Libor was tied to some of banking's biggest scandals, leading to \$9 billion in fines and the conviction of bankers for rate manipulation. Relying on the opinions of industry insiders to set the daily estimates based on interbank lending - some in markets that saw fewer than 20 transactions annually - was unacceptable. Libor was trying to do too many things: to be a measure of bank risk and trying to substitute for interest-rate risk markets where it would be better to use a risk-free rate. Setting a firm schedule will help banks manage the transition from Libor, which is the average rate that 20 banks estimate they'd be able to borrow from each other in 5 different currencies across 7 time periods, submitted by a panel of lenders every morning. The new benchmark may lead to tighter swap markets, lower rates and richer attorneys as contracts need to be rewritten and adjusted to remove Libor. The market will need guidance as to what a replacement could be, which will lead to volatility and possibly reduced liquidity in the near term. This decision puts uncertainty into all Libor-based swap rates. The European Central Bank wants the financial industry to take the lead in finding a solution. In June, the U.S. Alternative Reference Rates Committee, recommended replacing Libor with a new, broad Treasuries-based repo rate, linked to the cost of borrowing cash secured against U.S. government debt.

Governor approves buildout plan for First Responder Network

The NNBW reported on 8/17 that Governor Sandoval accepted the FirstNet and AT&T plan to deliver a wireless broadband network to the state's public safety community, making Nevada the 15th state to bring advanced technologies to its first responders. The companies will build, operate and maintain a highly secure wireless broadband communications network at no cost to the state. The FirstNet network will drive innovation and create an entire system of modernized devices, apps and tools for first responders. The FirstNet network will transform the way Nevada's fire, police, emergency medical services and other public safety personnel communicate and share information. This will create an ever-evolving set of life-saving tools for public safety, including public safety apps, specialized devices and Internet of Things technologies. It also carries the potential for future integration with NextGen 9-1-1 networks and Smart Cities' infrastructure. The decision enables FirstNet and AT&T to begin creating an entirely new wireless ecosystem for public safety communications. Nevada's first responder subscribers will have immediate access to quality of service and priority to voice and data across the existing nationwide AT&T LTE network. Preemption for primary users over the AT&T LTE network is expected by year-end.

Clark County gives go-ahead to building Las Vegas Raiders stadium

Richard Velotta, writing in the 9/6 Las Vegas Review-Journal, reported that the only suspense was whether the vote for the Oakland Raiders' planned 65,000-seat, domed stadium would be unanimous - it was. The vote cleared another hurdle in the Raiders pursuit of relocating for the start of the 2020 football season. The Raiders have yet to solve the problem since the day the site was purchased by the team for \$77.5 million on May 1 - a lack of adequate parking on the 62 acres at Russell Road and Interstate 15. The approval by the county gives the Raiders a year to develop a parking strategy as construction starts. Reaching a conclusion on the parking issue is a priority for the Raiders - not because regulators are demanding it - but because the team sees solving it as a critical piece to the team's tailgating culture. The county vote approved permits for 20 uses on the land: retail sales and service, restaurants, offices, live entertainment, alcohol sales and a museum, which allows the development of a Raiders Hall of Fame. The Raiders' pedestrian circulation plan includes new pedestrian overpasses from the east side of I-15. The team also is planning mass transit from shuttle buses and the Las Vegas Monorail, which would need to be extended to Mandalay Bay, as well as taxi and ride-hailing options. Finally, the 225-foot-tall stadium would not pose a hazard to commercial or military aircraft flying through Southern Nevada per a final report issued by the FAA.

Zoning change gives Station Casinos chance to expand Reno project

Anjeanette Damon, writing in the Oct. 25 RGJ, reported that the Reno City Council approved a key land use change to allow Station Casinos to double the size of the entertainment center it plans to build on South Virginia Street. Technically, the council changed the land use designation of the 12-acre parcel that is home to a couple of abandoned big box retail stores - and an Applebee's - from mixed use to tourism commercial. The owner of the property, Fire Creek Crossing, applied for the land use change. The parcel is next door to the long-vacant dirt lot owned by Stations, which is planning an 89 ksf casino entertainment center. The application for the land use change does not describe any specific project planned for the site. Jenny Brekhuis was the only council member to vote against the change, citing concerns about the spread of gaming and the fact that Stations has kept a valuable piece of real estate empty for more than a decade. Brekhuis said the city would be better served with a multi-family residential project on the land.

Reno housing market rises - but cools too

On October 9th, the NNBW reported the following statistics from the Q3 report of the Reno/Sparks Association of Realtors, based on data from the Northern Nevada Regional Multiple Listing Service:

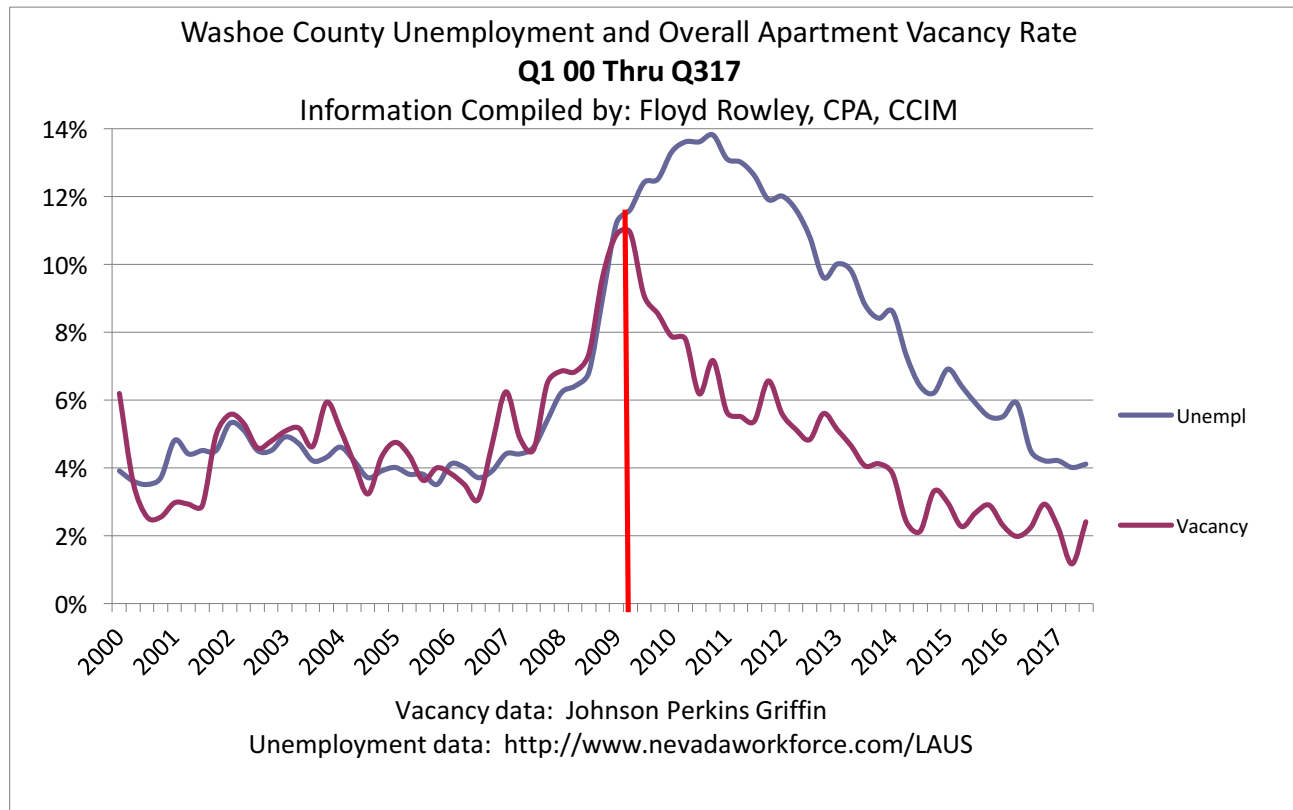
- The Q3 median sales price for an existing home in Reno hit \$365,000, up 12% from the same period in 2016 and up 4 % from Q2.
- The number of sales rose 8% over the year and rose 2% from the second quarter.
- For September, Reno recorded a 6% drop in total existing home sales YOY and a 16% decline from August.
- The Washoe County median sales price rose 11% over the year to \$347,854 and was up 5% from Q2.
- In Fernley, Q3 sales rose 6% over the year but dropped 23% from Q2, while the Q3 median sales rose 15% over the year and 3% from Q2 to \$226,250.

Apartment Statistical Review

The Johnson Perkins Griffin's (JPG) Q317 survey added 1 property to now cover 86 properties and 21,497 units. The Downtown Urban submarket added Fountainhouse to 3rd Street Flats and Square One. As always, JPG's data is representative of regional multifamily performance. A full copy of the survey is available at: <http://jpgnv.com/wp-content/uploads/2017/10/Q3-ApartmentSurvey2017.pdf>

- **Overall vacancy doubled** from 1.17% to 2.41%. This is now 13 of the last 14 quarters that our overall apartment vacancy rate has been UNDER 3%, and 18 quarters in a row that vacancy has been under 4%.
- In both Q217 and Q117, 8 of 10 submarkets registered vacancy decreases – in Q3, 8 registered increases.
- Average rental rates were essentially flat in Q3 – rising only \$8 / unit / mo. this quarter, or 0.7%.
- While rents have risen 25% in 2 years, they have now increased 35.7% since the **TOP** of the last cycle in Q108 – an amazing 9.5 years ago. This works out to an annual growth rate of 3.4% / year. Overall rents were basically flat for the preceding 7 years – but this does not make the news headlines.
- While East Sparks continues in 1st place for the highest average rents, it suffered the largest quarterly vacancy increase of any submarket, rising from 1.86% to 4.96%. This happens every 1-2 years as this submarket gets a tad too full of itself – and needs to come back down to earth.
- East Sparks rents dropped \$69, after a huge \$130 gain in Q2 – after \$155 in Q1. The new Downtown Urban submarket continues in 2nd place, with Lakeridge bumping NW Reno back down to 4th place.
- In Q117 we achieved 5 out of 10 submarkets topping \$1k / unit / mo. in average rent. Only 1 submarket joined the "\$1k / mo. Club" in the ensuing 5 quarters. Then, starting in Q2 – and continuing into Q3 - an astounding 9 of 11 submarkets exceeded \$1k average rent / month – with only the blue-collar submarkets of Airport and Brinkby-Grove now left out of the "club".
- Our region's 2 blue-collar submarkets continue at an amazing 99+% occupancy, proving that all the workers we lost in the Great Recession have now returned or been replaced.

Conclusion: I continue to believe that all the new expensive units will be snapped up by the new employees coming to our region who don't feel that the new Class A rents are all that expensive, leaving the existing apartment stock to be renewed by the existing workers in our region. At the same time, I have identified a series of "workforce" land parcels that can be built "out of the core" to accommodate our \$15 / hour workers.



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 14-year brokerage career in northern Nevada, interrupted by a brief "walkabout" with a national firm for 13 months in 2013-14. Before joining Johnson Group, our region's premier boutique commercial brokerage firm, Floyd served for 7+ years as Sr. VP for the Colliers Investment Services Group locally. 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 over \$235 million in 78 transactions in our market. Starting in the fall of 2008 he started focusing on distressed assets, mainly apartments. He has completed 64 broker price opinions totaling \$472 million, mainly during the Great Recession, resulting in \$61 million of listings, mainly apartments and land, since early 2009.

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