

## **Northern Nevada Commercial Investment Real Estate Report – Q214 The Tesla!! Tesla?? Tesla!! Tesla?? Issue**

Tesla is everywhere in the news these days. Accordingly, I moved up my “coverage” from page 5 in my Q1 report to top billing. I clipped 11 Tesla articles from the Reno Gazette Journal (RGJ), Forbes.com, the New York Times, Yahoo Finance, etc. I am sure you have read most of them. Summarizing them here would take a lot of time and not add much insight to what you already know. So, digging deep into my CPA background, I decided to download Tesla’s Q1 SEC report (Form 10-Q), published on May 9<sup>th</sup> to see what nuggets I might unearth. The following are highly condensed quotes from ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS:

“We commenced deliveries of the Tesla Model S in June 2012 and delivered 22,477 vehicles in 2013. We expect to deliver over 35,000 Model S vehicles in 2014, a 55% increase over 2013. In February 2012, we revealed the Model X crossover as the first vehicle leveraging the Model S platform. We plan to ramp production in the spring of 2015. We ended the quarter with \$2.58 billion in cash and equivalents, a significant increase from \$849 million at the end of 2013. We plan to continue to expand our stores and service infrastructure in areas with a high concentration of Model S customers. At the end of 2013, we had stores, galleries and service centers in 110 locations, and plan to increase our total by more than 75% in 2014, including China. In May 2013, we announced the significant expansion of our Supercharger network as well as plans to reduce charging time. We currently have a network of 100 Superchargers. We plan to install another 200 Superchargers globally in 2014.

Operating and capital expenditures are expected to significantly increase in 2014, as we kick-off the construction of the Gigafactory. While we have not finalized a site, we expect to start working on at least two locations in parallel to minimize risk of delays after groundbreaking. We currently plan to commence supplying battery packs in three years. The Gigafactory is on plan to begin production in 2017 and is expected to attain full production in 2020, sufficient for 500,000 vehicles annually. We believe that the Gigafactory will reduce the cost of our battery packs greater than 30%. We recently entered into a non-binding letter of intent with Panasonic to advance work on the Gigafactory.”

So there you have it – Tesla plans to expand exponentially in all areas – and worldwide - at the same time. As a comparison, according to <http://www.statisticbrain.com/general-motors-statistics/> General Motors made 9.7 million cars in 2013 – **277 times** Tesla’s planned 2014 output. We’re all rooting for Tesla, but I doubt they will decide on Nevada until after the margins tax vote in November. If that poorly designed initiative passes, its bye-bye Nevada and hello Texas.

### **Major Planned / Under Construction Apartments**

This quarter I added 1,020 planned units and 87 under construction. Apartments I am now tracking:

Planned (these are more likely to be built): 9 projects totaling 2,406 units

Under Construction: 6 projects totaling 1,121 units – described below

**Total:** 15 projects totaling 3,527 units vs 2,420 in Q114

- The **Villas at Keystone Canyon** continues in full-swing site work. Grady Kromer out of Truckee is the developer of this 288-unit project. The three floor plans range from 1,121 to 1,328 sf.
- Silverwing Development is building **Edgewater at Virginia Lake**. The 1960's era rental housing has been demolished to be replaced with 288 rental condos and 48 for-sale townhouses. Virginia Lake will be revitalized by covering the Cochran Ditch. The City is looking into installing an underwater circulation system. Site work will start in 30 days, with occupancy to start in March 2015.
- Silverwing's **Bungalow's at Sky Vista** has completed 150 units with the final 38 planned. 20% of Phase I is occupied and 33% leased. Planning to start Phase II underground in mid September.
- The **Village at Arrow Creek** has now released 5 buildings, all apartments are fully occupied and the rest are 68.3% pre-leased. Expected completion of the last building is late December 2014.
- **Sterling Sierra**, a Class A student housing development of The Dinerstein Companies of Houston, is now pre-leasing for the fall 2014 semester at its upscale community at 1550 Evans Avenue.
- **Aspen Ridge**, sponsored by the Northern Nevada Community Housing Resource Board (NNCHRB), broke ground on a 43-unit development at Sullivan & Merchant Street in Sparks. Designed by H+K, and being built by Q&D, this affordable apartment project will be finished this fall.
- **Juniper Ridge**, also sponsored by NNCHRB, is under construction at 5<sup>th</sup> & Morrill. Designed by Cathexes, and built by Sunseri, this affordable project will contain 44 units and be finished this fall.

### **Q214 Multifamily Sales and Analysis**

Multifamily (MF) sales quadrupled this quarter – after more than doubling in Q114 sales volume over Q413 – to 56% of all sales transactions. This was due to the huge Alexander deal @ \$55.3 million – and no large industrial sale similar to the \$63 million MEPT industrial transaction in Q1. Total MF volume was \$86.2 million – an increase of \$57.5 million from Q114. There were 4 MF sales over \$3 million – compared to only 1 in Q1 for an increase of over \$5 million in volume. Small MF sales under \$1 million rebounded by 25% - to 30 deals – for a total of \$10.5 million, compared to \$6.9 million in Q1. The average “small” deal size exploded by \$61.5k to \$349.5k from \$288k in Q1.

### **Major Q214 Sales Transactions**

As stated above multifamily sales came roaring back this quarter even though total sales dropped by \$56.7 million to \$154.7 million from \$211.4 million in Q1. The lack of large industrial sales was the major cause, as total transaction volume was relatively steady at 117 deals this quarter, versus 111 in Q114.

| <b>Transaction</b>   | <b>Address</b>             | <b>Date</b> | <b>Price</b> |
|--|----------------------------|-------------|--------------|
| Spanos sells The Alexander apartments to a 1031 TIC consisting of Lodi people for \$158k / door – at a 5.65% cap rate - the first sub-6% deal in this real estate cycle. | 11380 South Virginia St    | 04/23/14    | 55,300,000   |
| After four years of legal wrangling special servicer LNR finally succeeds in foreclosing on Lakeridge West from the Topol family.  | 6155 Plumas Street         | 05/15/14    | 10,700,000   |
| The Fairfield Inn sells to a Starwood unit.  | 2085 Brierley Way at Vista | 06/18/14    | 5,960,000    |
| Paul Snider finally sells the former Audi dealership building to Tom Dolan to relocate Lexus.  | 7175 South Virginia Street | 04/15/14    | 4,500,000    |
| After foreclosing on a \$5.4 million loan made in '07, Minnesota Life sold this 168 ksf warehouse to Panattoni who is doing a major renovation.                          | 400 E Parr Boulevard       | 06/12/14    | 4,350,000    |

|  |                                     |          |                   |
|--|-------------------------------------|----------|-------------------|
| Elevate Investment Group buys the Copperfield Building, containing a surgicenter.                      | 9480 Double Diamond Pkwy            | 06/20/14 | 4,000,000         |
| Chisom Housing of Seattle buys the Orvis Ring II Senior apartments from the Community Services Agency. | 726 Evans Avenue & 325 E 7th Street | 04/15/14 | 3,616,000         |
| A Montreux couple buys a Texaco station  | 1365 Baring Blvd, Sparks            | 05/20/14 | 3,100,000         |
| A Sacramento family buys a, small strip center, anchored by Subway and Baskin Robbins.                 | 1145 North McCarran                 | 06/30/14 | 3,075,000         |
| <b>Totals</b>  |                                     |          | <b>94,601,000</b> |

### **The Local News Bag**

On July 25<sup>th</sup> the **Roselake Apartments**, at 3050 Lakeside Drive, sold for \$3.9 million or \$48,750 / door. It was first listed two years ago at \$4.75 million.

Jason Hidalgo and Yvonne Beasley reported in the May 31 RGJ that the long vacant, site of the former **Bundox Restaurant and River House motel was bought** by Lake Street Parcel LLC, part of Simon Equity Partners. The property sits on Lake Street, between the Truckee River, with Second Street to the north and sold for \$1.95 million. Plans will likely include retail such as restaurants or bars, but not office.

In the 4/14 NNBW, John Seelmeyer reported that the **Maytan Building at 777 S. Center St, was bought** by Tom Johnson. It was built in 1959 to house the music business founded by Steve and Iris Maytan, which closed in March. It contains 24,468 sf, and a 6 ksf finished basement. The new owners are planning a mix of retail, office and restaurant uses for the renovated building to be reopened in Q115.

Yvonne Beasley, writing in the April 25 RGJ reported that developer **Blake Smith hopes that a modern, low-slung Starbucks**, with landscaping, outdoor seating and a drive-through will soften the corner of South Virginia and Liberty and make it more of a gathering place. His firm bought the six-story US Bank building, renaming it 1 East Liberty, in 2013. The 2 ksf Starbucks will be built atop the building's underground parking and will cost \$1 million. USBank is till the lead tenant, and the building 68% rented.

The **former Winners Corner** gas station-convenience store complex at the corner of South Virginia Street and Huffaker Lane will reopen in August with a Chevron station, car wash, automotive services and a food court. Yogurt Beach and a Bertha Miranda's takeout shop will anchor an expanded food court.

The former Horizon in South Lake Tahoe will be branded as the **Hard Rock Hotel & Casino** after completion of a \$60 million renovation, a partnership of the Park family and Warner Hospitality.

I couldn't go a quarter without mentioning Apple – Jason Hidalgo bailed me out by writing in the 8/7 RGJ that **Apple submitted permit applications for two additional data cluster buildings** for its Reno Technology Park campus. This will bring the number of data cluster buildings at the Apple campus to eight, including the initial 20 ksf rapid deployment module that went live earlier this year as part of "Phase 1". Apple also completed an administrative building a few months ago as part of the data center's second phase of development, which is expected to wrap up by the end of summer as the location transitions to its third phase. Future pads at the site so far also can accommodate eight more additional data cluster buildings. By accounting for 345 acres of the technology park's 2,200 acres, Apple has ample room to keep growing its data center. Most of the activity is at the Apple campus' southern area near Interstate 80 but the company also submitted permit applications for construction at its northeast end.

### **Improvements set for southbound I-580**

Jeff DeLong reported in the 7/11 issue of the RGJ that Q&D Construction submitted the low bid at \$12.1 million to replace the aging surface of southbound I-580/U.S. 395 south of the Spaghetti Bowl between

Glendale and Moana. Work on the 2.7-mile stretch of freeway will begin this fall, with major work starting next spring, according to NDOT. This follows the 2011 completion of a \$31.5 million project to widen the northbound freeway between Moana and I-80. More than 140,000 vehicles / day travel that stretch in both directions. Concrete roadway slabs that are now 30+ years old will be replaced between Glendale and Villanova. Between Villanova and Moana, existing concrete will be resurfaced. Some resurfacing on northbound lanes is also planned. Seismic retrofitting of some freeway bridges will occur, as will improvements to road crossings underneath. When major work starts next year, traffic will be routed to opposite lanes while the road surface is being replaced. Work is expected to wrap up in the fall of 2015.

### **When will USA Parkway be completed?**

In the May 7<sup>th</sup> RGJ, Emerson Marcus reported that NDOT said the 18-mile, \$55-million USA Parkway project that will connect I-80 to US Highway 50 through the Tahoe-Reno Industrial Center (TRIC) is currently in the environmental review phase. It will be presented for public comment by the end of 2014. Pending the results of the review, the project could then proceed to design and eventually construction by the end of the decade. Funding has not been determined. About \$350 million in federal money for Nevada roads, as part of a two-year, \$105 billion transportation bill signed by President Obama in 2012 is expected to dry up this summer. The administration proposed a four-year, \$302 billion bill to Congress. The progress of that bill will play a large role in several Nevada road projects in limbo. More than 7,000 people live in the area between U.S. 50 and I-80. Currently, traffic from Silver Springs to Reno runs east through Fernley, then west on I-80. They have no direct access to TRIC, where USA Parkway runs seven miles south from I-80 through TRIC, but stops short. Completion will also drive development at TRIC and create a shorter route to Las Vegas. The intersection of 95A and Highway 50 will also play a key role.

### **Airport's growth spurt continues**

Bill O'Driscoll, writing in the June 29 RGJ reported that the Reno-Tahoe International Airport (RTIA) is poised for traffic growth, having accomplished the following in recent years:

- A new 195-foot, \$18.4 million air traffic control tower, replacing the old 70-foot tower built in 1957.
- A \$65 million rebuild of the airport's in-line baggage system and airline ticket-counter corridor.
- A \$5 million facelift of the baggage claim area.
- A \$6.2 million, 30,000-square-foot snow removal equipment center.
- The \$27 million Gateway Project, which consolidated, redesigned and enlarged the security checkpoint area, and built a new upstairs restaurant / retail corridor for RTIA's two concourses.
- Cargo carrier Amerijet arrived in July.
- Dassault Aviation's Western region service center opened in 2009 to maintain its Falcon business jets.
- A \$7 million Atlantic Aviation facility opened this spring for private jets and other aircraft, including a new C-130 firefighting tanker based in Reno operated by Coulson Group.
- A new \$6 million general aviation terminal recently opened at Reno-Stead Airport that houses the regional office for the new FAA program to develop commercial applications for unmanned drones.

The Airport Authority is in good fiscal shape with 2/3 of their \$42.8 million annual budget coming from non-airline fees, including parking, ground transportation, rentals and retailers. There's more to come:

- The Authority is working with Dermody Properties on developing 45 acres just south of RTIA for a new logistics businesses in the next year as well as smaller parcels on the RTIA's periphery.
- Officials are seeking qualified businesses interested in locating on 3,500 acres of airport authority-owned land adjacent to the Reno-Stead Airport and near Stead's established industrial parks.

### **Environmentalists appeal ruling in TRPA lawsuit – Some things never change, Volume 3**

Writing in the May 8 RGJ, Jeff DeLong reported that Earthjustice appealed an April ruling that upheld the updated Tahoe Regional Planning Agency (TRPA) regional plan. Attorneys argued that the updated regional plan adopted by the in late 2012 stands to environmentally harm a national treasure. The Sierra

Club and Friends of the West Shore sued to block TRPA's new plan in February 2013, describing it as "deeply flawed." On April 7, the U.S. District Court in Sacramento ruled in favor of TRPA, concluding it acted properly in approving a plan that depends largely on urban **re**development as a means to protect the lake from environmental degradation. This appeal to the 9<sup>th</sup> Circuit Court of Appeals seeks to reverse that decision. TRPA officials said they will continue to implement the new plan, as they are confident the plan will accelerate Lake Tahoe's restoration and support sustainable communities. Critics insist TRPA has "abandoned" its central mission to protect the lake.

### **Can the margins tax be used for "anything"?**

On May 2<sup>nd</sup> the AFL-CIO officially came out against the Margins Tax – it's a job killer. Last quarter I reported that the magazine The Silver State CPA, the official magazine of the Nevada Society of CPA's, contained two articles in its Spring edition that were strongly against the Margins Tax. Since then the organization has officially joined EDAWN and many others in officially opposing this flawed tax initiative.

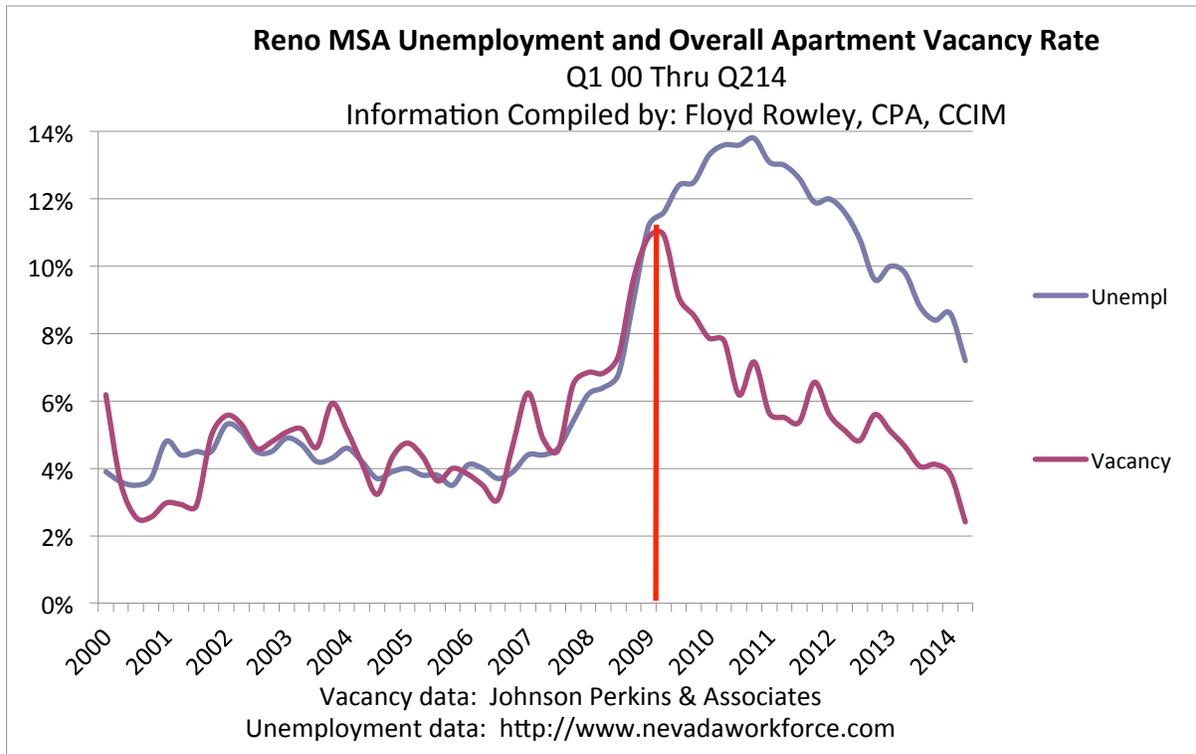
Fact Checker Mark Robison debated this question in the July 6<sup>th</sup> RGJ. If passed on Nov 4<sup>th</sup> The Education Initiative, a/k/a The Margins Tax, will create a 2% tax on Nevada businesses with more than \$1 million in gross **margin** – not **income**. It will also likely steer Tesla from Nevada. The Coalition to Defeat the Margin Tax Initiative (Coalition) says that the law lets the legislature divert the funds to anything. A supporters' blog states that the initiative's first sentence "requires that the proceeds of the tax be used to fund the operation of the public schools for kindergarten through grade 12." Section 19, States, "The money so deposited must be apportioned among the school districts and charter schools of this State ... in the manner provided by law in the State Distributive School Account." NRS 387.031 states, "The money in the Account may only be used for public schools and public education, as authorized by the Legislature." At first glance, it seems clear that the money must be used for education. The Coalition commissioned Jeremy Aguero of Applied Analysis, who stated: "Noble intentions notwithstanding, the assertion that the proceeds of the margin tax will be dedicated solely to education programs should be treated with skepticism." This is based on the Legislature's tendency to make revenue sources flexible in use, regardless of the express purpose for which laws were enacted. In 2009, a lodging tax was approved designated for education. Lawmakers diverted the revenue into the state's general fund for the 1<sup>st</sup> two years. "The general fund has lessened its contribution to K-12 despite the presence of the room tax revenues, thereby using a material portion of the room tax to make funding available for other State functions," the memo says. The Nevada Plan uses a formula to determine the amount of school funding. The education budget is based on things such as how much the state wants to allocate per student. Then any education-related revenue, such as local school taxes, is added to the education pot. The difference needed to arrive at the total budget is then taken from the general fund. So it is possible that money raised from a margin tax could fail to increase Nevada education spending. Truth meter: 6 out of 10.

### **Apartment Statistical Review**

I am indebted to Johnson Perkins & Associates for allowing me to present - with attribution – their quarterly data all these years. Their survey covers 76 properties and 19,031 units. Thus the data is representative of our region's multifamily performance. Key takeaways this quarter are as follows:

- Overall vacancy continues to drop to 2.4% at Q2 - from 3.8% in Q1, ranging from 1.4% in Lakeridge to 3.9% in Brinkby/Grove – a perennial weak submarket. However 4 of 10 markets were under 2%.
- Offsetting this good news is the unexpected drop in average rental rate from \$876 / unit / month to \$852 in Q214. Studios and 2X1's experienced the largest drops of \$15 and \$31 respectively, while 1X1's and 2X2's experienced increases, suggesting that tenants want their own private bathroom.
- East Sparks continues to report the highest rents, but their vacancy has been higher than the market average for the last 2 quarters, suggesting that a strategy of aggressively pushing rents enables them to accept higher vacancies and possibly higher turn costs.

Based on being in the market – and the above statistics - it is clear to me that 2014 is going to be a great year for multi-family. Based on deals I have worked on so far this year it is clear that both the Lakeridge and the South Meadows areas are still “on fire”. In conclusion our region’s apartment market continues to be very stable by almost every measure across most of the region’s submarkets and most unit types.



**About the Author**

Floyd joined the Johnson Group in January 2011 as the culmination of his brokerage emphasis that had been moving towards apartments throughout his 10-year brokerage career in northern Nevada, after a brief stint with a national firm in 2013. Prior to joining Johnson Group, Reno’s premier boutique commercial brokerage firm, Floyd served for 7+ years as Senior Vice President of the Colliers Investment Services Group. Floyd’s focus is on representing buyers or sellers in large investment property sales: 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 \$143 million in 46 transactions in the Reno MSA. Starting in the fall of 2008 he increased his focus on distressed assets, mainly apartments. Since then he has completed 45 broker price opinions totaling almost \$297 million during the Great Recession, resulting in \$46 million of listings, mainly apartments, since early 2010.

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