

**Northern Nevada Commercial Investment
Real Estate Report – 2nd Quarter 2013
The “Back to a National Platform” Issue**



After two and a half fun and productive years with the Johnson Group, Reno’s boutique local firm, I am excited to announce that I joined ARA – Apartment Realty Advisors - on June 1st to open the northern Nevada office. This strategic move re-establishes professional relationships with ARA apartment brokers I had in both Las Vegas and San Francisco whom I have known for years. The move also represents a continuation of my ever-increasing emphasis on apartments that began in earnest in the fall of 2008. As a company, ARA is young - barely 10 years old - and has offices in 29 cities across the USA. We all have a major “serve the client” focus that is very refreshing. ARA also has a demonstrated and aggressive commitment to the adoption of new technology. We are soaring high on the Google cloud above those poor Windows people – I was one for 30 years.

Major Q213 Sales Transactions

The chart below summarizes the eight Q1 transactions over \$2 (sic) million – quite a slow quarter. Q2 sales were only \$117.87 million, down \$40.47 million from Q113, which included both the Boulders and Caviata apartment deals. They accounted for \$49.5 million of the Q1 total. While I closed 3 deals in Q213 totaling \$2.13 million – they were all smaller – they represented a winding up of my listings and transactions with Johnson Group.

Transaction	Address	Date	Price
Bank of the West sells 276 condo mapped lots above Panorama Village	Frank Ct & Gigi Lane	06/24/13	28,980,300
Village Properties bot the 176 unit Pkwy Manor Apts in Carson at a cap between 6.94 and 7.63%	603 E College Pkwy, Carson	04/30/13	18,650,000
US Bank sells its 1 East Liberty location to a group formed by Blake Smith who will renovate the tired property, spending \$1.6 million.	300 S Virginia St	04/23/13	5,980,000
Desi Moreno sells his Jackson's convenience store / Chevron station to Jackson's Food Stores	910 Robb Dr	05/31/13	4,000,000
Desi Moreno sells his Jackson's convenience store / Texaco station to Jackson's Food Stores	8995 La Posada Dr	05/31/13	3,500,000
US Bank as trustee for Merrill Lynch 2006 CMBS forecloses on this 1997 vintage flex office / retail center – home of Rick’s Deli Cafe	9475 Double R Blvd	04/30/13	2,705,000
After filing a condo map Gerald Visconti sold his flex industrial building to the Leff Family Trust	10 Greg St #100 - 170	04/18/13	2,650,000
US Bank sells the former Colonial Bank Building near the former Park Lane Mall to Roger Elton	2330 S Virginia St	05/17/13	2,500,000

Q213 Multifamily Sales Analysis

Multifamily sales accounted for 47.8% of the total Q213 sales volume – identical percentage-wise to Q1. However Q2 included the sale of 276 mapped lots (above the existing Panorama Village busted condo deal) and the sale of the Parkway Manor Apartments in Carson – no apartments in Washoe County. The 2nd quarter was a pretty poor showing for Washoe County.

In Q213 there was only 1 sale in the \$1 – 3 million range – and 22 sales under \$1 million compared to 23 in Q1. The good news is that the average “small” deal size soared from \$219k to \$353 – and I closed two of the larger, small deals.

Multifamily News & Rumors:

The good news is that the pipeline for Q3 is flush with the following deals in escrow:

- Country Club Villas
- Harvard Court
- Villagio – formerly Woodhaven
- Royal Vista in Carson City

The Alexander is also rumored to be under contract as well.

Construction is progressing steadily at Ryder’s 208 unit Mountain Gate Apartments on Arrow Creek Parkway, with another developer considering apartments on the E side of the freeway.

J. Witt will be breaking ground soon on the Bungalows at Sky Vista. The project is planned for 338 units consisting of single-story, 8-plex buildings with attached garages. The units will average about 900 sf, with 180 units planned in the first phase.

Sewer capacity problems have stalled the planned UNR complex of 120 modern one and two-bedroom unit housing project for married students, according to a July 16 article in the Reno Gazette Journal (RGJ) by Lenita Powers. Work was scheduled to begin in July on the \$20 million project to replace the 40-unit, University Village. UNR is still trying to open by fall of 2014. As I reported last quarter, UNR will lease the site at 1775 Evans Ave. to Balfour Beatty Communities for \$50k per year for the first 5 years. Additional interest and annual gross revenues for future years are TBD. Balfour will pay for the cost of construction. UNR will manage the complex. After 42 years they will hand ownership of the complex to UNR.

The university also has plans to build a new residence hall for undergrads on a site south of Argenta Hall off Galen Place and Cooper Court.

The Local News Bag

In a press release dated July 11th EDawn reported that for the year ending June 30, 2013, **EDawn and its partners assisted 33 companies to relocate or expand**, creating a projected 2,124 jobs within 5 years, with an average annual salary exceeding \$39,000. This is a 28% increase in assisted jobs and more than double the assisted jobs average for the past 5 years. While this is great news the region that still has 20,000 unemployed. These companies total a projected \$1.8 billion in economic impact over 5 years in new tax revenue, employee payroll, capital investment, while absorbing nearly 1 million sf of purchased or leased industrial and office space. EDawn’s pipeline is full with prospect activity and an increase in companies looking to relocate or expand from California, accounting for 40% of all inbound leads. The number of site visits also grew over the past two years from an average of 4 / mo. in 2011 to more than 10 / mo. in 2013. These visits are important because of the companies that visit AND make a decision to relocate; over 80% choose Reno-Sparks.

A staff article in the June 17 Northern Nevada Business Weekly (NNBW) reported that on June 6 two businesses that own and operate **the Lakeridge Golf Course filed for Chapter 11** reorganization. The course and the clubhouse remain open with plans to reorganize their financial operations. Hash Lane

Holdings LLC, which does business as Lakeridge Golf Course, owes \$6.3 million, including \$6 million to Heritage Bank, against assets of about \$5.2 million. They posted profits of \$2.1 million in 2012 and \$2.2 million in 2011. Hash Lane is 99% owned by Blackwood Canyon LLC, which is managed by Byron and David Topol. Developer Nathan Topol owns the other 1%. Club Lakeridge Inc., the holder of the real estate at the golf club also filed Chapter 11. Its filing shows that it owes \$2.2 million to Summit Investment Management LLC of Denver, the holder of 1st and 2nd mortgages on the properties.

Jeff DeLong reported in the June 14 Reno RGJ that 66 homes are in the way of **plans to improve the intersection of Pyramid Way and McCarran Boulevard**. A buyout program by the Regional Transportation Commission (RTC) can spend up to \$23.1 million to buy property and help relocate willing sellers of the 66 homes, including the Lord of Mercy Lutheran Church and three office buildings. Construction is scheduled to begin in 2015. The \$71 million project will fix one of the most gridlocked and accident-prone intersections, with 60,000 vehicle trips / day. The project would widen Pyramid to 3 lanes in each direction from Tyler Way north to Queen Way. New turn lanes would be built on both Pyramid and McCarran. The property that the RTC needs to acquire includes homes on the east side of Pyramid from Richards Way north to Queen Way and along a stretch of McCarran from Pyramid to 4th Street. In all, 69 homes are needed, with three already purchased through the hardship program.

Writing in the April 15th NNBW, Rob Sabo reported that **Granite Construction is building an overpass at Snyder Avenue** at the south edge of Carson City that will clear the way for construction of the final leg of I-580 around Carson City in 2018. The \$9.5 million contract is to build the last of three overpasses that will span the new freeway. The work, which includes re-routing utility lines, improving drainage and construction of retaining walls, is the 2nd leg of a four-phase plan to finish the \$100 million freeway extension. The \$12.5 million 1st phase built overpasses at Koontz Lane and Clearview Drive. Contracts for the 3rd and 4th phases, expected to cost \$22.5 million and \$63 million, should be let in fiscal years 2015 and 2016. Those phases call for construction of a new interchange at Highway 50, the terminus of the I-580 extension, and construction of over two miles of roadway.

In the July 18 RGJ Scott Oxarart reported that **Heavenly Mountain Resort has broken ground** on a ropes course, zip lines, a rock climbing wall, and a mountain roller coaster to open by October. By spring 2015, they plan to have a mountain bike park and a 2nd ropes course. They have filed a proposal with the Forest Service and the TRPA to use forest land for the project. Heavenly's goal is to provide more summer activities. Six zip line runs are planned. There will be four, 1,000-foot-long zip lines near the Bear Cave children's ski school lodge, where a summer tubing course will also be built. Two 3,100-foot zip lines will replace the old one and will operate year round. The mountain bike park will be similar to the one at Northstar, which has guided tours, instruction and rentals. The mountain roller coaster, called the "Forest Flyer," is similar to a rotoyon, which is akin to a bobsled course without the high speeds and extreme turns. The track will be a few feet above the ground and weave down the mountain between trees. Water activities like kayaking and fishing are also planned on the existing East Peak reservoir.

Renovation work continues at the Grand Sierra Resort

Rob Sabo wrote in the July 1 NNBW that the Grand Sierra Resort (GSR), which completed a \$25 million renovation last August as part of its grand reopening, has just completed a \$2 million renovation of its race and sports book, now located at the site of Xtreme Sports Bar. It has over three times the TV screens of the previous facility. Current plans are for a 25 ksf nightclub and swimming pool where Mustangs, Johnny Rockets and the sports book were located, and a 7.5 ksf spa and retail amenities on the lower levels. GSR hopes to have the new nightclub opened before New Year's Eve. Johnny Rockets will move to the lower level next to a renovated entrance to the pool area, making it easily accessible to swimmers. Future plans are to remodel the main valet and other entrances. The GSR has just 7 of 27 floors left in its room renovations.

The Quarterly Apple Update

On May 18 Brian Duggan, writing in the RGJ, reported that Washoe County has issued 28 permits for Apple's data center east of Sparks. Two were issued on May 9 to build two 25-ksf data center buildings valued at \$6.8 million, out of a planned 16. They will also build a 38-ksf, \$4.6 million administrative building with a dock and staging area. In Reno, plans for Apple's business office are still unclear a year after the City Council agreed to the project. Officials are still unable to confirm exactly when or where Apple will build in downtown's Tessera District, which will allow Apple to keep 75% of sales taxes on purchases for the data center, saving an estimated \$72 million over 10 years. In late 2012 the Planning Commission approved a 14.8-ksf light industrial building on a lot at 520 Evans Avenue. United Construction applied for the permit - which still has not picked it up. In April, United requested an extension through Oct. 10. Due to confidentiality agreements, Fred Turnier, Reno's Community Development director said officials are calling the project at 520 Evans Avenue "Project Food."

Brian wrote in the July 2 RGJ that Apple has unveiled a 137-acre, 18-megawatt solar plant to run their data center. Construction will bring 100 jobs at an average \$35 per hour to Lyon County, which has a 13%+ unemployment rate. The solar array will be built next to the Fort Churchill Generating Station north of Yerington. It is expected to generate 43.5 million kilowatt hours of energy. Like all of its other data centers Apple plans to use only renewable energy to power its data center near Reno. With the array, NVE expects to get 14% of its power from renewable sources by 2015.

Deep Strength for Apartment Fundamentals

Writing in the July 3rd issue of the National Real Estate Investor, Bendix Anderson wrote that apartment supply is generally in line with demand for rental housing, according to "The State of the Nation's Housing 2013," a report from Harvard's Joint Center for Housing. Developers are finally building new multifamily at rates comparable to rates before the crash. Starts in 2012, jumped 38% to 245k units and will cross the 300k unit mark in 2013. In 34 of the 100 largest metros, developers took out more permits in 2012 than the average level in the 2000's. The number of U.S. households grew by 980k in 2012 - up sharply from an average of 600k / year during the Great Recession. The growing number of adults, including new college graduates, should support the creation of 1.2 million new households / year for the rest of the decade. Also, the growing demand of for-sale homes may not bite into rental apartment demand. When the home ownership rate declined, the number of renter households grew sharply—by more than 1 million in 2012. There is a large, flexible housing stock that can absorb changing demand. Between '07 and 2011, 2.4 million homes switched from owner occupied to renter occupied - 2.7 times more than the 900k new rental units started during the period. This flexible housing stock is likely to turn back to owner-occupied if demand switches back to homeownership, causing a big drop in the rental housing stock. Rental housing markets are being challenged by slow income growth that weakens the ability of renters to pay rising rents. Median asking rents are the highest in history. In 2011, 40 million households paid more than 30% of their incomes for housing, including 20.6 million that paid more than half of their incomes for housing. The problem could get worse as the future of housing demand is largely driven by Echo Boomers, with a large minority component at the low end of the income spectrum.

No Boom Yet, but Homebuilding is on the Rebound Locally

Rob Sabo, writing in the May 27 NNBW reported that residential home construction in Reno-Sparks is experiencing a full-fledged recovery. Reno issued 245 single-family residential (SFR) permits through April - up 26% over all of 2012, and up 82% from '09. The peak of SFR permits was 2005 when 3,141 permits were issued. Sparks issued 209 SFR permits in 2012 - a 60% increase from 2011, and a 137% rise from 2010. There were 1,503 SFR permits issued in 2005. Homebuilding is strong in D'Andrea, Spanish Springs and Damonte Ranch. Lennar plans to build up to 200 homes in 2013, about 20% of the regional market - a far cry from '06, when they erected more than 1,000 homes. Most of Lennar's new product is on the market less than 30 days - a trend that led to an 8% appreciation last year, yet prices still are 40% off

the levels of five years ago. Perry Di Loreto began a new subdivision, La Casada at Damonte Ranch. He expects to erect up to 30 homes in the first phase. He isn't building anything spec, with many of the deals being done being all-cash from California-based buyers. Demand currently is outpacing supply. The residential market changed so quickly that it's taking time to acquire raw land and to develop streets, sewers and storm drains. The region's labor force also poses a setback - there are fewer workers - who lost jobs during the downturn and either left the area, or they've turned to other industries and aren't willing to sacrifice steady paychecks for the uncertainties of the construction industry.

Uncertainty is the Enemy of Recovery

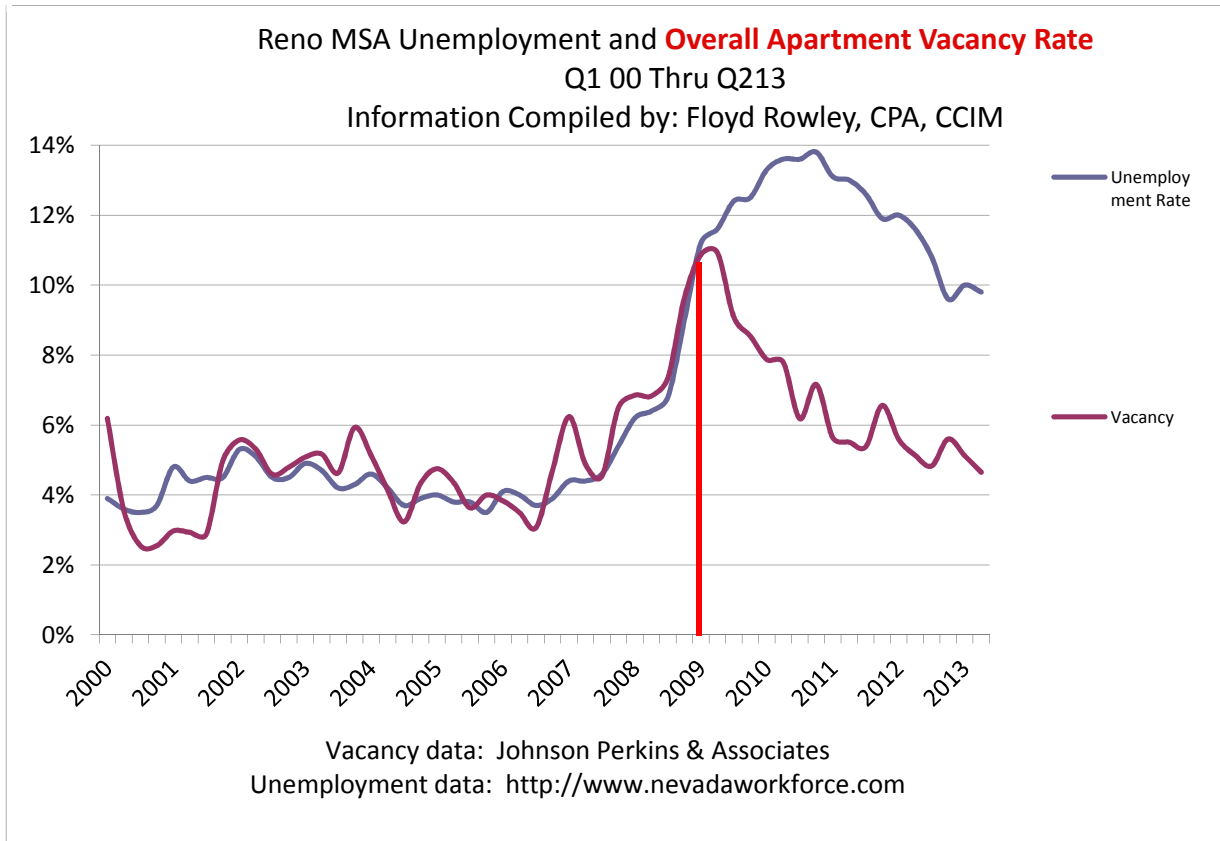
In an article in the April 29th Opinion section of the Wall Street Journal, Bill McNabb, chairman and CEO of the Vanguard Group, wrote that GDP growth in Q113 was far short of the forecast 3.2%. Companies are dealing with the paradox that they are in good shape and have money to spend but can't see a clear road to economic recovery. Thus they are not going to hire or spend. Economists call this "deadweight loss" - loss caused by uncertainty. There is uncertainty about regulatory policy, monetary policy, foreign policy and, most importantly, U.S. fiscal policy and the national debt. Uncertainty creates a real and quantifiable price tag - an uncertainty tax. Three economists, Nicholas Bloom, Scott Baker and Steven Davis have done great work measuring policy uncertainty over the past few decades. Their research shows that U.S. economic policy uncertainty has been 50% higher in the past two years than it has been since 1985. Vanguard's economists have isolated changes in the U.S. economy that they determined were specifically due to increases in policy uncertainty: the debt-ceiling debacle in August 2011, the congressional super committee failure in November 2011, and the fiscal-cliff crisis at the end of 2012. Vanguard estimated that these events created a total \$261 billion drag on the economy. Without this uncertainty tax, U.S. GDP could have grown an average of 3% per year since 2011. Also, the U.S. labor market would have added roughly 45k more jobs / mo. over the past two years - more than 1 million jobs that could have been created by now. The spike in uncertainty over the debt-ceiling debate resulted in an economic loss of \$112 billion. Until the U.S. debt issue is resolved for the long-term the market will be built on an unstable foundation of promises that cannot be kept. Developing a credible, long-term solution to our staggering debt is the biggest challenge. It should be America's biggest collective priority, too. Any comprehensive deficit reduction plan must fix the imbalance between revenues and expenditures as a share of GDP. This does not have to be European-style "instant austerity." Since the U.S. dollar is the world's reserve currency we don't have to balance the budget tomorrow. The key is to provide clarity to businesses, financial markets, savers and investors. A comprehensive, long-term, binding plan that brings the budget into balance over a reasonable time is crucial. If Washington fails to achieve that the consequences will be harsh.

Apartment Statistical Review

My observations from the latest Johnson-Perkins Quarterly Apartment Survey are as follows:

- The average rent **increased** by \$14 / unit / mo., whereas in Q1 rents **decreased** by \$5 / unit.
- Vacancy also declined from 5.1% in Q1 to 4.65% in Q2.
- Every unit type showed a drop in vacancy AND every unit type increased its average rent.
- The top 3 rent submarkets continue to be East Sparks, Lakeridge and Northwest Reno, respectively, at \$999 to \$905 / unit / month.
- The lowest vacancies continue to be reported in the submarkets of Lakeridge, West Reno and Northwest Reno – reporting from 2.0% to 3.66%.
- Brinkby / Grove finally fell below 8%, while Airport tumbled from 8.2% to 4.64%.

In conclusion our region's apartment market is improving in every measure across every submarket in all unit types.



About the Author

Floyd joined Apartment Realty Advisors (ARA) in June 2013 as the culmination of his brokerage emphasis that has been moving towards apartments throughout his brokerage career in northern Nevada. Previously, in January 2011 he joined the Johnson Group, Reno’s premier boutique brokerage firm after serving for over seven years as a Senior Vice President of the Colliers Investment Services Group in Reno. Prior to joining ARA Floyd’s focus was on representing buyers or sellers in large investment property sales, e.g., apartments, office buildings, retail centers and industrial properties. Floyd also did sale / leaseback transactions and the occasional build-to suit lease. Since mid-2004, Floyd has closed over \$135 million in 37 investment sales transactions in the Reno MSA. Starting in the fall of 2008 he has focused on distressed assets, mainly apartments. Since then he has completed 45 broker price opinions totaling over \$296 million during the Great Recession, resulting in \$44.5 million of listings, mainly apartments, since early 2010.

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