

**Northern Nevada Commercial Investment
Real Estate Report – 3rd Quarter 2013**



The “In the eye of the hurricane” Issue

When I initially thought of this issue’s title I was thinking of the fact that we have passed through one side of the debt limit / budget debate only to set ourselves up for another round of ugliness in January – just kick the can down the road enough to buy some time. Then, as I started writing this I could not help but “hum a few bars” of the old REM song of the same name. Michael Stipe could not have imagined how predictive these lyrics were when REM’s Eponymous album was released in 1988. Check them out at:

[http://www.absolutelyrics.com/lyrics/view/r.e.m./it's_the_end_of_the_world_as_we_know_it_\(and_i_feel_fine\)](http://www.absolutelyrics.com/lyrics/view/r.e.m./it's_the_end_of_the_world_as_we_know_it_(and_i_feel_fine))

My trip down memory lane ended after I recalled the kids in their car seats in the back of our 1987 Volvo 760 Turbo station wagon singing “Calling Jamaica” instead of “call me when you try to wake her” ” in REM’s “The Sidewinder Sleeps Tonight song” - as we were driving to our Silicon Valley home - returning from our annual Tuolumne Meadows fall camping trip to Yosemite. Sigh....

Major Q313 Sales Transactions

In last quarter’s issue, I announced that I joined ARA – Apartment Realty Advisors - on June 1st to open our northern Nevada office. Since this strategic move culminated my professional transition to the world of apartments I am also changing my reporting emphasis to apartments unless there is a regional impact on a sales transaction in the office, industrial or retail world. This quarter the only notable sales were the vacant, former K-Mart on Summit Ridge Drive, the Village Shopping Center on California by Reno High, and a Montreux couple buying the entire ground floor retail area of the Palladio.

The six sales presented below total \$22.24 million, comprising 69% of the quarter’s multi-family sales. The largest non-foreclosure sale this quarter was the 1978 vintage Royal Vista Apartments in Carson.

Seller	Buyer	Address	Date	Price	# of units
Fannie May transfers foreclosed property to its special servicer	Tritex R & E Advisors, Inc.	1100 15th St - Courtside Gardens, Sparks	07/25/13	9,835,000	230
Royal Vista Investors, LLC	ALTA Royal Vista, LLC	3230 Imperial Way, Carson City	08/15/13	3,275,000	98
BIGHORN APARTMENTS LLC	LNR - foreclosure	1600 I Street, Sparks	09/30/13	2,677,000	53
HARVARD COURT LLC	Alta Harvard Court LLC	1324 Harvard Way, Reno	09/27/13	2,650,000	44
JSI MANAGEMENT INC - aka Dr. Iliescu -	248 Reno Holdings LLC - aka Siegel Group, Las Vegas	248 West 1st Street, Reno	09/13/13	2,400,000	28 + retail
Loan Star Funds entity SREF2 CHALK REO LLC	Thor Properties LLC, aka M&M Hultin	80-90 Burns & 123 Wonder Street, Reno	07/18/13	1,400,000	24

Q213 Multifamily Sales Analysis

While multifamily (MF) sales accounted for only 23.6% of the total Q313 sales volume – down noticeably from Q2's 30.9% - the number of MF transactions surged from 24 to 45. Total MF sales volume this quarter was \$32.1 million – a \$4.6 million increase over Q2's \$27.5 million. Two of the three largest MF "sales" were actually foreclosures by special servicers. Small MF sales under \$1 million surged from 22 to 39 transactions in Q3, totaling \$9.8 million. However, the average "small" deal size dropped to \$251,842 from \$341,886 in Q2.

Multifamily News & Rumors:

- Construction continues at The Village at Arrow Creek Parkway.
- Woodside Village, which came on the market in this summer, is rumored to be under contract.
- I have listed my three small Reno properties for sale to concentrate on my brokerage business and to focus on another possible larger deal that I would be the managing member of – similar to the 95-unit, Regency Park deal that I closed on 12/27/12. The properties are a 4 bedroom, 3 bath former Lennar model home, a six-plex at 425 Moran, and the 10 unit Moran Cottages at 640 Moran Street.
- I have several large irons in the fire that hopefully will pan out in 2014.

The Local News Bag

Reporters Jason Hidalgo and Scott Oxarart contributed to a story, published in the 10/11/13 Reno Gazette Journal (RGJ), which reported that the **Ascuaga family is selling** their 29-story resort to Global Gaming & Hospitality and Husky Finance. Global Gaming is an industry consultant. Terms were not disclosed. Final regulatory approval of the sale expected by year's end. John Ascuaga will be chairman emeritus and Stephen Ascuaga and his sister, Michonne, currently CEO, will assume advisory roles. Stephen Ascuaga said the sale has been in the works for the past year and offered no details on the Nugget's financial health. Co-owner Carlton Geer, a onetime executive at the Eldorado and Peppermill, said the Nugget will be his company's first gaming property. They plan to retain the John Ascuaga's Nugget name for now. He said no staff reductions are planned for the Nugget's 1,300-employees. The new owners plan to invest \$50 million into the property including \$20 million in new slot machines.

A Northern Nevada Business Weekly (NNBW) staff article reported on 8/5 that **McKenzie Properties has purchased 12.3-acres of Bill Harrah's equestrian estate** this spring after year-long talks with Harrah family scion John Harrah. The property stretches along the west side of Kietzke Lane from Hammill Lane south to the office complex anchored by First Independent Bank. McKenzie has fielded indications of interest from restaurants, coffee houses, other retailers and office users. They are working to create an overall approach to the property, which is zoned as a planned-unit development. The plans would likely call for office buildings on the western side of the McKenzie-owned property with retail or restaurant development along Kietzke Lane. Construction might begin in late 2014 or early 2015.

Paul Bubny reported in GloseSt.com on 8/7 that Lehman Brothers Holdings (LBH) completed its sale of a 17.7-million sf warehouse and distribution center portfolio. The buyers were affiliates of Blackstone Real Estate Partners VII and Prologis Inc., LBH's minority partner in the portfolio. The 82-asset portfolio traded at \$960 million. Sixty-four of the properties, totaling **9.5 million sf, are in Reno and traded to the Blackstone fund**. Prologis is acquiring the balance of the portfolio, with approximately 8.1 million sf located in Las Vegas, New Jersey and Pennsylvania. The portfolio sale also means the conclusion of the Prologis North American Industrial Fund III, formed in 2007, to acquire what was then a 114-asset industrial portfolio valued at \$1.85 billion from a joint venture between Dermody Properties and CalSTRS. Prologis' acquisition of the Vegas and Mid-Atlantic assets is in line with their objective of expanding their platform within existing markets through proprietary opportunities.

In mid-August, the operators of The Whitney Peak Hotel, f/k/a CommRow, the downtown Reno property that first opened in 2011 in the **former Fitzgeralds Casino-Hotel, have begun gutting** 200 of the

16-story tower's 351 rooms with completion slated for next spring. The \$6 million phase one will have one sit-down restaurant / entertainment venue that will open onto Virginia Street, with the hotel and climbing wall entrance on Commercial Row. Work also continues on the old Fitzgeralds parking garage across Virginia Street with planned retail on the ground floor. The Whitney Peak will operate as a nongaming hotel and will help to broaden the overall tourist base in downtown. The intent is to lure younger, more "outdoorsy" customers with the climbing wall and the indoor "BaseCamp" climbing center. That will help the Whitney Peak complement - not compete with - existing hotel-casinos in downtown.

Molly Roser, in the 7/26 RGJ reported that Jim Gibson of Gardnerville has **bought the 84 year-old Morris Hotel**, next door to the Reno Gospel Mission on East Fourth Street. He is planning attractive and affordable lodging for tourists, travelers, locals and especially Burners. He also plans to call it the Burner Hotel. Gibson is tidying up the place, with new carpeting and paint.

Rob Sabo, reported in the 9/16 NNBW that Jamy Keshmiri is **purchasing the 85 ksf former Woolworth building** at First and Virginia Streets from Latitude Capital Partners (LCP). He wants to bring a grocery store downtown - something that's been lacking since the Mayfair Market closed in the early 1990's. LCP bought the 1965 era building - which sat vacant since 1997 - at the peak of the real estate boom in 2006, envisioning high-end retail and office space. Work was slow to start and development stalled after work on the ground floor and exterior façade in 2009. Keshmiri is part owner of three strip clubs and owns the local Ben's Liquors. The deal closed on 9/16 handing LCP a \$2 million loss.

Rob Sabo, writing in the 9/30 NNBW, reported that **Dermody Properties bought a 91-acre parcel** of land at North Virginia and Lemmon Drive. Formerly planned as a residential development, the project will be called LogistiCenter 395 and will ultimately be built out with 1.23 million sf of big box, class A industrial space. They are planning on **starting out with a 624,000 sf spec building** due to the strength of the region's industrial market that has leased 3 million sf year-to-date.

The 10/21 NNBW reported that Jeff Hardcastle, the Nevada State Demographer, believes the **population of Washoe County** is now 431,035 – rising to 547,775 by 2032 – a 27% increase. That's 116,700 more people over 19 years.

Reno's economy is recovering steadily

In the November 10th RGJ Bill O'Driscoll and Jason Hidalgo's lead article presented our economy's recent gains. I have summarized them as follows:

- Average hotel room rate surpassed \$100 for the first time.
- Gaming revenue rose almost 10% in Reno and 8.4% in Washoe County overall.
- Q313 existing-home sales rose to 1,733, a 14% increase from a year ago. The median sales price soared 26% over Q312 to \$220,000, according to the Reno Sparks Association of Realtors, way up from \$135,000 in January 2012.
- Unemployment fell to 9.1% in August, the latest month reporting, with 2,200 new jobs since July and the area's lowest jobless rate since December 2008.
- Consumer spending continued to rise as shown in year-over-year taxable sales increases of 7.9% in July and 6.6% in August.
- The state will add about 50,000 jobs compared to 2010. The construction industry is on pace to add 4,600 jobs this year. Admin jobs are likely to be up by about 3,100.
- The Division of Employment, Training and Rehabilitation (DETR) expects the state to add about 25k – 30k jobs annually through 2015 in every sector of the economy.
- EDawn is seeing strong prospect activity: 10 prospect visits / mo. vs. 4 visits / mo. two years ago. This is important because when prospects formally visit our area, 80% of them ultimately decide to make a move. EDawn is also ahead of its goal of 2,100 new primary jobs this fiscal year after exceeding its goal of 2,000 last fiscal year.

UNR is growing - so too is its impact on Reno's economy

In the 8/25 RGJ, Lenita Powers listed the following construction projects currently underway at UNR:

- \$18 million, 3.5 -story expansion of the university's earthquake simulation laboratory on the east side of the campus off Evans Avenue, scheduled to open in January;
- \$4 million renovation of the School of the Arts' Church Fine Arts building;
- \$20 million project for married and graduate student apartment complex scheduled to open off Evans Avenue in summer 2014;
- \$28-30 million Cooper Court Residence Hall, south of Eleventh St. off North Virginia St., scheduled to open in fall 2015; and
- \$36 million William N. Pennington Student Achievement Center, scheduled to open in late 2015 or early 2016. This project that will help attract more students and push UNR's enrollment to 22,000+ in the coming decade. The Center will bring tutoring and student support services now scattered across campus under one roof.

UNR is on track to hit a new enrollment record that includes the largest ever freshman class. 18,233 students have enrolled at UNR and 3,094 are freshmen. With the number of students at UNR equal to that of a small city, its impact on the local economy is significant. That enrollment translates to an economic impact of \$145 million annually to Northern Nevada. The Reno City Council has made the university downtown concept a priority. The council is working to clean up the downtown, addressing closed buildings and working closely with the university to update their master plan.

Lenita Powers reported in the 9/17 RGJ that UNR plans to build a \$46 million student fitness center. The facility will triple existing space and will include three full-size basketball courts, a 200-meter, 1/8 mile indoor running track, and areas for weightlifting, group classes, and other fitness activities. The \$8 million gift from the E. L. Wiegand Foundation is the largest gift it has ever made and is the fifth largest donation in UNR's history. The four-story, 110 ksf center will help the university reach its goal of 22,000 students by 2021 because top workout facilities are one of the five things that draw students to a campus. The student fitness center will be built on a metered parking lot with 203 spaces located south of Lawlor - next to the student union. The center is scheduled for completion in late 2016. A new Student Fitness Center fee of \$15 / student / semester is planned to raise \$9 million over time.

The 9/12 RGJ reported that UNR was ranked 181st out of the 1,600 colleges ranked annually by the US News and World Report. That puts UNR in the top 11% - and within the "top tier" of schools surveyed.

EDAWN campaign takes aim at racy ads atop Reno cabs

In the 8/25 RGJ, Yun Long reported that EDAWN launched an advertising campaign promoting the Reno-Tahoe region to replace ads for men's clubs or brothels atop many taxis. Many EDAWN prospects have stated that this type of marketing, both on taxi tops and elsewhere, was offensive. Sixty-six Whittlesea Checker taxis will carry the new signs for one year. EDAWN has most of the ad space committed.

On 9/18 Bill O'Driscoll, in the RGJ, wrote that the first "Taxi-Top" ads going atop the 66 cabs were unveiled. Cleve Canepa, owner of the Men's Club of Reno, took issue with EDAWN's campaign and said cab-top Men's Club ads "do not include nudity or profanity. The Men's Club has over 1,000 guests per week. We have never heard from our guests, or anyone else for that matter, that any of our advertising is offensive," Canepa wrote in an email to the Reno Gazette-Journal. Maybe he should join EDAWN.

California rich seek Nevada tax haven

In the 8/26 issue of the NNBW John Seelmeyer reported that sales of upper-end homes have been buoyed since the start of the year by California residents. The rush to Reno and Tahoe began just weeks after California voters approved Prop. 30 last November, which created four high-income tax brackets for California residents. The rate for taxpayers who make \$1 million or more rose to 13.3% from 10.3%. The

measure calls for the new tax rates to expire after seven years – yeah, right. Buyers rushed across the Sierra late last year because Prop. 30 was backdated to cover earnings for all of 2012, even though it was approved by voters late in the year. During the month shortly after the election, Dickson agents at Montreux fielded 70 calls from Californians looking for a new home in Nevada. Home sales are stronger this year along the Nevada side of Lake Tahoe than they are on the west shore in California - a reversal of last year's trend. Data collected by First Centennial Title in Incline Village shows that buyers from California accounted for 43% of the 288 sales so far this year in Incline Village and Crystal Bay.

The Bigger Battle Behind the Shutdown

The following is a highly condensed article that appeared in the Opinion section of the Wall Street Journal on 10/10. It was written by David Malpass, president of Encima Global LLC, an independent research firm focused on providing geopolitical and macro-economic insights to professional investors. According to www.usgovernmentspending.com the federal debt will be \$18.2 trillion on September 30, 2014, the end of the current fiscal year. That is an increase of \$6.3 trillion since 2009 – a 53% increase in five years.

The recent federal shutdown was part of a bigger battle to restrain the government. It is spending \$3.6 trillion / year without a budget - with expenditures expected to increase rapidly in the years ahead. The government has amassed \$17 trillion in debt and \$60 trillion more in unfunded obligations. A staggering \$250 billion / month - 80% of all spending - runs on autopilot without any congressional involvement or control. Ducking governance decisions year after year will leave the U.S. too weak to face global challenges. Big government has meant slow growth, painfully high youth and minority unemployment and falling median incomes.

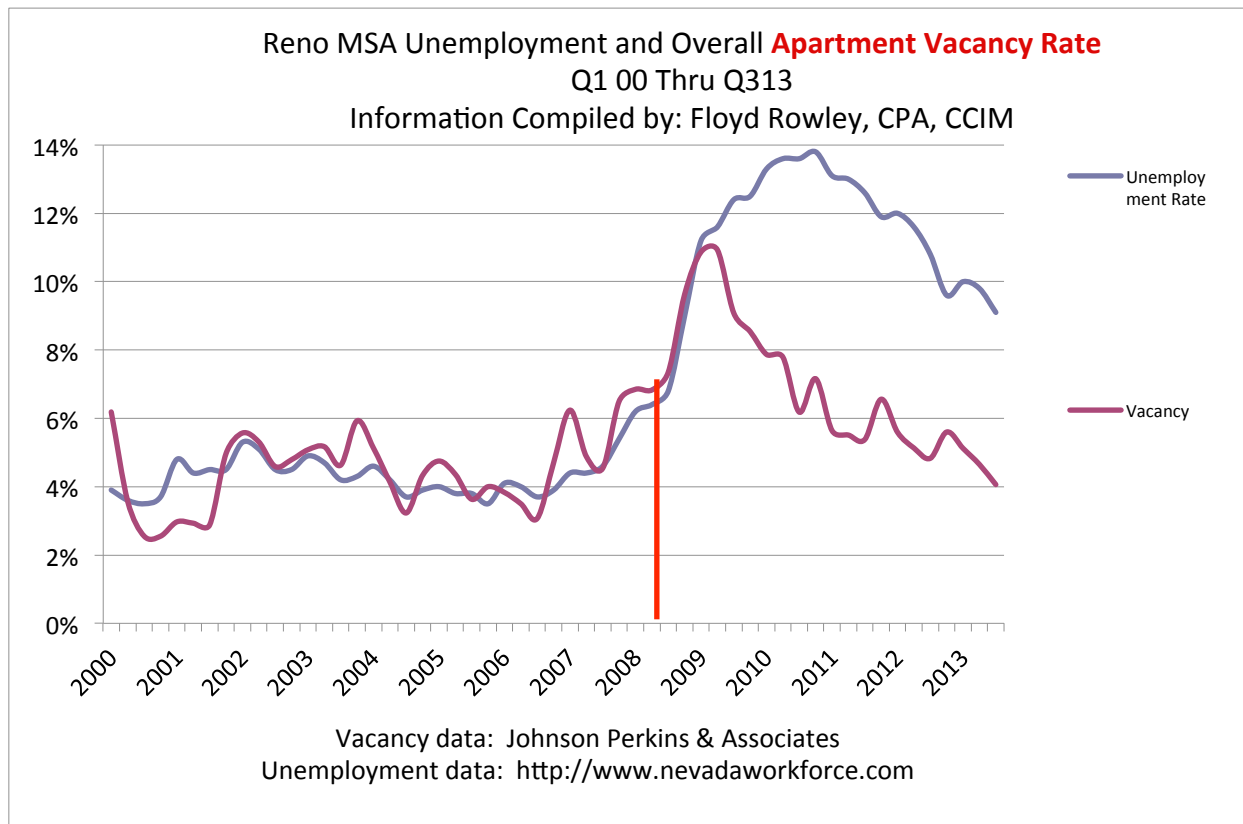
The Fed will borrow \$1.1 trillion in 2013 to buy bonds - without congressional or presidential permission. The Fed is borrowing and spending \$85 billion per month on bonds, and it claims the legal authority to increase its debt at will. The Fed's debt will reach \$4 trillion at year-end, with at least \$200 billion of it not counted properly in the national debt. The Fed is buying long-term bonds with short-term debt. The result is a rapid shortening in the effective maturity of the national debt that benefits current politicians but puts taxpayers at risk. Like an adjustable-rate mortgage the government gets a lower interest rate now but will have to refinance at higher rates later. Compounding taxpayer risk, the Treasury has scheduled a November launch of a new class of floating-rate debt that will compete with the Fed's debt when interest rates begin to normalize. This leaves a huge portion of the national debt exposed to higher interest rates. As Europe's weak southern flank demonstrated in their 2010-12 crisis, financial markets treat floating-rate and short-term debt like blood in the water. The upside is clear: Growth, jobs, the dollar and financial markets would surge **if** the shutdown leads to restraint.

Apartment Statistical Review

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

- The overall average rent increased by \$16 / unit / month, in addition to a \$14 increase in Q2.
- Vacancy continues its gradual decline from 5.1% in Q1 to 4.06% in Q3.
- 7 of 10 submarkets showed a drop in vacancy with 9 of 10 submarkets reporting higher rents.
- The top 3 rent submarkets continue to be East Sparks, Lakeridge and Northwest Reno, respectively, at \$991 to \$933 / unit / month – even though East Sparks dropped \$8/unit / mo.
- Lakeridge dropped to the 4th lowest vacancy, with SW Reno jumping into 2nd place – between West Reno and NW Reno – ranging from 2.67% to 2.72%.
- Brinkby / Grove is still in last place but rents continue to improve and vacancy continues to decline.

In conclusion our region's apartment market continues to improve by almost every measure across most of the region's submarkets and most unit types.



About the Author

Floyd joined Apartment Realty Advisors (ARA) in June 2013 as the culmination of his brokerage emphasis that had been moving towards apartments throughout his 10-year 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 almost \$297 million during the Great Recession, resulting in \$44.5 million of listings, mainly apartments, since early 2010.

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