

# Northern Nevada Commercial Investment Real Estate Report – 4<sup>th</sup> Quarter 2013



## The Apartments are Coming! Issue

I have been tracking planned apartment projects in our region since June 2007. By the summer of 2008 I counted 1,947 planned units in 11 properties. I updated this quarterly through Q409 when the list dwindled to 1,000 units in 5 planned communities – and amazingly – all 5 were under construction. The next time I updated this study was May of 2012 – where 3 communities totaling 699 units were planned, of which 208 units are under construction now. Today I am tracking the following:

Planned: 5 projects for 1,020 units – 2 described below  
Under Constr.: 3 projects for 834 units – all described below  
**Total** 8 projects for 1,854 units

### Major Planned / Under Construction Apartments

- Construction of **the Silver Peak Apartments**, planned for 420 units in the North Valleys, continues to be on hold. Their Special Use Permit expires in March of 2016, so they have time.
- The **Villas at Keystone Canyon** are in full-swing site work. Grady Kromer out of Truckee is the developer of this 288-unit project. Kreg Rowe has had his eye on this site since at least 2007 when the project was called Cavillon – and is now the general contractor via Tanamera Construction.
- Silverwing Development is planning **Edgewater at Virginia Lake** - centered around the 1938 WPA-constructed lake. The 1960's vintage rental housing will be demolished and replaced with 288 rental condos and 48 for sale townhouses. Virginia Lake will be revitalized via a year round circulation system. The currently open Cochran Ditch that surrounds the site will be covered to enable perimeter landscaping and new sidewalks for better pedestrian access to the lake. The developer is finalizing the site and building plans for submittal to the City with demolition expected to start this June with vertical construction expected to start in September. First tenants are expected in March of 2015.
- Silverwing Development also has 338 for-rent condos, called **The Bungalow's at Sky Vista, under construction** with reservations starting March 1<sup>st</sup>. First tenants to take occupancy start in early May and continuing into the spring of 2015. The property is located in the North Valleys - in the heart of the Sky Vista 600-acre master planned community. All units are single level with 12' vaulted ceilings. All 4 floor plans will have a direct access garage, a front porch and an enclosed back patio. The "craftsmen" style architecture will complete the "home" feel. Amenities include a resort style pool & spa, walking trail, dog park, clubhouse, TV/WIFI, a fitness center and security cameras.
- The **Village at Arrow Creek is under construction** by Tanamera Construction and has been actively pre-Leasing with 53 units reserved to date. The property offers 6 floor plans with all the features and amenities expected of today's Class A communities. Their first building will be released on March 31, 2014 with 1-2 buildings to be released per month until completion in October 2014. At completion the community will have 208 units in 13 buildings, or 16 units / building.

### Q413 Multifamily Sales and Analysis

Multifamily (MF) sales accounted for only a pathetic 5.7% of the total Q413 sales volume – down from Q3's 23.6%. There were no sales over \$3 million – and only 3 sales in the \$1 – 3 million range. As a result, total MF sales volume this quarter was only \$15.5 million – a \$16.6 million decrease over Q313. My big sale was not even an apartment – but will be – see below. Small MF sales under \$1 million remained strong at 33 deals – for a total of \$9.5 million - yet down 6 deals from the 39 transactions in Q3 that totaled \$9.8 million. This caused the average "small" deal to increase to \$286,546 – from \$251,84 in Q3. Two of these small deals were mine – with one more coming to market by the time you read this report.

Transaction	Address	Date	Price
Eric Henrickson buys the 49 unit, Country Club Villas, across from the Washoe County Golf Course	2796 Plumas Street	10/16/13	2,450,000
My client, Best Gaming Corporation, <i>finally</i> sells The Virginian Hotel / Casino, to the Siegel Group of Las Vegas who will turn it into a Siegel Suites SRO property	130-140 North Virginia Street	12/04/13	2,380,000
A family from CA's Central Valley, buys the 28 unit student housing property known as Manzanita Manor	1133 Buena Vista Avenue	11/18/13	1,221,000

### Major Q413 Sales Transactions

In last quarter's issue, I announced that I was changing my reporting emphasis to apartments unless there is a regional impact from a sale in the office, industrial or retail world. Since this quarter there was only three barely notable multifamily transactions I present the quarter's largest sales as follows:

Transaction	Situs Address	Date	Price
CNL Healthcare Properties, a REIT from Orlando, FL buys the Bonaventure of Sparks Senior Living Facility	2360 Wingfield Hills Road	12/03/13	55,200,000
Reno Retail Company LLC, developer of the Summit Sierra Mall, sells 7 parcels - everything except Dillard's and the seven stand-alone out buildings to DRA out of NYC - even tho Bayer's CFO said it was a "recapitalization".	13987 South Virginia Street	12/19/13	53,000,000
The Sparks Galleria shopping Center is sold to an affiliate of Pine Tree Commercial Realty of Northbrook, IL	125 Disc Dr & Galleria Pkwy	11/27/13	26,200,000
Panattoni sells its 336 ksf industrial building to KTR Capital Partners, a large private REIT that was publically traded as Keystone Property Trust.	9085 Moya Boulevard	11/22/13	13,400,000
Lewis Operating Company sells 170 SFR lots on gross 36.92 acres - including streets and common areas. Site is graded with all utilities stubbed in.	Olmec Dr & Veterans Parkway	12/06/13	9,500,000
DRA Advisors sells the former Brew House (and many others!) Restaurant, to Nu-Way Industries Inc., a metal fabricator out of Des Plains, IL	6395 S McCarran @ Kietzke	12/20/13	5,700,000
Duncan Golf purchases the Lakeridge Golf Course from the Topol family	Golf Club Drive	12/30/13	5,500,000
Leff Family Trust sells their mapped, flex industrial condo to Mid Valley Properties of Calabasas, CA	10 Greg Street	12/02/13	5,300,000
A Reno couple sells their office building to Chad Clemetson,	10615 Professional Cir	10/30/13	4,650,000
The Avanzino family sells 3.41 acres to Sierra Pacific Power Co., adjacent to their existing Ohm Place facility	Ampere Dr off Mill St.	12/13/13	3,751,000

### **Multifamily News & Rumors:**

- Haven't see the deed yet, but the 250 unit **Woodside Village**, which came on the market in the summer of 2013, closed January 28<sup>th</sup> for \$14.9 million, at a reported 6.82% actual cap rate.
- Also have not seen the deed, but **Green Leaf Pines**, f/k/a Northgate Villas, sold for \$5.925 million, also on January 28<sup>th</sup> at a reported cap rate of 6.6%. Greenleaf paid \$3.65 million in July of 2011 for the 116 unit, value-add property from a special servicer.
- **Sunset Ridge**, a 1969 vintage, 100-unit property on Centennial Way – off Sutro Street – is expected to close any day now.
- **Marina Gardens** in Sparks is also under contract to close soon. It is the 240-unit property on the NE side of Sparks Marina that will be next to the proposed new Wal-Mart – discussed later in my report.

### **The Local News Bag**

Dan Hinxman, writing in the 12/31/13 Reno Gazette Journal (RGJ), reported that - for the 2<sup>nd</sup> time in 7 years - the **Lakeridge Golf Club is under new ownership**. Lakeridge, designed by Robert Trent Jones Sr., was Reno's fourth public-access course when it opened in 1969. Tom Duncan, the former UNR golf coach who started Duncan Golf Management when he bought Wolf Run more than a decade ago, closed on the purchase on December 30<sup>th</sup> for \$5.5 million. He had reached out to the Topol family in the summer. Nate Topol, who bought Lakeridge from its developer, Sam Jaksick, in 2006, died in August 2013 in Tahoe. Jaksick, who died in April 2013, also built Montreux Golf & Country Club.

Marcella Corona, writing in the 11/21/13 RGJ, reported that **the historic Rancharrah property** was listed for sale. The 117.6-acre property was listed for \$33.9 million. It has a private lake, an equestrian center and 5 homes that total more than 36 ksf. The main mansion spans 24.8 ksf. The estate was first owned by Norman Biltz, the "Duke of Nevada," and was sold to Bill Harrah in 1957. Harrah's son John bought the house from the family trust in 1991. He added cutting horse facilities, including a 52-ksf climate-controlled indoor arena. Zoning could allow for partial commercial and residential development.

**The Chateau, a cornerstone of South Lake Tahoe's tourist core**, will open in early summer 2014 at the corner of US-50 and Stateline opposite Heavenly Village. The 27.9 ksf building will house a two-level restaurant / nightclub, retail shops and restaurants. The Chateau's investing entity, Owens Financial, stated that the project has drawn multiple inquires from local and national retailers. A streetscape feature will be complete by early summer. The project was stalled in 2008. Work resumed in August 2013 after Owens earned unanimous approval from the South Tahoe City Council. The Chateau is a key component of the tourist core's future, which includes the Highway 50 South Shore Community Revitalization Project.

Anjeanette Damon in the 12/12/13 RGJ, reported that the Reno City Council unanimously approved a \$391k lease-purchase agreement for **new parking meters** to replace a parking kiosk project that cost the City over \$600k in lost revenue over 2 years. The City will pay for the 898 new meters over 5 years with no interest. In July 2011, the City voted to replace its aging coin-operated meters with a kiosk system designed by Reno-based Curb System, which was plagued with problems from the beginning. The council terminated this contract in July 2013. In addition, the city will pay about \$5,100 a month in technology fees. The new meters will accept credit cards. The meters will cost about 22 cents per credit card transaction and be installed by February.

Anjeanette Damon reported in the 11/21/13 RGJ that **Wal-Mart was seeking approval for a new store** on E Lincoln Way just east of the Marina Village Apartments. It would be 180 ksf – and the region's 10th supercenter. Wal-Mart would receive no special tax incentives. The Planning Commission approved the special use permit on November 21, 2013, with the Sparks City Council approving project, on January 13<sup>th</sup>, after a formal appeal by a Sparks resident. Wal-Mart hopes to open the new store in summer 2015.

### **2014 NMHC Apt Strategies Conference Notes**

This is my 3<sup>rd</sup> National Multifamily Housing Council (NMHC) Apartment Strategies Conference in a row – my first was in 2007 in Scottsdale. My takeaways from the conference overall are as follows:

- Development yields have been dropping since early in the cycle, but develop where the jobs are.
- Even though the MF industry will likely be hit by a trifecta of bad news - cap rates will start to rise, interest rates will rise, and rental growth will slow - the industry will not crash in 2-3 years.
- Two years ago developers were all in urban areas - now they are going suburban to chase yields.
- Micro units help the pro-forma - just don't build too many of them and build more storage space.
- Make sure your project is pet friendly.
- Last RE cycle was 04-07 - we are in the 5th year of the current cycle
- Rent growth rates have cooled - but still above the LT average
- Seattle is the star due to demand from jobs - DC is starting a major deceleration in rent growth.
- Bay area rent growth is real: real jobs w/ real companies - vs the dot com era
- Non-core rent growth is strongly correlated with core
- NYC is projected to add 1 million residents to keep its 400 million sf of office space full.
- Finally, the current MF cycle will last longer than usual for the following 3 reasons: The current recovery has been slow and extended; Demographics - especially in the 25-34 age bracket; and equity capital is cautious - which will limit new supply

### **Reno-Tahoe & Stead Airports push land development**

Rob Sabo, writing in the 12/9/13 Northern Nevada Business Weekly, reported that the Reno-Tahoe Airport Authority (Authority) has unveiled a five-point strategic plan to grow revenue and air and cargo service over the next five years. A key element of the plan: bring new tenants to airport grounds. There are roughly 250 acres of developable land surrounding RNO and 4,000 acres at Stead. The Authority will be issuing requests for qualifications for land development at both airports in 2014 and 2015 using several different scenarios. The land at Stead is the last contiguous undeveloped industrial parcel in Washoe County. Development there will focus on creating maximum job value for the region. Large industrial developments are a natural fit there, being close to an airfield and rail service. Also, the new terminal at Stead recently opened. Stead was also just approved as one of six FAA test centers for unmanned aerial systems – see article below. Firms focusing on data collection and analysis would want to locate there, along with drone manufacturers. There are many aerospace companies with Defense Department intellectual property that are trying to commercialize it and bring it into the civilian marketplace. Finally the Airport Authority expects to announce the addition of another cargo carrier at RNO in Q114, continuing to position Reno as a major West Coast distribution point.

### **Will Apple land in Reno?**

According to a 12/15/13 RGJ article by Anjeanette Damon, Apple should be open in downtown by now. The developer who signed the agreement for Apple to move into their Tessera tourism improvement district (TID) 18 months ago is working to keep the deal alive as Apple hunts for a better real estate deal that will keep their tax breaks intact. Local officials and business-people indicate Apple has concerns with the original terms of the deal to move into Tessera - a distressed 10-block area bounded by I-80, Virginia Street, 4<sup>th</sup> Street and Valley Road - that is eligible for sales tax incentives to redevelop. Apple extracted an \$89 million tax incentive packages to open the receiving center in downtown - and a data center, which would nearly zero out its sales tax liability on \$1 billion worth of server equipment. Apple will also see 85% of its personal property tax abated over 10 years. The key to the sales tax break is to ship the equipment to a storefront inside a TID. Under Nevada law, officials can exempt all but 2% of its 7.5% sales tax obligation. if Apple opens a receiving center in a TID it can reduce the remaining 2% to 0.5%. For \$1 billion in equipment, that is worth \$15 million in savings over 10 years. Steve Hill, the state's economic development czar who helped broker the tax package, said Apple needs a real estate deal that will "pencil out" in relation to the tax break it will get for moving into the TID. Apple has looked at every

property in Tessler, and none seem to work. The only other option to retain its sales tax break is to look in the other two TID's: near Cabela's - or near the Aces Ballpark. United Construction, applied for permits for the Evans site - which expired 10/15/13 - and paid for one extension. The permits can only be revived if an extension fee is paid before Feb. 25. With work progressing quickly on the data center east of Reno, a decision must be made soon on the receiving center's location. The cost of this center in downtown might offset the savings from the \$15 million tax break.

### **Nevada and UAS – this could be huge**

The lead article in the January 2014 edition of The Economic Pulse, published by the Governor's Office of Economic Development (GOED), and emailed to interested parties, was titled, "Nevada: Official UAS Test Site". On December 30<sup>th</sup> the FAA designated Nevada one of six sites for the development of commercial applications of Unmanned Aerial Systems (UAS) into our National Air Space. With an FAA stated goal of introducing small UAV's into commercial airspace by Q315, Nevada has already begun to recruit companies to test at our sites. The UAS industry holds promise for many good jobs for Nevadans. The State's forecast predicts over 10,000 jobs for UAS direct employees at an average wage of \$62,000 and an estimated \$2.5 billion in economic impact by the middle of the next decade. 49 regions from 36 states submitted applications, which were reduced to 25 in mid-2013. Nevada's success culminated two years of work, and joins New York, Virginia, Texas, North Dakota, and Alaska.

### **Flood control projects get needed funds**

In the October 12, 2013 RGJ, Jeff DeLong reported that the Truckee River Flood Management Authority board voted to approve \$12 million for two projects that are the cornerstones of any major effort to control flooding on the Truckee River, but essentially "drains" the Authority of funds for now:

\$7.2 million to begin demo of the deteriorating 1905-era Virginia Street Bridge in the spring of 2014. The Bridge is a bottleneck for debris during floods, causing water to inundate downtown. The funds will also provide for some construction. \$10 million in federal funding is being provided through NDOT, with \$2.5 million set aside by the RTC - if needed - for a total cost of about \$16 million. This is in addition to \$4.2 million already spent to design the span. The new bridge is expected to be completed in 2015.

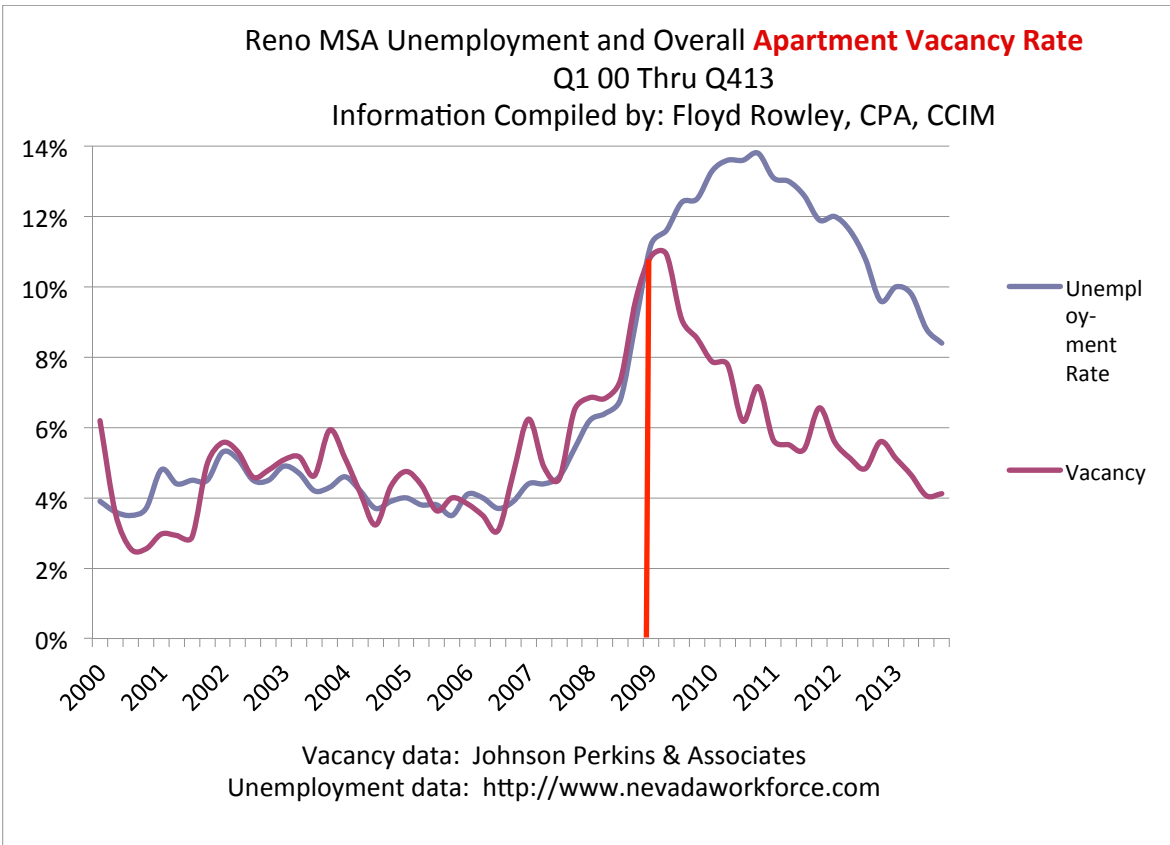
\$4.7 million towards Sparks' \$40 million project to relocate the North Truckee Drain. It carries runoff from Spanish Springs and east Sparks and empties into the Truckee near its confluence with Steamboat Creek - too much water into the same place at the same time. By relocating the confluence downstream, its contribution to floods would significantly diminish. Construction is planned to begin in 2014.

### **Apartment Statistical Review**

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

- The overall average rent increased by only \$1/unit/mo. – not bad for the slowest quarter annually.
- Vacancy ticked up an insignificant 7 basis points (bps) from 4.05% in Q3 to 4.12% in Q4.
- 6 of 10 submarkets showed a drop in vacancy with 6 of 10 submarkets reporting higher rents.
- The top 3 rent submarkets continue to be East Sparks, Lakeridge and Northwest Reno, respectively, at \$921 to \$954 / unit / month – with each of them dropping between \$5-12/unit / mo.
- In submarket vacancy West Reno continues as the lowest @ 2.22%, while SW Reno and NW Reno fell out of the top 3 and were replaced by NE Reno and Lakeridge. These rankings are statistically insignificant in that 3<sup>rd</sup> place in Q4 was 3.05% vs 2.72% in Q3. What is notable is that range between the 1<sup>st</sup> and 3<sup>rd</sup> lowest vacancy was only 5 bps in Q3, but widened to 83 bps in Q4.
- Brinkby / Grove is still in last place but rents and vacancy improved dramatically in Q4.

Based on being in the market it is clear to me that Q114 is off to a fast start. Based on deals I am working on it is clear that Lakeridge and the South Meadows are "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 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 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 \$138 million in 40 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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