



## Northern Nevada Commercial Investment Real Estate Report: Q115 The “Calm Before the Storm” Issue

The following is condensed from EDAWN CEO Mike Kazmierski’s article in the April 19<sup>th</sup> Reno Gazette Journal (RGJ) on workforce attraction and development, presented with permission.

We are at the cusp of historic growth in our region, due to Tesla, due to the 60+ new companies that have relocated here over the past few years, plus the scores of companies EDAWN is working with, and the many local companies that are expanding. This results in our staggering projection that 50,000+ new jobs will be added to our region in the next 5 years. With far less than 50,000 available workers here now, it’s time to get serious about workforce attraction and development. Workforce attraction means attracting talent to our region to meet employer needs. Tesla’s needs will be met by people across the country flocking to work there. We need to market our region as the "manufacturing hub of the West", with a developing technology center and a growing economy. This will attract talent to our region searching for quality jobs. To be truly effective in the tech sector, we must ensure that Millennials and the creative class find our region welcoming and attractive. The things that are important to them - we are fortunate to have many already - a great outdoors, an exciting arts & culture scene, countless events and activities, a growing entrepreneurial ecosystem and an increasing number of great restaurants. We must continue to revitalize our downtown and engage and promote Reno as a college town to make us "the cool place to be" in the years ahead.

We must also develop our existing workforce. Near term we need more training and skill upgrading. Many organizations are already ramping up. TMCC has significantly improved programs to more closely align them with the growing needs of the manufacturing and tech sectors. In the long term, workforce development rests largely on our K-12 education system. Increasing high school graduation rates and adding emphasis on science, technology, engineering and math (STEM) is a start. Most of our new jobs will require more than a high school diploma. A two-year degree or a certification is essential if the next generation wants the quality jobs that are coming. Most of these advanced manufacturing jobs will pay over \$60k / year. So the window of opportunity is open and it's time to get serious about workforce attraction and development. It is exciting to be dealing with the prospect that we may have more great jobs than currently available workers. We are experiencing a once in a lifetime transition that is reinventing the Reno-Sparks economy and bringing a vibrancy and a vitality to our region that we could only dream of just a few short years ago.

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

Based on my developer surveys, I added 1,106 planned units in 5 new planned projects - mainly in Sparks. I eliminated 188 units under construction, as Phase 1 of The Bungalows at Sky Vista are now 96% leased. Apartments I am now tracking consist of:

Planned (these are more likely to be built): 22 projects totaling 5,516 units  
Under Construction: 5 projects totaling 846 units – described below  
**Total: 27 projects totaling 6,362 units vs 2,420 in Q214**

While this net total represents a 163% increase in planned projects in just 9 months, more projects will likely to be announced in Q215. However, **there are still NO signs of a glut**, given that these 6,362 units represent only about 13% of the new jobs that EDAWN is projecting for our region in the next 5 years.

- **The Villas at Keystone Canyon** continues to be in full-swing construction, with 9 out of 22 buildings now completed – and 75% occupied - with the balance to be delivered in 2015. The clubhouse is done and planning is underway for a summer 2015 start of the 96 unit, phase 2 of this luxury community.
- **Edgewater at Virginia Lake** continues construction with 24 of 48 condos pre-sold. Pre-leasing of the 288 apartments starts in May with occupancy starting late June – same as previously reported.
- **The Bungalow's at Sky Vista Phase 2** has 150 units under construction to be completed by October.
- **Frontera at Pioneer Meadows** - while technically not apartments – are being built as a for-rent single family home community, with all exterior maintenance handled by a management company – just like apartments. The 80 units have 6 floor plans, ranging from 1,210 – 2,182 sf.

### **The Quarterly Tesla Update**

Jason Hidalgo, writing in the 4/18 RGJ reported that construction costs at Tesla Motors' gigafactory site east of Reno reached \$62.4 million as permitting activity picked up in late March. New projects include a \$2.1 million modification of the initial structural steel installation [**Ed note:** this led to the rumor that construction had "stopped"]. The first phase of the \$15 million steel structure was started in December with a planned June finish date. Modification of the steel structure is now expected to wrap up in September. A 1.5 million-gallon water tank was permitted, along with concrete work for the site's main substation. Mass grading started in February at three sites within the compound, and is expected to finish by August. Designed to be larger than all the lithium-ion battery plants in the world combined, the joint project between Tesla and Panasonic is estimated to require a \$5 billion investment through 2020.

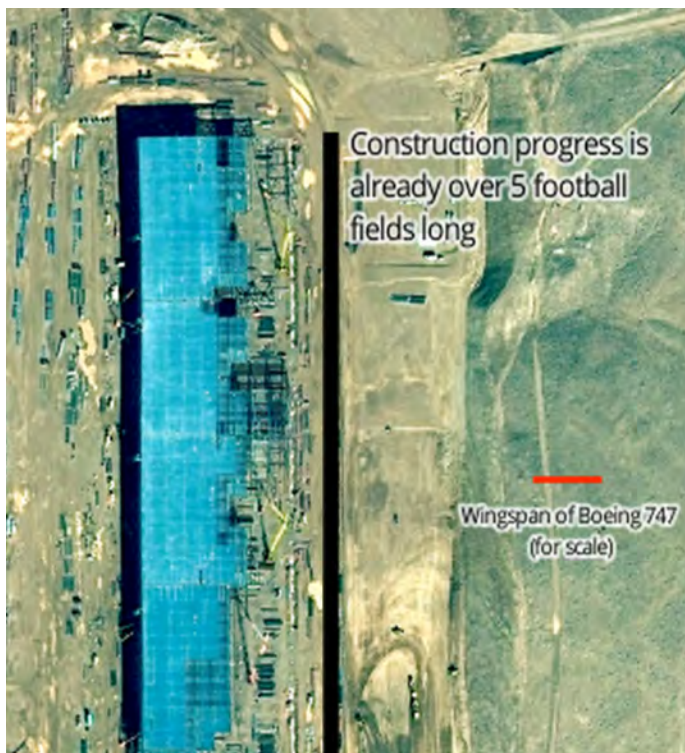


Photo credit: <http://mashable.com/2015/04/17/elon-musk-gigafactory/>

Don Reisinger wrote in the **Feb 12<sup>th</sup>** (sic) Car Tech section of the CNET website that Tesla confirmed that it is getting into the home-battery business. Tesla will unveil consumer batteries "fairly soon," with production to begin in six months [**Ed note,** Where?]. Since Tesla's founding in 2003, it has focused on improving car batteries and lengthening the distance electric cars can travel. They have only recently started talking about powering the home. Last year, CEO Elon Musk said Tesla was hoping to build a battery, similar to the one found in the company's Model S car, that would sit on the wall in a home and be used for power. Musk said, he'd want it to have a "beautiful cover" and be "plug and play" to make it easy for consumers to use. Moving into this space would open a new front for Tesla and has seen interest from public utilities to possibly collaborate. Tesla could have competition from Toyota, which unveiled its 2016 Mirai, running on fuel cell technology. The car includes a plug that Toyota says could power a typical Japanese (sic) home for a week.

### **Q115 Multifamily Sales and Analysis**

Multifamily (MF) sales **IN**creased just under 1% this quarter to \$107.5 million from \$106.9 million in Q414 – the first time ever that Q1 beat Q4. Only the, huge Highlands student housing sale could possibly have "spilled over" from Q4, based on the closing dates of the 6 largest deals accounting for \$96 million. As a result, **MF sales accounted for a huge 52.5% of Q1's \$204.6 million in total sales.** There were 6 MF sales over \$3 million, compared to 3 in Q414, for an increase of \$10.15 million in volume. There were 33

total MF sales in Q1 and 37 in Q414. This is entirely attributable only 1 sale in Q115 in the \$1 - \$3 million range, whereas there were 8 in Q414. As a result, dollar volume in this price range dropped by \$11.5 million. Small MF sales under \$1 million were unchanged at 26 deals, but the Q115 dollar volume rose by \$1.9 million over Q414. This raised the average deal size by 27% - or \$74.1k - to \$345.9K from \$271.8k in Q414.

**Feds finally finalize the SouthEast Connector**

Reporters DeLong and Damon wrote in the 4/16 RGJ that Reno Councilwoman Neoma Jardon stated at a City Council meeting on April 15th, "As chairwoman of the RTC, I am pleased to inform you that the Army Corps has finalized the 401 permit related to the Southeast Connector. This concludes the Corps' process. In deciding to issue the permit, the Corps has determined, after an extensive two-year process, that an environmental impact study (EIS) is not required. The permit has been finalized."



The permit allows the RTC to complete the final 4.5-mile section of the road through the University Farms and Rosewood Lakes areas to finally connect to South Meadows Parkway. Word came just as the Reno City Council attempted a last-ditch effort to halt the project by requesting the Corps conduct a full EIS on the project. The Corps has denied various similar requests. Still, the Council voted 4-3 to request the EIS, hoping to at least make a symbolic move against the project - hmmm. The 1,000 foot bridge spanning the Truckee River, was completed in 2013. A \$152.4 million contract for the final portion was awarded to Granite Construction in February. Discussed for decades and the subject of protracted controversy, the Connector is a critical alternative for north-south travel as our region grows. The Corps noted the RTC's innovative plan to help stop the spread of historic mercury within the SouthEast Connector Corridor "protective of human health and the environment." The plan calls for soil with high mercury concentrations to be permanently sealed under the roadway. Now, mercury is spread by floods. The plan will remove 22,000 pounds of mercury from the environment. The RTC plan will improve water quality, reduce erosion to help the area return to a more natural floodplain and reduce floodwater elevations near homes and other buildings. A paved, multi-use path will parallel the entire roadway. Construction began on April 20th. More site cultural exploration will occur, along with continuing nesting bird surveys and wildlife surveying. The road will be constructed from just south of Clean Water Way to Veterans Parkway. Completion is expected in late 2017.

**Major Q115 Sales Transactions**

Total sales in Q115 decreased by \$118.9 million to \$204.6 million from \$323.5 million in Q414. As expected every Q1, total transaction volume dropped 20.4% to 117 deals this quarter, versus 147 in Q414.

Transaction	Address	Date	Price
American Campus Communities sold the Highlands student housing property to Campus Advantage.	2800 Enterprise Road	01/22/15	40,932,000
Spring Villas was sold to Standard Management Co. from LA at a 5.3% cap rate, their 3rd northern NV acquisition.	431 Spring Villas Drive, Sparks	02/27/15	18,700,000
Fowler completed a value-add of The Element Apts., once part of the Meadowood Apartments, and sold it to M3 out of Santa Barbara at a 6.44% cap rate.	825 Delucchi Lane	02/20/15	15,000,000

The Siena Fund of LA bot the Spanish Hills Apartments, from an entity affiliated with the State of Idaho Pension Fund, and renamed it Verona Apartment Homes.	1475 Vista Del Rancho Parkway	03/20/15	11,300,000
McKenzie bought a Mountain View Corporate Center office building from Ken Templeton.	5470 Kietzke Lane	01/26/15	9,500,000
Chance Family Properties from Merced sold a Reno Tahoe Tech Center building to Chad & Cory Clemetson.	10345 Professional Circle	02/12/15	9,500,000
The Clark's of Washoe Valley, purchased the University Heights Apartments in Carson City, next to - and down the hill from - Western Nevada College.	2060 W College Parkway, Carson City	01/30/15	5,700,000
The Dinerstein Companies purchased land on Valley Road for their second student housing development near UNR.	2400 Valley Road	02/05/15	5,500,000
Myers Industries, of Ohio sold their 185 ksf warehouse to the HC Companies, the leader in horticultural containers.	550 Spice Islands Drive	02/20/15	5,500,000
<b>Totals</b>			<b>121,632,000</b>

### **The REALLY HUGE Local News Bag**

In the 12/15/14 RGJ, Jason Hidalgo reported that **John Harrah will sell his 141 acre Ranch** Harrah to Reno Land Development Company. They will create an infill master-planned community, with the mansion and equestrian center as centerpieces of the community. They plan to continue weddings and equestrian events there. The site is approved for up to 715 residential units on 141 acres based on the existing PUD handbook. The developer is asking to include 23 more acres into the plan. If things go smoothly construction could start by late summer of 2015. Bill Harrah bought the ranch back in 1957.

**Nordstrom Rack opened on March 26<sup>th</sup> at 9 AM in the Redfield Promenade Shopping Center** in Reno. It occupies the 32 ksf space formerly occupied by Borders bookstore. For years, speculation has flowed through the community about the prospects of Nordstrom bringing a store to our region. Their closest store previously was in Roseville. The Reno Nordstrom Rack is the company's 170th store.

Benjamin Spillman wrote in the 4/13 RGJ that **Squaw Valley and Alpine Meadows will build a gondola to carry passengers between the two Lake Tahoe ski resorts.** The gondola will create a mountain experience similar to Whistler Blackcomb in Whistler, BC. The two resorts have 6,000 total acres of skiable terrain. A long process remains to secure environmental approvals from the U.S. Forest Service and Placer County. The notion of combining the ski areas goes back to Squaw Valley founder Wayne Poulsen in the early 1930s. The two properties combined operations in 2011 under Squaw Valley Ski Holdings. The gondola will connect the bases of the resorts via a route near the KT-22 peak, and run east of the Granite Chief Wilderness. The gondola will sacrifice capacity in order to use lower-profile towers to create less intrusion on the environment. The gondola is planned for 1,400 people / hour. Construction will take 10+ months.

On April 3<sup>rd</sup> Jeff Delong reported in the RGJ that **a major milestone for the Truckee River flood control project was reached with the approval of the "chief's report"** on March 27 by the Assistant Secretary of the Army, which found the Project to be "technically feasible, economically justified" and in accordance with environmental laws. Congress authorized the project in May 2014. It will cost \$280 million, with [only] \$176 million in federal funds. This project has been pursued for years after major flooding in the Truckee Meadows in January 1997, causing extensive damage. The project will consist of levees, floodwalls and riverbank terraces. Construction will begin in 2017 - and will take 10 to 15 years.

**Friends of ArrowCreek, a local group of 36 homeowners, raised \$2.5 million** from private investors to pay off \$1.9 million of club liabilities, including \$1.4 million of unpaid water bills. The group was interested in buying the course ever since the former owner filed Chapter 11. Unpaid fees prompted Washoe County to place a tax lien on the property, leading to the BK filing. The group paid a \$100k down in September and

closed escrow on October 16<sup>th</sup>. They immediately began operating the Club and its two courses and renamed it the Club at ArrowCreek. Saving the golf course is expected to raise property values by 15 - 25%. On January 28<sup>th</sup> the Club published a revamped membership plan with low introductory rates and no initiation fee. A key feature of the plan is that it went private May 1<sup>st</sup>, with over 200+ new members.

Popular Mechanics Online wanted to identify **the next wave of cities building an ecosystem to turn innovators into entrepreneurs. Coming in at 8 of 14 is Reno.** Startups need coffee and alcohol and sometimes even a special flag. Downtown Reno is popular, with restaurants, a movie theater, and parks along the Truckee River. There are dozens of other startups here, clustered around the Reno Collective, a technology-focused shared office. But they didn't have a support system. Or even a name, which they remedied within a few months, calling the area Startup Row and creating banners to hang from light posts.

Bill O'Driscoll reported in the 4/22 RGJ that Reno Land Development Company LLC (**RLD**) **closed on a \$13.1 million purchase of 780 acres in the Boomtown area** of Verdi from Las Vegas-based Pinnacle Entertainment, which sold the Boomtown Casino and Hotel in 2012. Initial plans call for an 850 ksf, two-story industrial building opening in late 2016 to the north of Cabela's, and up to 250 single-family homes to the west with construction starting possibly in spring 2016. The build-out could take 4-5 years. The location, within Reno city limits and just a few miles east of the California state line, provides opportunity with much of the land already zoned for residential and commercial / industrial use. RLD also got hundreds of acres on the south side of I-80, but while single-family homes are envisioned there too, no plans are yet in hand.

**The former Woolworth Building's basement opened April 10 at 111 N. Virginia Street as Shelter.** During the day it's designed to appeal to all ages with food from Reno Provisions (Mark Estee's new venue) and a six-lane "boutique bowling alley" from Brunswick, which has shorter lanes. This ends at 10 PM when Shelter becomes a nightclub with upscale bar food, cocktails and a DJ. Shelter occupies 14 ksf of the 85 ksf building. The project was completed for under \$5 million and took about seven months.

**A four-story, 135-room Courtyard by Marriott is coming to Downtown Reno.** At Second Street, just south of the Aces ballpark and next to the Truckee River, this new non-gaming, non-smoking hotel will contain 76 ksf and is planned for a spring 2016 opening. The 0.85 acre site was the Nev Inn that was demolished in 2008, but the Great Recession delayed replacing it. The general contractor is Metcalf Builders from Carson City. Basin Street Properties will own the hotel to be managed by a 3<sup>rd</sup> party operator. Amenities include a bistro, fitness area, flexible meeting space and an indoor-outdoor swimming pool.

Jenny Kane, in April 17<sup>th</sup> RGJ, reported that the **Nevada Museum of Art unveiled its \$5.5 million plan for the Nightingale Sky Room.** The 4<sup>th</sup> floor, 4.8 ksf sky room will contain a banquet kitchen and retractable floor-to-ceiling glass walls to create of an open-air feel. It will seat 250 for dinners, and up to 397 for concerts, and other events. The room will be surrounded by a wrap-around patio, which will be a huge improvement, as Reno's wind and the cold prevented people from enjoying - and the Museum renting out - the roof space for half of the year. During construction, the 3<sup>rd</sup> floor galleries will be closed starting May 3.

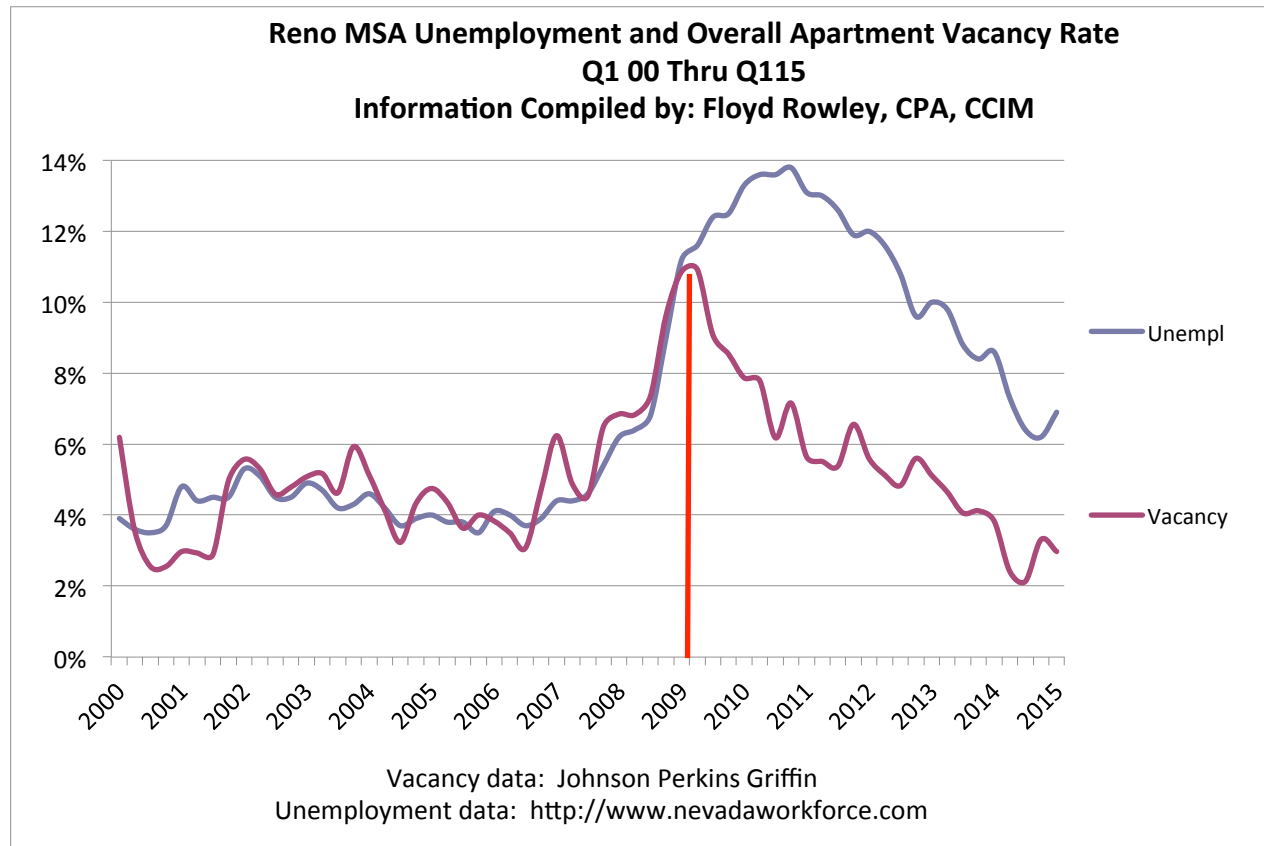
### **Apartment Statistical Review**

Thanks - as usual - to Johnson Perkins Griffin [congrats Scott!] for allowing me to present their quarterly data. Their Q115 survey covers 78 properties and 19,685 units. Thus their data is representative of our region's multifamily performance. Key takeaways this quarter are as follows:

- Overall vacancy dropped back down to 2.97% in Q1, after a big rise in Q414 to 3.3%.
- 7 of 10 submarkets registered vacancy declines with one staying the same.
- The lowest vacancy was in West Sparks, Airport and West Reno, respectively. Airport dropped from 3.4% to 1.25% - an amazing drop - nudging Lakeridge to 4<sup>th</sup> place, still at a very respectable 1.9% vacancy.
- Average rental rates rose a healthy \$21 / unit to \$889 from Q414's \$868, with East Sparks leading the pack, followed by Lakeridge and NW Reno - the exact same order as Q414.
- East Sparks continues to report the highest rents - and even registered a \$7 increase - with Lakeridge in second place, and Northwest Reno pushing Southeast Reno out of the top 3.



Even with all the Tesla hoopla after the 9/4/14 announcement, it is just beginning to show up in apartments. While the survey properties – generally A’s & B’s - are healthy, I have solid anecdotal evidence that the “C’s” are filling back up, as rent increases have clearly pushed tenants back from A’s to B’s – with B properties “losing” tenants back to the C’s –where they came from during the Great Recession.



Prior to Q309 the correlation between the vacancy and unemployment rates was almost perfect. Then, starting abruptly in Q309 the gap between them widened noticeably, reaching 7.5% by Q211. This divergence was caused by job losses and home foreclosures. Since then the gap has been closing as companies began hiring again and people “chose” to live in apartments.

**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 12-year brokerage career in northern Nevada, interrupted by a brief “walkabout” with a national firm for 13 months. Before joining Johnson Group, Reno’s premier boutique commercial brokerage firm, Floyd served for 7+ years as SVP of the Colliers Investment Services Group. 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 \$159 million in 53 transactions in our market. Starting in the fall of 2008 he started focusing on distressed assets, mainly apartments. He has completed 54 broker price opinions totaling \$421 million during the Great Recession - resulting in \$46 million of listings, mainly apartments, since early 2010.

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