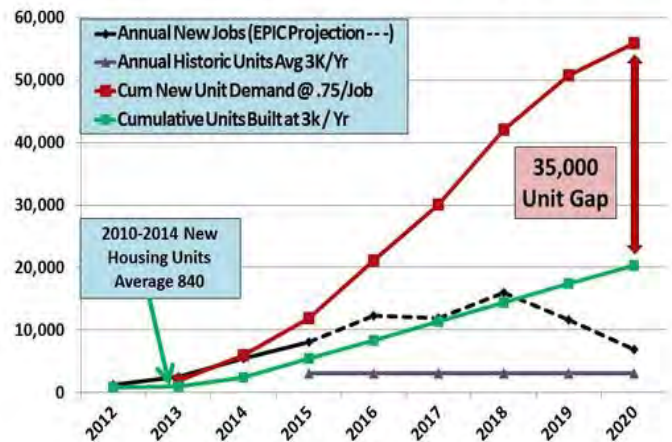


Northern Nevada Commercial Investment Real Estate Report: Q215 The "Airplanes Are Coming & the homes better!" Issue

For the 3rd quarter in a row, I am leading off my report with another excellent article from EDAWN CEO Mike Kazmierski. The article below appeared the July 19th Reno Gazette Journal (RGJ) and is presented with permission. I am also pleased to report that I have now achieved "blanket reprint approval" status with Mike.

EDAWN's projected growth of 50k+ new jobs in the next 5 years will have a huge impact on our region. Most will be positive, but housing is an area where we are not ready. Last October EDAWN invited local, regional and state partners to develop a unified growth impacts assessment. The result is the Economic Planning Indicators Committee (EPIC) report which states that there are a few significant growth concerns. Topping the list is the huge demand for new housing. If not addressed immediately, this could be our greatest crisis, the scope of which dwarfs any prior housing boom.



UNR's Center for Regional Studies (CRC) says the housing industry uses 0.75 new units / job. So, with 50k new jobs coming, then 37.5k new units are needed. We averaged only 840 new units / year during the past five years. In 2015 we already added 4.8k new jobs, thus we now need another 3.5k units. With the major growth in our construction industry, along with an additional 1k new UNR students expected in each of the next 5 years, any housing slack is now gone. Since we built only 1,376 new houses in 2014, we continue to lose ground. Even if we accelerate our housing starts to our historic average of 3k next year, we will still be short by 30k units by 2020. The highest number of new units ever built was 6k+ in 2005 – we need almost 9k / year for the next 5 years. While this housing need is urgent, enormous and very real, we still have capacity as a region. According to the CRC there are 28k lots approved now and another 20k that can be available in the next few years. Additionally, there are thousands of lots in Fernley, Dayton Valley, Carson City, etc. [Also see my latest planned apartment report below.] Finally, the Regional Water Management Plan shows that the amount of sustainable water available is much more than needed to support the 20-year population forecast. So now is the time to embrace this challenge as a region. This housing boom is based on real job growth. We need a collaborative effort between local government and the private sector to accelerate our housing starts now before it becomes a real crisis. Our success as a region depends on it.

The Airplanes are Coming Back to RNO!

After the onset of the Great Recession, Southwest began cutting back flights to RNO. It became so severe that Alaska eventually swooped in with their smaller Bombardier's to replace SWA's larger 737's. Effective July 1st Alaska has "retimed" its twice-daily RNO – SJC run to be significantly more convenient for business travellers. On May 28, jetBlue started their daily non-stops to New York's JFK. Also Alaska is starting non-

stops to Boise on November 5th. Southwest stopped that run in early 2012. Let's not forget the twice-weekly flights to Guadalajara Mexico that started in December 2014, which kept our "International Airport" name honest. Unfortunately, a flight that would really have put us on the map was the proposed London to RNO flight that was to start in December. Unfortunately the airline decided that RNO did not have / would not be able to start the proper level of customs services to meet their needs.

Major Planned / Under Construction Apartments

Based on my quarterly developer surveys, I added another 1,216 planned units in 5 new planned projects this quarter - mainly in Sparks and the South Meadows. I also eliminated 71 units that were never built. Apartment developments I am now tracking consist of:

Planned (these are more likely to be built): 25 projects totaling 6,446 units

Under Construction: 7 projects totaling 1,132 units – described below

Total: 32 projects totaling 7,578 units vs 2,420 ONE YEAR AGO

While this net total represents > 300% increase in planned projects in just 12 months, **there are STILL NO signs of a glut**, given that these 7,578 units represent only about 20% of the new dwelling unit demand that EDawn / CRC is projecting in the Page 1 article.

- **The Villas at Keystone Canyon** continues to be in full-swing construction, with the final buildings to be delivered by late November.
- **Edgewater at Virginia Lake** continues construction with 24 of 48 condos pre-sold. Pre-leasing of the 288 apartments has started with move-ins starting September 1st.
- **The Bungalow's at Sky Vista Phase 2** has 150 units under construction, which are 70% complete.
- **Vale II**, 40 units being built by ERGS, Inc., is scheduled for initial move-ins in September.
- Interior demolition has started at **the former Silver Club**, where the inside will be gutted and replaced with 100 "urban" units of 1, 2 & 3 bedroom units with full amenities.
- **Sterling Summit** student housing apartments east of Valley Road are under construction for 186 units to be delivered in August of 2016.

Tesla Grabs Large Plot of Land

In a Page B-1 article in the July 15th WSJ Mike Ramsey reported that Tesla has nearly tripled its land holdings in TRIC, purchasing nearly 2k additional acres. Tesla purchased 1k acres in 2014 when it struck its deal to locate in Storey County, which included options to purchase more land. The purchases occurred in April and May. The majority of the land - 1,863 acres - is a buffer, on which Tesla won't build but could place solar arrays to provide power to the plant. The remaining 110 acres is for industrial purposes, though Tesla hasn't yet planned to expand beyond its original footprint. The nearly 3,000-acre site takes up about 2% of Storey County and dwarfs most factory locations. Tesla has options to purchase several thousand more acres as well. The building's steel frame and roof are now finished. Panasonic, Tesla's primary partner in the battery factory, is bringing up to 15 additional companies to provide components. About 25% of the capacity of the plant may be used for Tesla's stationary storage business: backup batteries for homes, businesses and utilities. With initial demand for these batteries so high Tesla might consider expanding its already ambitious plans for the battery factory, which will begin production at the end of 2016 - and will be expanded through 2020. It will eventually grow to 10 million sf and produce up to 50 gigawatt-hours of battery packs annually - which will be more than all the existing plants in the world today combined.

Q215 Multifamily Sales and Analysis

Multifamily (MF) sales decreased \$28.4 million, or 26.4% this quarter to \$79.2 million from \$107.6 million in Q115 as the huge Highlands student housing sale "spilled over" from Q414 into Q115. As a result, MF sales retreated back to a more normal 24.6% of Q2's huge \$321.6 million in total sales. There were 4 MF sales over \$3 million, compared to 6 in Q115, for a decrease of \$27.64 million in volume. There were 26 total MF sales in Q2 versus 33 in Q115. In Q215 there were 2 sales in the \$1 - \$3 million range, compared to only 1

in Q1 for a modest increase of only \$510k. Small MF sales under \$1 million dropped to 20 from 26 deals in Q1, with the Q215 dollar volume lower by \$1.2 million over Q115. The net result was the average deal size rose by 12.3% - or \$42.7k - to \$388.6K from \$345.9k in Q115.

Major Q215 Sales Transactions

Total sales in Q215 increased by \$116.9 million - or 57.1% over Q115 - to \$321.6 million - almost reaching the huge \$323.5 million volume achieved in Q414. As a measure of strength of our region's economy, the top 2 deals - and 4 of the top 10 deals - were industrial - and only one was a foreclosure this quarter.

Transaction	Address	Date	Price
Dermody sold its LogistiCenter 395 complex in the North Valleys containing the new Amazon building, to Iowa PERS c/o Clarion Partners in Dallas.	N Virginia St	05/06/15	45,250,000
USAA Real Estate sold the 700 ksf build-to-suit Zulily Building in TRIC to Allstate Insurance Company to hold its investment real estate portfolio	3200 USA Parkway	04/10/15	41,750,000
Tilden Properties sold Caviata to Oakmont, who has been on a tear buying local large apartments. Tilden scored a \$9.3+ million gain "flipping" this deal in 26 months.	950 Henry Orr Parkway, Sparks	05/19/15	33,840,000
The Fishman family sold the Sundance West apartments to a secret company from Omaha - not Buffett per my source	3485 Lakeside Dr	06/16/15	23,450,000
Pinnacle Entertainment of Las Vegas sold their large Verdi land holdings to Reno Land Development Company for what is believed to be 247 lots on 98 acres.	Boomtown Garson Road	04/10/15	13,150,000
Renown buys the northernmost building in the Reno Tahoe Tech Center - immediately south of their vacant land on Double R - out of foreclosure - from LNR.	10315 Professional Cir	05/28/15	11,750,000
Panattoni bot 96 acres to build a 770 ksf big box industrial - and more - between Lemmon Dr. & Stead Blvd.	N Virginia St	06/04/15	8,749,000
Prologis bot a vacant 181.4 ksf industrial building - including racking - off Lear Boulevard from private company Omatex.	10875 Sage Point Drive	06/30/15	8,525,800
Messrs. Rowell and Moe finally sell the Southwest Pavilion shopping center to a Texas investor.	8195 S Virginia Street	04/20/15	8,500,000
Lewis Operating Company sold 25.79 acres of land to Lennar for an additional 133 lots in their Dry Creek and Sage Meadows developments.	Veterans Pkwy	05/12/15	7,000,000

Totals 201,964,800

Apple Expanding its Data Center

In the May 22nd RGJ, Jason Hidalgo reported that Apple sought final approval to build a new 50-megawatt substation as its **data center campus east of Reno that is poised to nearly double in size**. Apple applied for permits for four new buildings totaling 180 ksf. They represent the largest collection of projects at the site to date, bringing the number of buildings to 14 and nearly **doubling the total footprint to 412 ksf**. Electricity is currently supplied through a 15-megawatt power drop from NV Energy. The proposed 22.5 ksf substation is crucial. Apple expects to complete it in August while the NV Energy switching station is targeting September. The four data center clusters should be finished this year as well. Apple's solar array went online at the end of May adding 18 megawatts - to get them to 100% renewables at this time.

Pipeline to provide new water for the North Valleys

Jeff DeLong wrote in the April 29th RGJ that the Truckee Meadows Water Authority (TMWA) is poised to tap a new source of water. A \$17.8 million project would allow TMWA to draw groundwater from far north of Reno and serve homes throughout the North Valleys. Doing so would free up water now being pumped up there from the Truckee Meadows. It could then be stored in upstream reservoirs as drought reserves. TMWA hopes to have water flowing by June 2016. The water would come from Fish Springs, located in the Honey Lake Basin along the Nevada-California line. Vidler Water Company acquired the water rights in 2000, and spent millions building a 28-mile pipeline to Lemmon Valley. It was completed in 2007, just in time for the recession and Nevada's housing market to collapse. The water was dedicated to Washoe County but never tapped. TMWA, which acquired the County's water system this year, is preparing to tap it. 8k acre-feet of water / year is available, or roughly 2.6 billion gallons, pumped at 6,500 gallons per minute. TMWA has applied with the Nevada Division of Environmental Protection for a \$15 million loan to fund the bulk of the project, to extend the Vidler pipeline 5.5 miles south to the north Virginia Street corridor.

Ceremony marks start of Virginia Street Bridge replacement

Jeff DeLong, writing in the RGJ reported, that on May 20th a groundbreaking ceremony was held beside the 110-year-old Virginia Street Bridge to mark the start of the \$18.3 million project to replace one of Reno's most famous landmarks. Q&D began major demolition shortly thereafter. The new bridge is expected to open to traffic in May 2016. The project is needed to improve public safety, both because the bridge was Nevada's most structurally deficient bridge and because it contributed to flooding in downtown by acting as a bottleneck for debris, causing water to inundate downtown. The new "bowstring truss" structure will allow debris-laden water to pass freely beneath. The structure's architecture is inspired by both the recent bridge and the iron bridge which stood from 1877 to 1905. The project is an important cornerstone of the broader Truckee River Flood Project. It will help prevent major floods like the ones that hit downtown in 1997 and 2005. Bridge sidewalks will be widened, from 8 to 12 feet, with new plazas built on both ends of the bridge.



Rowley iPhone 6 Plus photo

The Local News Bag

The site of the **former Bundox Restaurant and River House motel** was bought by a firm with ties to **Herb Simon**, the retail billionaire and Aces Ballpark developer. Located between the Truckee River, with

Second Street and Aces Ballpark to the north, it sold for \$1.95 million. The Bundox site factored into revitalization attempts in the late '90s, with plans to turn it into a French chateau-style property with riverside dining and an outdoor garden for weddings. The property was ultimately razed in 2002. Plans will likely consist of restaurants and bars to tie it into the Freight House District.

Jeff Delong, writing in the RGJ, stated that **a second attempt to immediately halt the construction of the Southeast Connector was denied** July 9 by the Ninth Circuit Court of Appeals for a preliminary injunction halting construction of the 4.5-mile-long road linking southeast Reno to Sparks. Construction of the six-lane road will move forward as the appeal is considered in federal court. The RTC intervened in the lawsuit filed by the community coalition against the Army Corps of Engineers, which issued a permit to the RTC to build the road through a wetland area. The group is appealing a June 3 decision by the U.S. District Court in its April lawsuit against the Corps. The suit contended that the RTC failed to adequately analyze environmental impacts associated with impacts to wetlands, flooding hazards and threats posed by mercury-contaminated soil associated with historic mining activity. The Corps had previously noted the RTC's "innovative" plan to encapsulate mercury – AND the EPA approved it last summer...

Siobhan McAndrew, writing in the July 8 RGJ reported that even **the UNR dorm wait list stopped accepting applications in May** for one of the 3,000 dorm spots. UNR hasn't had to start a wait list until July in previous years. Of the students who want to live on campus after the first year of college, only 300 were chosen based on high GPA and number of credits – about a 50% cut of from previous years. There has been a jump of nearly 10% in freshmen enrolled in 2014 than in 2013. UNR said that number will likely grow as it aims to top 22,000 students in the coming years. The freshmen class of 2020 may reach 4,000.

Nevada Tax Changes for 2015

The following is a highly condensed edit of a newsletter produced by Clausen & Company, CPA's. On June 10, 2015, Governor Sandoval signed S.B. 483, a package of tax changes which includes \$1.1 billion in new and extended taxes over the biennium. The provisions of S.B. 483 went into effect on July 1, 2015.

Cigarette Tax. The previous 80 cents / pack tax increased to \$1.80 per pack.

Business License Fee. The Nevada business license fee of \$200 annually increased to a flat \$500 for most corporations. For other Nevada businesses the fee remained at \$200 but the annual filing fees for all business increased by \$25 per year from \$125 to \$150.

Governmental Service Tax (GST). The law continues diverting 100% of GST revenue from the State Highway Fund to the State General Fund. On July 1, 2016, 50% of GST revenue will revert back to the State Highway Fund and on July 1, 2017, 100% of the GST will flow to the State Highway Fund.

Modified Business Tax. The MBT was previously charged to businesses other than financial institutions at 1.17% of wages paid above \$85k / quarter. Financial institutions pay 2% with no wage threshold. The MBT increased to 1.475% for nonfinancial institutions, and the wage threshold dropped to \$50k per quarter.

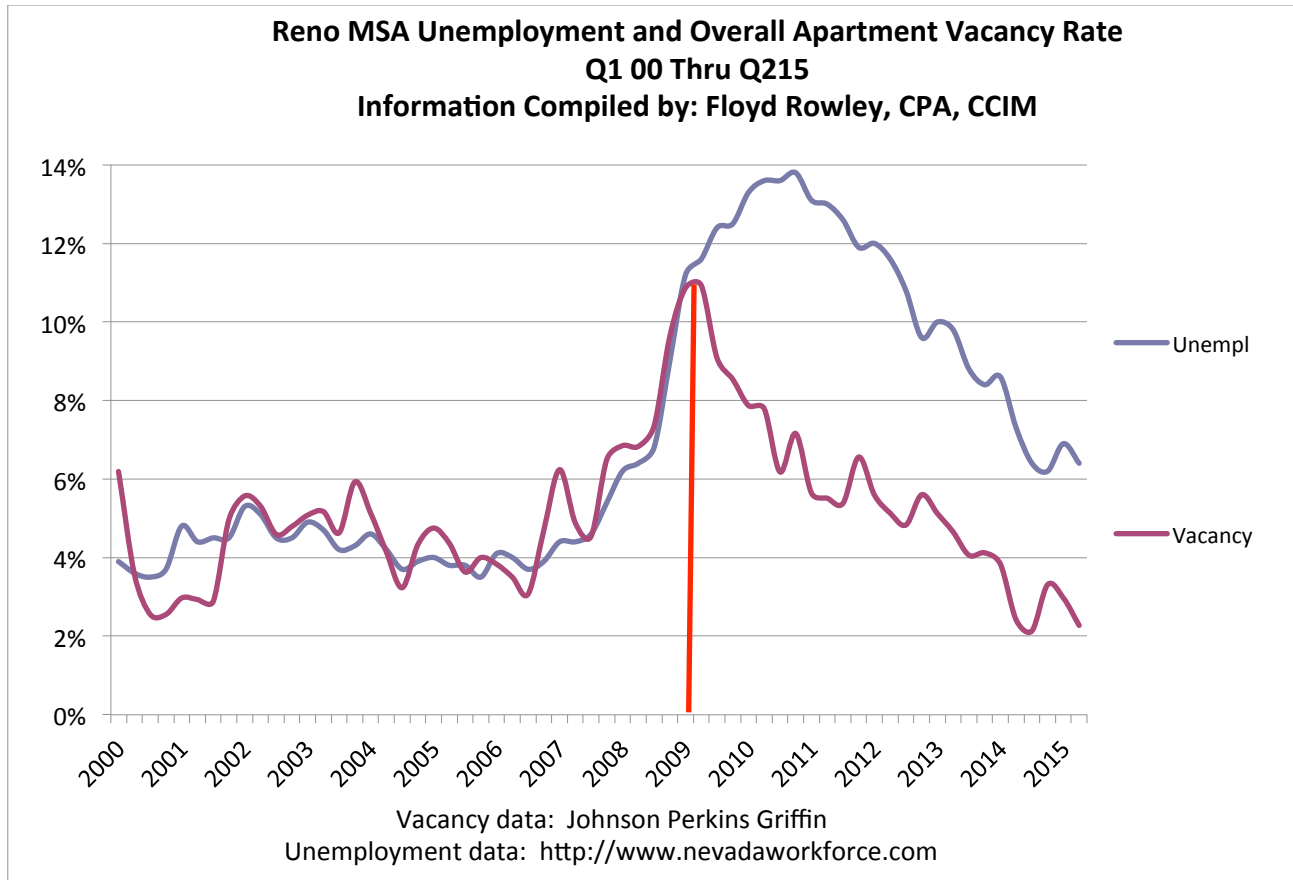
Commerce Tax. This new tax is levied on businesses with gross revenue generated in Nevada over \$4 million / year. Passive entities are exempt and sectors that already pay Nevada gross receipts tax (gaming, mining and insurance) can exclude from the Commerce Tax any revenue subject to those taxes. Revenue will be taxed from 0.051% to 0.331% depending on a business's NAICS code.

Apartment Statistical Review

Continued thanks to Johnson Perkins Griffin for allowing me to present their quarterly data. Their Q215 survey covered 78 properties (same as Q115) and 19,714 units – 54 more than Q115. Thus their data is representative of our region's multifamily performance. My key takeaways this quarter are as follows:

- Overall vacancy dropped down to 2.27% in Q2 from 2.97% in Q1 – hard to see how it can go lower.
- 7 of 10 submarkets registered vacancy declines - same as Q1 - with one staying almost the same.
- West Reno reported the lowest vacancy – an amazing 0.44% - with Lakeridge 2nd at 1.28% – after dropping to 4th in Q1. Airport and SE were in a statistical tie for 3rd lowest at 1.4% vacant.

- Average rental rates rose a healthy \$31 / unit – or 3.5% - to \$920 from Q1's \$889, with Lakeridge nudging out East Sparks, with NW Reno in 3rd place.
- Both East Sparks and Lakeridge have now topped \$1,000 / month for their average rents.



Prior to Q309 the correlation between 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 held steady in the 4% range.

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 55 broker price opinions totaling \$431 million during the Great Recession - resulting in \$56 million of listings, mainly apartments, since early 2010.

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