

Northern Nevada Commercial Investment Real Estate Report: Q417 The “TRIC / Blockchain” Issue

The BIG story this quarter is that Blockchains LLC purchased 64,000 *acres* at the Tahoe-Reno Industrial Center (TRIC). Jason Hidalgo wrote in the 1/23/18 Reno Gazette Journal (RGJ) that the company specializes in financial services, security, software and apps. Blockchains will use 150 acres to build their HQ campus. What the company will do with the rest of the land remains to be seen. [Ed: maybe an ICO – initial coin offering?] The deal leaves only 250 acres of TRIC’s 104,000-acres unsold. It also makes Blockchains the biggest developer and landowner at TRIC. Tesla remains the biggest user with more than 3,000 acres. Lance Gilman is in talks with parties for the remaining 250 acres and expects it to be sold within the year. Even if all the land is sold out, they will still be involved for several years via development and infrastructure projects.

I attended the blockchain event at the Nevada Art Museum on February 6th – one of the many reasons this report is REALLY late – it was fascinating. Blockchain is a secure digital ledger or record that is typically associated with cryptocurrencies such as Bitcoin. Blockchains LLC focuses on the Ethereum blockchain, which anchors the world’s second-biggest cryptocurrency. Ethereum’s technology also has a more flexible design that can be used to create smart contracts. Governments are looking into the technology to create more secure electoral records, title reporting and bill-paying platforms, among many potential uses.

Major Planned / Under Construction Apartments (Rowley proprietary research)

My quarterly phone calls and emails to developers revealed just one new apartment project started in Q4: the Riverside Park Apartments just west of the Wells Avenue bridge on the S side of the Truckee River. The gross reduction of 287 units under construction this quarter consisted of large partial unit / building deliveries at the Village South, Vineyards at the Galleria and Harvest at Damonte Ranch.

This quarter I added 4 planned projects in the Carson City area - since USA Parkway is now open – and our housing needs - and developers - are regional. I am now tracking the following projects:

Planned apartments: 39 projects totaling 16,088 units

Under Construction: 17 projects totaling 3,295 units

Total: 56 projects totaling **19,383** units

Here are the major apartments currently under construction:

1. ERGS’ **North Peak Apartments** continues construction with 104 units @ Military & Lemmon.
2. Silverwing continues construction of the **Bridges**, 194 units in Victorian Square.
3. Kromer’s 210 units, **Vineyards at the Galleria**, now has delivered almost 100 units.
4. Kromer’s 336-unit JV with Maddox continues construction, called **Sierra Vista** on ArrowCreek Parkway.
5. Nearby, Ryder’s 252-unit, **Village South Apartments** also continues building and leasing.
6. LandCap’s 209-unit, **Waterfront at the Marina** is “wrapping” their ultra-luxury apartments.
7. Guardian Capital continues construction at their 312 units called **Vida** @ Sharlands & Mae Anne.
8. **Summit Club**, by Reno Land Development, has finished grading its 580-unit site by The Summit mall.
9. Lewis’ 278-unit, **Harvest at Damonte Ranch Phase I**, continues construction and strong leasing.

10. Lewis continues building 148 units called **Latitude 39**, on Double R, N of South Meadows Pkwy.
11. Blake Smith continues construction of 280 units called **Lyfe at the Marina** in Sparks.
12. Sunroad is officially under construction with their 330 units at **Lumina**, in Pioneer Meadows.
13. Greenstreet' s **Vintage @ the Crossings** is rising just NE of the Southtowne Crossing Wal-Mart.

The Local News Bag

In the 1/15/18 Northern Nevada Business Weekly (NNBW), Wyatt Haupt, Jr. reported that **Larry Ellison, the Silicon Valley billionaire and Oracle co-founder, has acquired the Cal Neva Resort & Casino** in Crystal Bay, NV for \$35.8 million. Lawrence Investments LLC bought the property out of bankruptcy on January 10th. The transaction occurred after an agreement between major creditors removed a key hurdle. A compromise and settlement agreement between Hall CA-NV LLC, Penta Building Group, debtor New-Cal Neva Lodge LLC, and other parties was entered in U.S. Bankruptcy Court in Reno on December 26.

A press release dated 12/5 announced that **Fritz Buser has transferred his majority interest in Mount Rose Ski Tahoe** to his children and grandchildren, ensuring the resort will remain family-owned. He became the majority shareholder in 1971 and has controlled Mt. Rose ever since, including the merger with Slide Mountain in 1987. His son Kurt, has been Executive President for the last 20 years and will continue to shape the resort's future. A pipeline of projects is being considered to guarantee constant improvement at Mt. Rose.

Siobhan McAndrew reported in the RGJ on 12/2 that **UNR will sell 12 homes built between the 1890's and 1970's from the Gateway District**. Since UNR does not have a need for them – or a substitute parcel to relocate them - buyers must relocate the homes. UNR said keeping the homes in their current spots would impede its shared plan with the City of Reno to create a vital urban district with a mix of academic, retail, commercial, residential, research and public uses to continue the rebirth of Downtown Reno. UNR's master plan for the Gateway District includes a new College of Business building near I-80.

The NNBW reported on 12/13/17 that **NDOT has made substantial progress during the 2017 construction season for the State Route 28 Shared Use Path** project near Incline Village. Completion is planned for late 2018 or early 2019. The \$36 million project will create safety improvements, reduce congestion and upgrade water quality along SR 28 from the east end of Incline Village to Highway 50, including 3+ miles of shared-use path (including a tunnel under SR 28!), a crossing signal at Lakeshore Boulevard, off-highway parking, vista point and emergency roadside turnouts, and installation of fiber optic conduit to the Washoe County line. See <http://www.nevadadot.com/SR28>

Siobhan McAndrew reported in the Nov. 28 RGJ that the **opening of UNR's Great Basin Hall in August 2018** is one of many new buildings planned at UNR. The dorm is under construction on the site of the former White Pine Hall. The \$57 million residence hall will contain 130 ksf and have room for 400 students to ease overcrowding that topped 120% of occupancy in the fall semester. UNR announced in 2015 that Manzanita Hall, which opened in 1896, needed an earthquake retrofit. That remodel is expected to be completed in 2019 to house freshmen. A record 3,000 students moved into campus dorms for the fall 2017 semester.

The NNBW staff reported on 1/4 that **Sprouts is scheduled to open in Sparks in Q218** at 125 Disc Drive. It is expected to create 120 new jobs. It is one of 30 new expected stores to be opened by Spouts in 2018.

The NNBW staff reported on 12/14 that **AEW Capital Management has purchased the Southwest Commerce Center in south Reno for \$93.2 million from Barings**. The center is a fully occupied portfolio of six industrial buildings totaling 1.03 million sf located on Patriot, Maestro, Colbert, Airway and Quail Manor Court. The buildings were built in 4 phases between 1997 and 2001 and are located on 50+ acres.

Johnathan Wright, in the Nov. 27 RGJ, reported that **Chef Ben Deinken has raised 2/3 of the \$500k he needs to open a restaurant in the ground floor of Arlington Towers**. Plans for Samhain (SAH-win), named for the Gaelic festival marking the end of the harvest, consist of 3 ksf on two levels, a bakery, a room for making cheese and cured meats, a bar, a chef's table, a wine room and 120 regular seats.

Reno council [again] delays decision on massive Cold Springs housing development

Anjeanette Damon reported in the 1/10/18 RGJ that the Reno City Council has again put off a decision on the massive Stonegate proposed development in Cold Springs that would strain existing city services. The developer, Heinz Ranch Land, is proposing 5,000 houses, 1.2 million sf of commercial and industrial space, two elementary schools and a high school. The project has been 20 months in the making, having gone before the Reno Planning Commission three times. The project would be built over 20 years and would be required to coincide with the expansion of the Spaghetti Bowl and other improvements to US 395. The Spaghetti Bowl expansion is now under review by federal environmental authorities. No timeline has been established for construction and no funding has been identified. The developer is considering a commuter rail line connecting the North Valleys to downtown. The City and the developer did reach a conceptual agreement on a public safety facility, which requires the developer to build a temporary fire station, which would also house a police substation. As the project progresses, a permanent public safety facility would be built.

New senior center proposed for Lyon County

[Ed: I brokered this land deal, which reinforces why I like doing what I do.] The NNBW reported on 12/26 that Lyon County officials approved an agreement with the William N. Pennington Foundation to build a new senior center in Fernley. The Foundation awarded the County \$3 million to build a facility that will serve as a senior center and provide office space for its HR department. The funding covers about half of the cost of the facility and will be located off of Lois Lane (sic) behind the Fernley Depot. Lyon County and Fernley are partnering to build the senior center and a community center. Lyon County and Fernley have approved a 50-year lease for the County's portion with a goal of parceling the County's section to Lyon County. The City and County will begin developing a joint use and maintenance agreement for both buildings and parking facilities after the first of the year. Lyon County anticipates construction starting quickly after the first of January.

The quarterly Jacobs Entertainment Update

[Ed: Jacobs was my main client between mid-2016 and mid-2017, acquiring a large chunk of W 4th Street] The RGJ reported that the Courtyard Inn on W. 4th St. sold for \$2.1 million at the end of October, to a Jacobs affiliate. It is part of the company's ongoing master plan for the Fountain District. They intend to tear it down within 24 months and to begin publicly discussing their development plans in 2018. The Courtyard Inn is the latest motel purchased by Jacobs. They have already demolished the Carriage Inn, located across from the Courtyard Inn. Their plan includes event spaces, parking, and multi-story, mixed-used housing at market rates.

Mike Higdon reported in the 11/16 RGJ that Jacobs razed the Stardust Lodge on Arlington as part of its vision to redevelop west downtown Reno into the Fountain District, the 3rd motel to be leveled in Q417. The \$500 million mixed-use redevelopment project will include fountains and roundabouts at two intersections, arts and entertainment, mixed-use retail and housing. Jacobs wants to minimize downtown's poor housing while redeveloping a largely underutilized section of the city's core. "Many of the units we are demolishing were truly not habitable, and this demolition is another step in our journey to redevelop West Fourth Street into an urban district to be enjoyed by all," Jonathan Boulware, Jacobs regional VP said in a press release. "All of the motels were inhabited despite deplorable conditions." Jacobs partnered with the Econo Lodge on Plumb Lane to provide housing for seniors displaced from these motels. The five-year deal covers 50 units. Boulware said, "After the completion of this project, we will be able to provide higher quality and safer living conditions. In the meantime, Jacobs has committed to providing rent assistance for each resident for five years."

The REreno website on 11/22 wondered if "we" about to get the Reno Eye. Jacobs Entertainment has applied for a trademark for "Reno Eye" under the category that includes amusement park rides, including Ferris wheels. Jacobs has also applied for trademarks to the names Fountain Hotel and Casino, Fountain Casino Hotel, Fountain Gardens, Reno Fountain District, and Reno Live.

4,700-unit development planned for Butler Ranch

Writing in the 11/2/17 RGJ, Anjeanette Damon reported that Newport Pacific Land (NPL) is proposing 4,700 housing units on the site of the former 980 acre Butler Ranch in SE Reno. The project has been labelled

"attainable housing" and is planned to include single-family homes as well as multi-family townhouses targeted at buyers who can afford the region's median home price. The project, dubbed DayBreak, has begun the approval process with the City of Reno. If it goes smoothly, building could begin in two years. Much of the property is in a critical floodplain, which has become inundated with water that backs up from the Truckee River as well as water raging down Steamboat Creek. The area flooded severely in 1997, 2005 and in early 2017. For a century, Steamboat Creek conveyed mercury-contamination from Washoe Lake through southeast Reno. The ranch's irrigation ditches helped spread mercury throughout the project site.



Native American and pioneer archeological sites are littered throughout. NPL will have to go through the long process to get a permit from the Army Corps of Engineers due to the wetlands on the site. NPL is proposing to remove a dam on Thomas Creek to return it to a more natural state. Also, wild horse herds live nearby. NPL will have to fence land to keep them off roadways. These issues created a community backlash 12 years ago that killed the previous project, which eventually died in the Great Recession. NPL bought the property in June 2017 for \$43 million. When Paul Butler bought the ranch in 1954, he paid \$440,000 for 1,700 acres of land.

Apple CEO Tim Cook makes surprise visit for Reno facility groundbreaking

Writing in the 1/17/18 RGJ, Jason Hidalgo wrote that Apple's CEO joined Gov. Sandoval and Mayor Schieve to celebrate the groundbreaking of Apple's new Reno warehouse, which will support Apple's data center east of Sparks. Cook described its Reno data center as a key component of an ecosystem that delivers billions of iMessages, more than a billion photos and tens of millions of Facetime video calls around the world each day. The property at Evans Avenue and Sixth Street closes a long-running chapter in Apple's Reno saga, which started in 2012 after Apple picked Reno as the site for its newest data center. Building in downtown's tourism improvement district was required for Apple to qualify for tax abatements, which initially totaled \$89 million. While the fate of the downtown facility was uncertain, it was a big deal because it was seen as key to improve the blighted Tessera District. The uncertainty lingered until permits showed Apple buying land last year. By moving equipment through the district, Apple can earn the full benefit from the abatements it negotiated. East of town, the Apple data center now spans 1.1 million sf, with employment projected to reach 100. Construction from the expansion is expected to employ 300 people. Steve Hill, the recently retired head of GOED, credited Apple's arrival for kickstarting a wave of big-name businesses coming to the area. Apple's arrival in 2012 was crucial given how the state was still suffering from the Great Recession. Sandoval pointed to the number of jobs created in the state since the Apple deal - almost 250,000 - after Apple's 2012 announcement.

Two more reasons why the Californians are coming – and will continue to do so

ONE: According to [https://ballotpedia.org/California_Local_Rent_Control_Initiative_\(2018\)](https://ballotpedia.org/California_Local_Rent_Control_Initiative_(2018)), The Affordable Housing Act Initiative may appear on the November ballot in California. The measure would allow local governments to adopt amendments, ordinances, or regulations to govern how much landlords can charge for renting apartments and houses. The measure would also repeal the Costa-Hawkins Rental Housing Act, a law designed to prohibit local governments from enacting rent control on buildings first occupied after 1995. Sponsors of the initiative include the AIDS Healthcare Foundation, the Eviction Defense Network, and the Alliance of Californians for Community Empowerment.

TWO: According to <https://collegeforallca.com/college-for-all-act>, The College for All Act seeks to be on the November ballot and consists of a supplemental CA estate tax that starts @ 12% for individual estates at \$3.5 million and rises to 22.5% for estates over \$5.49 million – double that threshold for couples. [Ed: not sure

whatb this means]. The sponsors claim that it will raise \$4 billion by taxing the inheritances of the wealthiest 0.2% of California's families. It creates a grant that covers undergraduate tuition for all California residents regardless of income level at any public college and expands Cal Grant eligibility to more than 330,000 working class students currently excluded because they don't attend college directly from high school, [Ed: are you sitting down?] formerly incarcerated students and for undocumented students considered residents under California's AB130. [Ed: and I quote the website]: "Will we prioritize the education of 2.6 million Californians enrolled in our public colleges or the inheritances of the wealthiest 4,000 families? Will we continue to provide luxury yachts for the few, or will we provide College for All!"

TRIC awaits link to reclaimed water plan

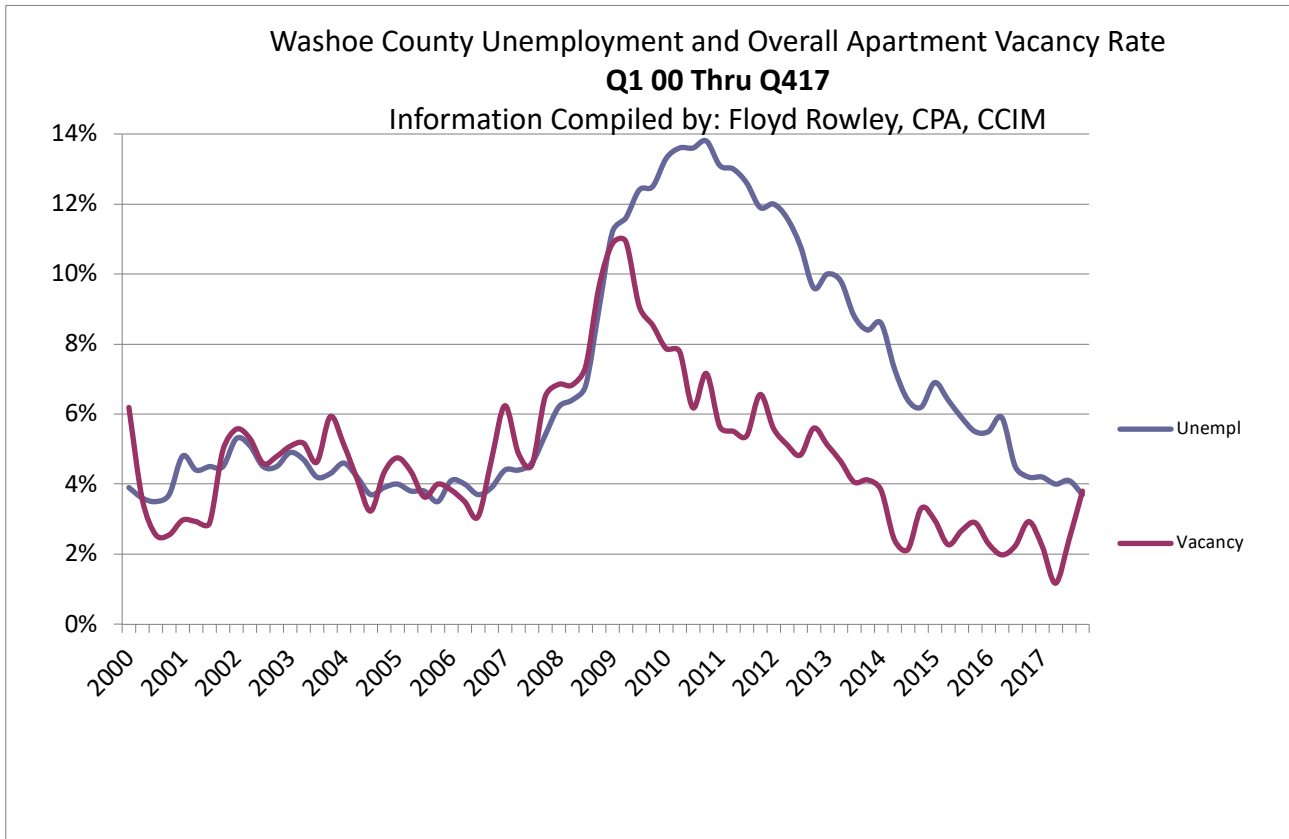
Rob Sabo [Ed: welcome back!] wrote in the 10/30 NNBW that a "purple pipe" water system could provide a big boost to sustainability for companies at TRIC, which is establishing contracts to import 4 k acre-feet (AF) of water from the Truckee Meadows Water Reclamation Facility (TMWRF), our sewer plant in east Sparks. TMWRF is already pumping effluent to re-use sites throughout the region. Businesses that use reclaimed water have dual-piping water systems. Reclaimed water pipe is a light purple color to distinguish it from potable water. TRIC already has purple pipe and is awaiting infrastructure improvements and environmental approvals. Reclaimed water can be used to cool data centers, in manufacturing, or for irrigation. TRIC already has 2 k AF of reclaimed water rights via a holding pond built during the park's initial development. The new plan would boost that by installing a 15-mile-long pipeline to transport water from the TMWRF to TRIC. The upgraded facility could be live by 2020. There are three different easement paths being considered. The reservoir needs to be deepened and pump stations and additional water lines need to be installed. Work should commence in Q218. Although TRIC is located in what appears to be extremely dry land, there's actually an abundance of water. As much as 30k AF water has been identified 1,000 feet below the park. TRIC has 5.4k AF of approved water rights from that resource. In 15 years the water table has receded just 1/8 of 1 inch. The park also has a large quantity of water rights from the Truckee River. It has induction wells to pull water from the river into its holding pond. However, they are not yet using those water rights.

Apartment Statistical Review

The Johnson Perkins Griffin's (JPG) Q417 survey covers 86 properties and 21,497 units – same as Q3. As always, JPG's data is representative of regional multifamily performance. A full copy of their survey is available at: <http://jpgnv.com/wp-content/uploads/2018/01/Q4-ApartmentSurvey2017.pdf>

- **Overall vacancy** continued its climb from 2.41% in Q3 to 3.8% in Q4. This is now 13 of the last 15 quarters that our overall apartment vacancy rate has been UNDER 3%, and 19 quarters in a row that vacancy has been under 4%.
- In Q3, 8 of 11 submarkets registered vacancy increases – same in Q4. Amazingly, Downtown Urban soared from 2.9% to 9.2%, while still keeping the top spot in the highest average rent in the region @ \$1,349 / mo.
- After **average rental rates** were flat in Q3, they fell only \$22 / unit / mo. this quarter, or 1.8%.
- While rents have risen 25% in 2 years, they have now increased 33.2% since the **TOP** of the last cycle in Q108 – fully 10 years ago. This works out to an **annual growth rate of ONLY 2.9% / year**. Overall rents were flat for 7 years – but this does not keep people from complaining in letters to the editor.
- East Sparks dropped to 2nd place in average rents and stayed flat in vacancy – still ¾ of a point above the regional average. In Q3 it suffered the largest quarterly vacancy increase of any submarket.
- East Sparks rents dropped \$70 in Q4 – after a \$69 drop in Q3, more than wiping out its huge \$130 gain in Q2. The new Downtown Urban submarket rose to 1st place in rents, with East Sparks climbing up to 2nd place. NW Reno bumped Lakeridge back down to 4th place.
- In Q116 we had only 4 out of 10 submarkets topping \$1k / unit / mo. in average rent. Only 1 submarket joined the "\$1k / mo. Club" in the ensuing 5 quarters. Then, **starting in Q217 – and continuing into Q4 - an astounding 9 of 11 submarkets exceeded \$1k average rent / month** – with only the blue-collar submarkets of Airport and Brinkby-Grove continuing to be left out of the "club".

Conclusion: I continue to believe that all the new “expensive” units being built will be snapped up by the new employees coming to our region who don’t feel that the new Class A rents are all that expensive, leaving the existing apartment stock to be renewed by the existing workers in our region. I have identified a series of “workforce” land parcels that can be built “out of the core” to accommodate our \$15 / hour workers.



It is interesting to note that the convergence of the above two lines last occurred in 2009.

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 14-year brokerage career in northern Nevada, interrupted by a brief “walkabout” with a national firm for 13 months in 2013-14. Before joining Johnson Group, our region’s premier boutique commercial brokerage firm, Floyd served for 7+ years as Sr. VP for the Colliers Investment Services Group locally. 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 \$235.2 million in 78 transactions** in our market. Starting in the fall of 2008 he started focusing on distressed assets, mainly apartments. He has **completed 65 broker price opinions totaling \$474.3 million**, mainly during the Great Recession, resulting in \$64 million of listings, mainly apartments and land, since early 2009.

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