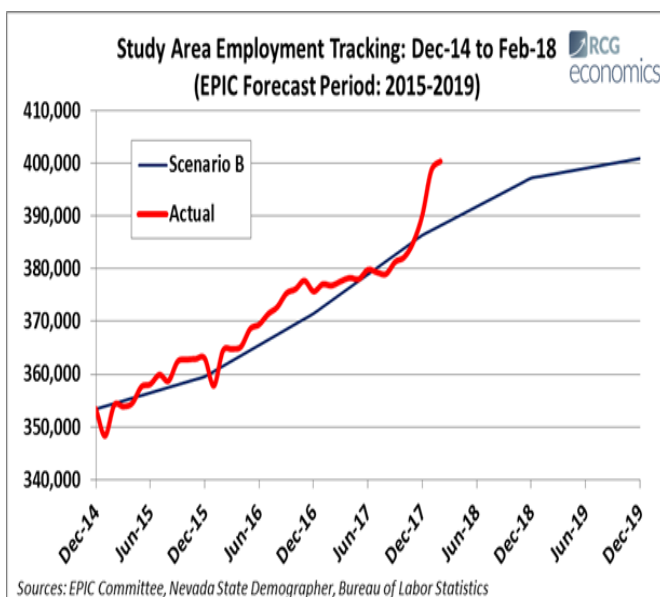


Q118 Northern Nevada Commercial Investment Real Estate Report The "Firing on All Cylinders Again" Issue

In the gloomy winter weather this past quarter, I spent a lot of time thinking and talking about whether our region had reached the peak in this cycle, given the all the local news about breaking through 2008 median home prices, low SFR inventory, high apartment rents, low apartment vacancy AND the long duration of the current "recovery". While a Wall Street Journal (WSJ) survey of economists on May 10th put the odds of a recession at 59% by 2020, I recommend that you look @ the following link from the Center on Budget and Policy Priorities: <https://www.cbpp.org/research/economy/chart-book-the-legacy-of-the-great-recession>

While the Center states a progressive leaning, the graphs and articles in this link agree with the WSJ economists that this recovery has been quite long – 107+ months and counting. The graphs make it amply clear that the depth of the Great Recession was very deep – and that current statistics are only *now* catching up to long-term averages. Whether these trend lines mean a recession in 2020 - or not - is heavily dependent on whether the Fed keeps signaling that they are hell-bent on continuing to push through 4 total interest rate increases in 2018.

Locally, our economy has grown by a total of 46,917, or 89.5% of the jobs in 38 months of the 52.4k total that EDAWN predicted in January 2015 would occur in 5 years, in just 63% of the time horizon. All these jobs are not fully reflected yet in BLS employment statistics, but they represent the plans and the commitments of the companies that have been attracted to our region.



Major Planned / Under Construction Apartments (Rowley proprietary research)

My quarterly phone calls and emails to developers revealed 3 new apartment projects started in Q118, resulting in 703 NET new units under construction this quarter: Carson Hills, Steamboat and Loft 205 @ Sierra & Court.

In an effort to show only likely projects, I removed 1,200 units in 3 planned projects, yet added 3 small ones and 1 large one, resulting in a net decrease of 1,033 planned projects. I am now tracking the following projects:

Planned apartments: 38 projects totaling 15,055 units, of which 3,476 are long-term

Under Construction: 20 projects totaling 3,998 units - up 703 units in Q1, or 21.3%!

Total: 58 projects totaling **19,053** units

Here are the major apartments currently under construction:

1. ERGS' **North Peak Apartments** continues construction with 104 Phase 1 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 150 units.
4. Kromer's 336-unit JV with Maddox called **Sierra Vista** on ArrowCreek Parkway, has released 36 units.
5. Nearby, Ryder's 252-unit, **Village South Apartments** has released most of their remaining units.
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, is now pouring Phase 1 foundations its 580-unit project.
9. Lewis' 278-unit, **Harvest at Damonte Ranch Phase I**, continues construction and strong leasing.
10. Lewis is now leasing many of its 148 units at **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 continues 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

The "ThisisReno" blog reported that **Artown announced the new owner of the historic Lear Theater will be the Sierra School of Performing Arts**. The school was selected because of its capital campaign for the property and its ability to renovate and operate the theater. Their proposal aligned with Moya Lear's vision for space that could host anything from a children's dance recital to a world-renowned string quartet.

Chris Murray, writing in the April 21 Reno Gazette Journal (RGJ), reported that, after being delayed a year, **UNR broke ground on the Donald L. Jensen Plaza, a new grand entrance at Mackay Stadium's north end**. The project started in 2014 as a micro-donation campaign dubbed Champions Plaza in which fans bought bricks to fund the project. UNR expects the entrance to be finished before the season opener Sept. 1 against Portland State. This is the latest renovation at Mackay. UNR sunk \$14 million into the 52-year-old stadium in the summer of 2016, adding a club level, chair-back seats, a state-of-the-art video board, a sound system and a resurfaced track. In 2017 they spent \$690k to make the stadium ADA compliant.

Bod Conrad wrote in the March 27 issue of his ThisisReno blog that **1,600 AC near Wadsworth will become a huge solar farm - the largest of its kind in the country**. The Washoe County Commission approved a special use permit for Dodge Flat, 1,200 acres of which will become fields of photovoltaic panels. The project, expected to take a year to complete, will generate 500 megawatts (mw) / year, as well as 200 mw of storage. It still needs additional reviews, but it will avoid about 510,000 tons of CO² emissions annually.

Jenny Kane wrote in the March 31st RGJ that the nonprofit arts and "maker" space, **The Generator, will move to a 4.5 AC site next to the Wells Ave. overpass** after the Reno City Council approved a 99-year lease. It plans to build a 35-40 ksf community arts / performance center at an estimated cost of \$4.4 million, and will include 75 resident artist spaces, an outdoor theater, a sculpture park, gardens and public events space. They are also obligated to revitalize and restore the included Truckee riverfront for public use. Construction won't start until 2020 due to fundraising and to relocate the homeless under the N side of the Wells Avenue overpass. The Generator has created over 100 large-scale Burning Man art installations.

The Northern Nevada Business Weekly (NNBW) reported on March 28 that **UNR is selling 104 acres of its Mainstation Farm plus a nearby 40-acre parcel**. The land is being sold to generate money to update and renovate lab spaces on campus. The land is zoned as a Planned Unit Development and is being offered for a minimum bid of \$20 million. UNR will still hold over 700 acres behind the strip on McCarran. The 104-acre parcel is on the east side of McCarran. The 40-acre parcel is at the SE end of the Farm adjacent to Pembroke Drive and the new Southeast Connector. Proposals by prospective buyers were due April 5.

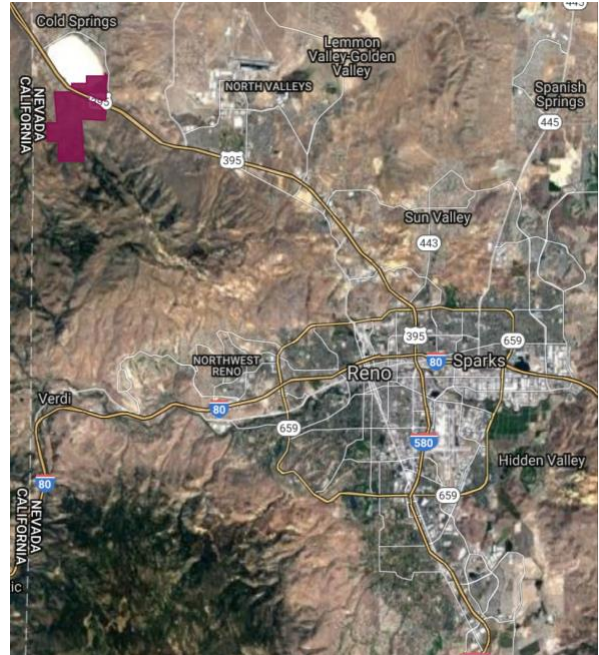
Writing in the Feb 8 RGJ, Mike Higdon reported that **an application was submitted to the City of Reno to split the Sears store at Meadowood Mall into three spaces**. The application states, "the renovation's overall intent is to provide distinct identities for each new tenant." Then on April 19 he wrote that Sears will be closing, according to an article in the April 18th issue of Businessinsider.com. A leasing flyer published by

brokerage firm SRS shows Round1, a Japanese-based family-friendly arcade, bowling and entertainment venue taking 42,477 sf of the upper level, with the rest of the 2nd floor to be open to below.

Carla O'Day, writing in the Feb 25th ThisisReno Blog, reported that **SMG Worldwide Entertainment was awarded a \$200k, 4-year contract by the Convention Authority** to manage the National Bowling Stadium, the Reno Events Center, Convention Center and the Livestock Events Center. The RSCVA may extend SMG's contract another 2-3 years. SMG manages Soldier Field in Chicago, U.S. Bank Stadium in Minneapolis, the Mercedes-Benz Superdome in New Orleans, and NRG Stadium in Houston. Improvements planned for the bowling stadium include demolition of the existing stadium seating and replacing it with flexible space, along with a new food and beverage outlet by February 2020. The exterior is to be refurbished by February 2022.

Reno City Council votes 6-1 to approve Stonegate development

Anjeanette Damon, wrote in the 2/14 RGJ that after hours of debate, the Reno City Council voted 6-1 to approve a massive housing development in Cold Springs. The Stonegate master planned community will contain 5,000 housing units on 1,700 acres 15 miles north of Reno. Developers, builders, lobbyists and some homeowners begged the council to approve the project as a key step in alleviating the huge housing shortage in our region. Ultimately, the council said the developer, Heinz Ranch Land Co., worked diligently to address their concerns over a 2-year long approval process, including promising not to build houses until projects are underway to improve US 395, the crowded highway connecting the North Valleys to the rest of Reno. The council did not address how it will pay to provide fire and police service to the new community. City finance staff said the developer's projection that the development will result in a revenue surplus for the city overestimated the revenues and underestimated the expenses expected to be generated by the project.



Council Approves New Downtown Business District

Writing in his February 28 ThisisReno Blog, 2018, Bob Conrad reported that Reno's City Council unanimously passed measures supporting a new business improvement district (BID) for Downtown Reno. The expanded geographic area encompasses more property owners than the previous Special Assessment Districts (SAD's). The new BID fees will be lower than previous SAD fees. Police Chief Jason Soto said that the BID will free up law enforcement resources while allowing more services to address homelessness. Ambassadors will be trained and hired to assist visitors, monitor the area and call for police or other emergency services, if and when required. They will wear easily identifiable clothing. The BID is modeled after a successful project in Sacramento. Churches may not be taxed and entities with hardships could apply for relief. The city is contributing \$250k to the BID but expects that those dollars will result in a \$3 million return on investment.

\$40 million luxury high-rise apartment on tap for Sparks parking garage

Duane Johnson, writing in the March 8 NNBW, reported that Silverwing Development has unveiled plans to convert the C Street Parking Garage near Victorian Square in Sparks into a 10-story, 209 unit, luxury apartment complex. The Deco will feature "modern studios" with the bedroom separate from the rest of the unit. It will have 1 and 2-bedroom units, and penthouses, all with balconies and secured parking. The Deco breaks ground in May and will take nearly two years to complete, at a cost at least \$40 million. The building's steel structure will be pre-fabricated in Denver and then transported to the jobsite to use less manpower on-site. Deco is the first residential high-rise project in a decade, next to The Palladio and The Montage in downtown Reno.

Demolition vs. preservation: Downtown's motel battle, aka the quarterly Jacobs Update [Ed: Jacobs was my main client between mid-2016 and mid-2017, acquiring a large chunk of W 4th Street]

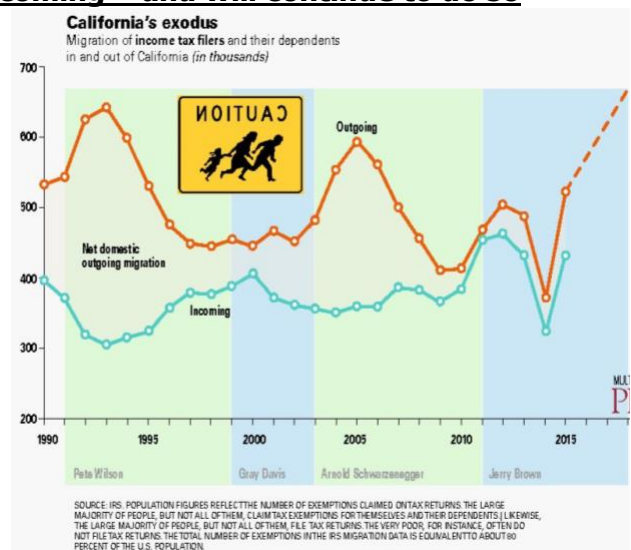
Mike Higdon wrote a lengthy article in the March 28 RGJ, starting with the sentence, "The controversial demolition of motels is actually a fight over downtown Reno's future". On one hand, elected officials and some business owners hope for revitalization of a part of Reno many people think is gross and scary. On the other, historic preservationists fear an out-of-state developer's vague redevelopment plans will destroy homes and Reno's history. Last year, Colorado-based Jacobs Entertainment (JEI) started buying and demolishing properties on 6 city blocks of 4th and 5th Streets between West and Washington streets, with plans to redevelop the area as the Fountain District. It is planned for fountains, retail, parking garages, and housing on top of those structures, Jacobs told the RGJ last year. JEI also bought the Sands Regency Casino. The El Ray, Keno and Star of Reno motels were demolished recently, followed The Mardi Gras, In-Town, City Center and Keno 2 motels and several houses on 5th and Ralston, leaving a house and a business left on that block.

People near the razed motels see JEI's project as revitalization of the city's core. Gary Foote, owner of Harry's Business Machines, which has been on the same block as the razed motels for 70 years, asked why no one tried to save the motels in the last 20 years when they were still worth saving. Attorney Joe Laub sold three motels to JEI. He said they barely broke even on the sale after pouring so much money into their upkeep – even using money from his law firm to keep them afloat during the recession when rents dropped to \$400 / mo. He doesn't miss the prostitution, after-midnight police phone calls and people who destroyed their units.

Local historic preservationists, who call themselves the Motel Team, and the Society for Commercial Archaeology, decried the demolition of the midcentury architecture, are rallying to protect other motels that JEI plans to raze. Neon preservationist Will Durham wants to save their neon signs. JEI promises to preserve the Borland-Clifford House and the Nystrom Guest House and plans to use the neon signs in the District. JEI is not required to reveal their plans until they file planning applications with the city. In the absence of plans, people on social media have started making up their own ideas for what JEI will or won't do. JEI continues to garner goodwill by donating to nonprofits that take care of at-risk youth and adults suffering from poverty and addiction. JEI has also been moving people to other motels when those people want the assistance.

Now 3 more reasons why the Californians are coming – and will continue to do so

ONE: Linda Hoffman, writing in the April 30 issue of the MultiHousing Professional blog, reported that the falsely named "Affordable Housing Act" would repeal the Costa Hawkins Rental Housing Act and potentially bring affordable housing to its knees in California. Builders can't make deals pencil as it is. Los Angeles tenant advocates announced - and The Wall Street Journal reported - that they have gathered the required signatures for a November ballot initiative. Landlords are generally a pragmatic lot; business owners and entrepreneurs at their core. They generally believe in the sanctity of contracts and the free market. While proponents see rent control as the way to protect affordability, landlords and builders see it as the fastest way to kill future building, manipulate the market around California's tenuous regulations and step on the rights of property owners.



TWO: No update on The College for All Act, which seeks to be on the November ballot and would be a supplemental CA estate tax starting @ 12% for individual estates at \$3.5 million and rises to 22.5% for estates over \$5.49 million – double that threshold for couples. The sponsors claim it will raise \$4 billion by taxing the inheritances of the wealthiest 0.2% of CA families. It creates a grant for undergraduate tuition for all CA

residents regardless of income level at any public college and expands eligibility to more than 330k students currently excluded because they don't attend college directly from high school, formerly jailed students and for undocumented students considered residents by CA AB130. [Ed: 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!"

THREE: Linda Hoffman, writing in the MultiHousing Pro website, reported that on May 9, the **California Energy Commission unanimously mandated installation of solar panels on every new home and apartment buildings of 3 stories or less starting 2021.** The average solar system size in the U.S. is 6 kw according to EnergySage, with the estimated price between \$19.4-\$26.3k before incentives. Solar panel systems for apartment buildings are far more complex and their pricing is more variable. The Commission believes the buy-in cost will lead to savings—in the long run. Developers say it will increase the cost of building even more in the nation's already most expensive housing market. For residential homeowners with a 30-year mortgage, the Commission estimates the rules will add \$40 / mo. to their payment but save \$80 on energy. On average, the standards will increase construction costs by \$9.5k but will save \$19k in energy over 30 years. The rules include new insulation and air filtration requirements that must be approved before going into effect.

After LIBOR, Get Ready For SOFR

Paul Bunby wrote in the January 17th edition of GlobeSt.com that Libor, the index that underpins \$350 trillion in financial contracts, has been a benchmark for global borrowing half a century. It will soon go the way of BOAC and the Beatles. The sunset of Libor in 2021 has been inevitable since its manipulation scandal in 2012. Its successor in the US is likely to be the Secured Overnight Funding Rate (SOFR), which the Federal Reserve Bank of New York is expected to begin publishing in mid-2018. In 2014 the Fed convened the Alternative Reference Rates Committee (ARRC) to explore alternatives to Libor. In 2017 the ARRC chose SOFR as its preferred alternative, which will be based on the cleared and bilateral repurchase transactions of the US Treasury. The extremely liquid, high-volume repo market generates some \$600-\$800 billion in transactions daily. Unlike Libor, an unsecured rate, SOFR is a secured rate since the Treasury serves as collateral. Libor and SOFR are likely to exist in parallel for 3 to 5 years before only SOFR remains as a viable Libor alternative, with a gradual phase-in. Once the Fed begins publishing the daily SOFR rate, it will be released at 8:30 a.m. ET daily. Any derivatives of SOFR are anticipated to start trading by year-end 2018. It probably won't be until 2021 that actual SOFR rates start showing up in credit agreements or interest rate swaps.

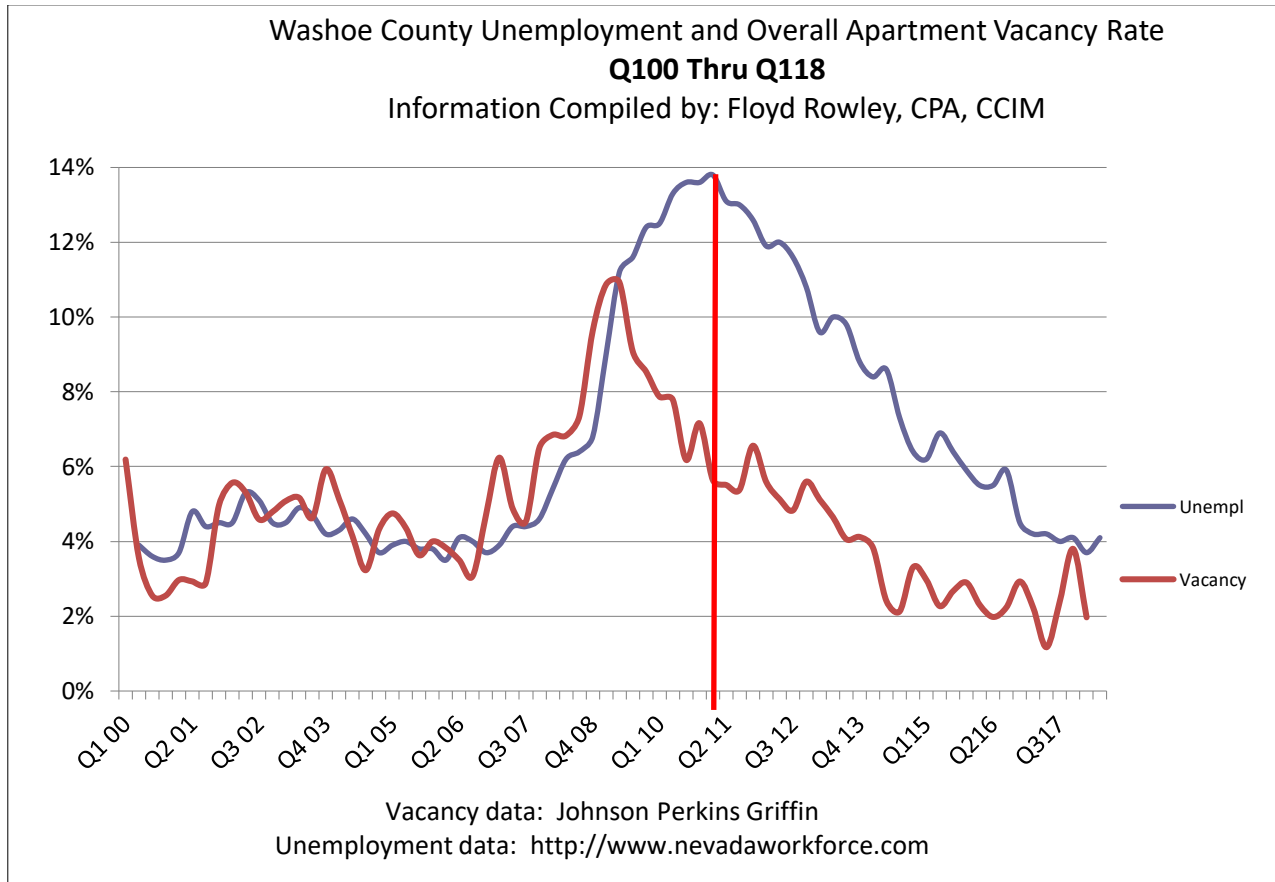
Apartment Statistical Review (Rowley proprietary analysis)

The Johnson Perkins Griffin's (JPG) Q118 survey covers 86 properties and 21,497 units – same as Q417. 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/2018/04/Q1-ApartmentSurvey2018.pdf>

- **Overall vacancy** resumed its seasonal drop from 3.8% in Q4 to 2.0% in Q1. This is now 12 of the last 13 quarters that our overall apartment vacancy rate has been UNDER 3%, and 17 quarters in a row that vacancy has been under 4%.
- In Q4, 8 of 11 submarkets registered vacancy **increases** in Q1, 10 of 11 submarkets recorded vacancy **decreases**. Amazingly, while Downtown Urban's vacancy soared from 2.9% to 9.2% in Q417, it dropped back to only 3.14% in Q118, while dropping to 2nd place in the average rent in the region.
- After **average rental rates** fell \$22 / unit / mo. in Q417, they rebounded \$50, or 4.2% in Q118.
- East Sparks resumed its 1st place average rent status in Q118 – with a \$104 increase, only to be outdone by Airport - with a huge \$146 increase, or 15.5%!
- East Sparks average rents have now exceeded \$1,400 / mo. and were followed by the Downtown Urban submarket at \$1,387, with Northwest Reno hanging in in 3rd place @ \$1,304 – first time over that hurdle.
- 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 Q417

- an astounding 9 of 11 submarkets exceeded \$1k average rent / mo. Airport has just joined the \$1k Club - with only the blue-collar submarket of Brinkby-Grove continuing to be left out of the "club".

Conclusion: I believe that most of the *new* "expensive" units being built will be snapped up by the *new* employees coming to our region who don't feel that these new Class A rents are all that expensive, leaving the existing apartment stock to be renewed by the existing workers in our region, albeit at higher prices as well.



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 15-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 Senior 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 \$237 million in 80 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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