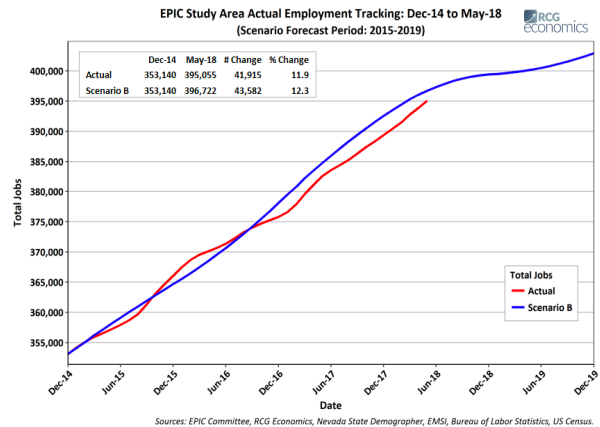


Q218 Northern Nevada Commercial Investment Real Estate Report The “Our Region is Booming” Issue

Our region’s economy is in the process of adding 41,915 jobs, or 80% of the jobs in 41 months (68% of the time) of the 52.4k total jobs that EDAWN predicted in January 2015 would occur within 5 years. These jobs are not all reflected yet in BLS employment statistics, but they consist of actual jobs + plans and commitments of the companies that have been attracted to our region, which is a strong indicator of future growth. For example, Switch has built only one building, while Google has not announced plans for its 1,200 acres in TRIC. Tesla is rumored to be adding on to its Gigafactory there. Blockchains, LLC should be making an announcement this fall for its 67,125 acres – please see the article below.



Major Planned / Under Construction Apartments (Rowley proprietary research)

My quarterly phone calls and emails to developers revealed the following apartment projects completed and leased up in our booming market this quarter: Village South by Ryder, Vineyards at the Galleria by Kromer, Latitude 39 and Harvest at Damonte Ranch Phase One, both by Lewis. The numbers are as follows:

Rowley Research Totals		Plan	Under Const.	Total
Units:	This Quarter	12,809	4,412	17,221
	Last Quarter	15,055	3,998	19,053
	Change	(2,246)	414	(1,832)
	% Change	-14.9%	10.4%	-9.6%
Projects:	This Quarter	36	18	54
	Last Quarter	38	20	58
	Change	(2)	(2)	(4)
	% Change	-5.3%	-10.0%	-6.9%

The reduction in **planned** units mainly reflects: 442 Lewis units moving to under construction at Harvest at Damonte Ranch Phase 2, 209 units now underway at The Deco in Sparks, eliminating a 600-unit deal now planned as a retirement community and starting construction on another 104 units at North Peak Apartments. The net 414 additional units under construction reflect the net effect of all completed and started projects.

Please note that I never discuss the details of planned projects – just projects under construction – which one can readily see in person by driving around. I very much appreciate the survey responses by all developers, as it adds to the accuracy of my survey and provides a public service to show we are building into the demand.

The Local News Bag

The RTIA's 6/27 press release announced that **Sun Country Airlines became the 10th airline serving Reno-Tahoe International Airport (RNO)** as a new non-stop service between Reno and Portland starting November 16, flying Boeing 737-800's. Sun Country was started in 1982 by a small group of pilots and flight attendants in Minneapolis. They offer 50 destinations throughout the US, Mexico, Costa Rica, and the Caribbean to leisure travelers. RNO's continued passenger growth topped out at more than 4 million in 2017.

According to a Panattoni news release, **two Class-A industrial buildings in the North Valleys Commerce Center (NVCC) were sold for \$81.1 million.** NVCC Building A1, totaling 353 ksf, and Building B, totaling 707.6 ksf, are located at 9460 N. Virginia Street on 56 acres. NVCC houses Trademark Global, Exxel Outdoors, Microflex and SupplyHouse.com. Both buildings were completed in 2018 and are state-of-the-art, cross-dock distribution facilities with best-in-class features, including a 36-foot clear height and low-cost LED lighting.

Kelsey Penrose, writing in the Record Courier on June 8 reported that exactly **one year after the Starbucks' Distribution Center and Roasting Plant broke ground on its expansion, the ribbon was cut, celebrating the completed project.** The 710 ksf addition brought the total size of the distribution center, located near the Minden-Tahoe Airport, to over 1 million sf. The expansion consolidated two offsite warehouses in Reno. Many workers from those sites were relocated to the Douglas center, brings 120 new jobs to the Carson Valley plant, now totaling 550 employees. The plant is 100% zero landfill and waste is recycled or sent to a digesting center in Sacramento. The project serves CA, NV, UT, AZ, and parts of Asia Pacific.

Michael Higdon wrote in the Reno Gazette Journal (RGJ) that six decades after its initial conception in 1954, **the Southeast Connector opened on July 6th at a cost of \$300 million.** The 45 MPH "parkway" connects east Sparks with south Reno to alleviate congestion at the intersection of I-80 and I-580, called the Spaghetti Bowl. The project was funded by a county-wide fuel tax approved in 2009. After 350 public meetings and several lawsuits, the project broke ground in 2012. The 5.5-mile, six-lane road is now complete. Called Veterans Parkway, it runs along far east Sparks and Reno near Hidden Valley. The RTC also raised the roadbed above the 117-year floodplain and built a separate path for pedestrians and cyclists.

Writing in his daily ThisIsReno email on May 22, 2018, Bob Conrad reported that **the Washoe County Commissioners approved the language for a flood control ballot measure** that will increase property taxes throughout the county for Truckee River flood mitigation. A flood tax committee recommended a property tax increase of about 3 cents per \$100 of a property's assessed value. Commissioners approved the language in accordance with state law requiring the measure be placed on the ballot. The Truckee River Flood Project needs the fund to continue mitigation projects for its 100-year flood management projects overseen by the Truckee River Flood Management Authority. [Ed: this is chump change per home to protect our region.]

Sudhiti Naskar, wrote in the 6/22 RGJ that **the Reno Rodeo Association has developed a master plan to revamp the Reno Livestock Events Center with plans to build a new \$120 million rodeo arena.** The current arena was built in phases through the mid-1960s to late 1980s and can hold 9,000. The new arena would accommodate 15,000 people and be located near the corner of Wells and Sutro. A new 52 ksf exhibit hall would replace the current 20 ksf one. More stalls for horses are planned, as well as parking for 2,400 cars. This would make the Reno Rodeo more competitive. Reno is currently No. 5 out of 650 professional rodeos.

First Major Contract OK'd for \$4.8 Million for Spaghetti Bowl Work

In the May 15th Nevada appeal, Geoff Dornan wrote that the state transportation board approved a \$4.8 million contract with CH2M to engineer, design and prepare for improvements that can be made before the actual Spaghetti Bowl is rebuilt. That will allow NDOT to approve a \$135 million construction contract for the Reno Early Action Project (EAP) next summer to address our region's two top bottlenecks: the on-ramp from I-80 east to U.S. 395 south and the congestion between the Spaghetti Bowl and Glendale Avenue south on U.S. 395 to Mill Street. The EAP will deliver a huge benefit by building these improvements ahead of the actual Spaghetti Bowl reconstruction. The work will enable the Wells Avenue on-ramp to I-80 East to handle more traffic, doubling the connector ramp from I-80 east to U.S. 395 south from 1 to 2 lanes, restore the 3rd

southbound lane from the bowl south and restore the appropriate lane balance down to the Villanova exit. The Reno EAP won't delay any Southern Nevada projects and won't slow down the Spaghetti Bowl project. The EAP is complicated: over its two-mile distance, it involves seven bridges and several ramps. The Spaghetti Bowl reconstruction project is Reno's top traffic priority. This interchange at I-80 and U.S. 395 was built in the 1970's when the population of our region was 1/4 of today. The overall project could cost up to \$2.5 billion.

Blockchains LLC Establishes 25 ksf Facility at Tahoe-Reno Industrial Center (TRIC)

Caleb Roedel, wrote in the June 23 Northern Nevada Business View (NNBV) that Blockchains, LLC opened in a remodeled facility on the outskirts of TRIC. In January, Blockchains purchased 67,125 AC of land at TRIC - 62% of its total acreage. Blockchains is tight-lipped about its plans, but announcements are planned in Q418. They did not get tax breaks to come to Nevada, but a big factor was Sen. Ben Kieckhefer's "blockchain bill" passed last session. SB 398 blocks local governments from taxing blockchain transactions. Blockchains CEO and president are brothers and attorneys in an LA class-action law firm. They considered launching in Washington, but then took a closer look at how business-friendly Nevada is and that solidified the decision.

Blockchains, LLC's website says it is at the forefront of one of the most revolutionary innovations since the internet: blockchain distributed ledger technology. The company conceptualizes and incubates blockchain-powered ideas, ventures, and businesses. Current projects focus on financial services, trusted identity solutions, and software development of distributed applications (Dapps) for the Ethereum blockchain. They are a proponent and platform for the next generation of technological disruption - changing the way individuals and businesses transact and interact with one another all across the world. The company's primary focus is ensuring that the rights of consumers in the blockchain ecosystem are properly safeguarded. The decentralized nature of blockchain technology can catalyze tremendous economic and social change. When completed, Blockchains' corporate campus will consist of over 300 ksf, with over 1,000 people employed by 2021.

\$1.6 billion Reno Airport Upgrade Readies for Takeoff

On May 31st Kaleb Roedel reported in the NNBV, that nearly 2 years after starting the project in October 2016, the Reno-Tahoe Airport Authority (RTAA) is finalizing its 20-year master plan. Mead & Hunt, a national airport master planning firm, was the lead planner. The plan maps out short, mid and long-term projects including the development of new concourses, relocation of cargo facilities, building a standalone rental car facility, ridesharing services, airfield improvements, and parking expansion, which is an immediate priority. The parking addition will be built so that it could be converted into an office building later if the world changes. Modernizing Concourse B and / or developing new concourses is in the first 5 years of the plan. Long-term plans include moving the cargo facilities to the southwest quadrant — where there is 75 acres of developable land - to enable terminal and concourse expansion. The project's price tag is \$1.6 billion. Trillion Aviation, an airport consulting firm, estimated that one-third of the plan will be funded by third-party tenants - as demand warrants - and over half will be funded by airport revenue bonds. The 1st phase of the plan would likely break ground in about a year. [ED: the motion to approve passed unanimously at the RTAA June 14 meeting.]

Polaris to Establish \$47.6 Million Distribution Center in Lyon County

Writing in the May 21st Nevada Appeal, Geoff Dornan reported that the Governor's Office of Economic Development approved tax abatements to bring 12 companies to Nevada, including 3 locally, as follows: **Axion** will bring 205 jobs to Reno. They provide satellite-based entertainment services. They will launch a new network to target markets currently underserved by video service providers. They plan to invest \$30.6 million and begin operations in November. The company was granted abatements worth \$2.9 million. **Fulcrum Sierra Biofuels** will add 13 jobs and will pump \$26.2 million into a plant to convert 175,000 tons of household waste into 10.5 million gallons of "syncrude" fuel / year. This is an expansion of its existing plant at TRIC. They were awarded abatements of \$1.9 million. **Polaris Industries** will establish a distribution center - the company's first in the West - in Lyon County, adding 64 jobs. Polaris, founded in 1954 in Minnesota, manufactures and markets a wide variety of all-terrain vehicles, snowmobiles, motorcycles and off-road sport-utility vehicles. In return for tax abatements, the company will build a 500 ksf, \$47.6 million facility in Lyon County.

Park Lane Adds New Partner for Central Reno Mixed-use Development

Michael Higdon, writing in the 7/27 RGJ, reported that now that major sewer lines have been reconfigured at Park Lane, the 47-AC site on the corner of Plumb and South Virginia Streets is preparing for its second groundbreaking in the fall. Chip Bowlby, president and CEO of Reno Land Inc., said he selected California-based housing developer Lyon Living after an extensive search to find a partner that understood his company's vision for his millennial-focused neighborhood. Lyon has 50 years of experience building projects like Park Lane: a master-planned community with multi-story apartments and retail wrapped around parking garages. Lyon signed on as a co-general partner. They will take the lead in the development and construction of the nearly 1,700 housing units. Lyon is adjusting Park Lane's building plans to soften their exterior look, and to change some of the elements of the project, such as replacing the grocery on the west side with a hotel and a marketplace, which would host multiple retailers and food vendors instead of one. The south side was also changed to a gated apartment community with more traditional parking lots in front of each building. Across the street on Plumb Lane, separate developers are converting parts of Shoppers Square into a marketplace with a grocery store too, which might pair well with residents at Park Lane. Phase One will break ground in late September on one large building NW of the Park Lane Theater and with the three gated apartment complex buildings south-southwest of the theater.

Historic House Removed from Downtown Reno – the Quarterly Jacobs Update

[Ed: Jacobs was my main client between mid-2016 and mid-2017, acquiring a large chunk of W 4th Street]

Michael Higdon reported in the July 20 RGJ that the historic Borland-Clifford House on Fourth and Ralston was disassembled and lifted onto wheels to be moved to the 1700 block of S. Arlington between Mt. Rose Street and Plumb Lane. The house, until now listed on the National Register of Historic Places for its significant 19th century architecture, was built in 1875 and is one of the only Reno houses remaining from that era. If the house is moved without approval from the National Park Service (NPS), it will be automatically deleted from the National Register, according to NPS regulations. Listing the house on the register doesn't protect it, but it can make the house eligible for federal funds. The register also separates properties that represent history from properties that are just old. Properties must meet rigorous criteria to be listed. Jacobs Entertainment, the Colorado-based company buying multiple blocks of Fourth and Fifth streets, bought the house for \$720k, then sold it to a local buyer, for \$10. Nevada Structure Movers will move it. The new location contains midcentury houses and mansions built after the divorce industry declined. Re-listing the house to the National Register of Historic Places may be harder to achieve. The house relocation is part of Jacobs' plans to redevelop the West Fourth Street corridor into a \$500 million arts, residential and entertainment area. Jacobs might release information in late August about his project in the "Fountain District" that he plans to develop in the now mostly abandoned wasteland of west downtown Reno. The name "Fountain District" may also be revised. Jacobs is preserving all the neon signs from buildings and motels along the corridor. The signs are now disassembled and stored in a closed auto body shop on Fourth Street. The Nystrom Guest House, another historic house on the National Register next door, is slated to be moved next.

Another Interpretation of The Flattening Yield Curve

Writing in the July 3 GlobeSt.com website, Erika Morphy reported that talk of a flattening yield curve and what it portends for a recession has been increasing. The last time the gap between the 2-year and the 10-year US Treasuries was about 0.34%, was in 2007 when the US economy was heading into what was arguably the worst recession in 80 years. Morningstar's analysis in its "Q3 Market Outlook" is a bit more reassuring. Short-term rates tend to rise in response to increases in the Fed funds rate. Since the Fed has raised twice this year, short-term notes have been affected. Long-term rates have been lagging these rate increases - despite the recent and brief increase over the 3% psychological barrier - thus prompting fears that the flattening yield curve will eventually invert, a near-sure sign of recession. Morningstar says that this time might be different. It says that this economic signal has been heavily influenced by global central bank actions and by current economic activity that hasn't shown any indications of slowing down. Morningstar pointed out that the bid for longer-term US Treasuries coincided with increasing rhetoric surrounding global trade re-negotiations, the

rising risk that new tariffs will be imposed, and the responding retaliatory tariffs will impede global economic growth. This was when the spread between the 2-year and the 10-year dropped to 35 bp's. Of course, what Morningstar didn't explicitly state is that a trade war could usher in a recession, flat yield curve or not.

Ice is Finally Coming to Northern Nevada

Writing in the July 2018 Galena Times, Joel Grace, whose day job is VP Development for Reno Land, Inc., announced that the Jennifer M. O'Neal Community Ice Arena (Reno Ice) will be the premier ice sports facility for our region. Reno/Sparks is the largest metro area in the US that does not have an ice rink. In fact, across the Pacific Northwest there is an indoor public rink for every 20.7 k residents. For a region rich in winter sporting, the addition of an ice rink is long overdue. The Greater Reno Community Ice Skating Association (GRCISA) conducted extensive research and determined that non-profit rinks work best and will not rely on public funding. GRCISA will work to build and maintain a resource for our community. Reno Ice will host hockey tournaments, figure skating events, public skating and skating lessons. Phase one of the project will include 42.4 ksf to house rink one, a rental and pro-shop, raised bleachers, climate-controlled lobby, three event / meeting rooms and a vending area. It will also include a 5.7 ksf bleacher mezzanine. Phase two's 38.3 ksf will feature a second rink with a 3.7 ksf mezzanine. The 2nd rink will enable simultaneous events and will make Reno Ice attractive to host tournaments, bringing traveling teams into the area. With a \$2 million donation from the Jennifer M. O'Neal foundation, GRCISA has launched its capital campaign and is hoping for community support to bring Reno Ice to fruition. Please contact: info@renoice.com.

A Piece of our Region's Affordable Housing and Homeless Puzzle

[ED: This was adopted, with permission, from the Community Foundation of Western Nevada, Gift Law eNewsletter of July 7, 2018.] The Dorms on Sage Street will be primarily transitional housing for 200 low-income working people. To qualify, a resident must have an income of over \$1,300 / mo., the equivalent to minimum wage for a full-time worker. For retirees, income may be from other sources such as social security. Applicants must meet this minimum income level to pay the rent with 30% of their income, leaving the rest for food, transportation, clothing, medical, and other expenses. The Dorms will be a safe environment. Since many residents will own vehicles, secure parking is part of the design. The Dorms will contain private rooms, with shared restrooms and a common kitchen. They are intended to be transitional - with most residents saving to move to an apartment. They can live in the Dorms while working to improve their income and their credit history: critical to moving to market rate housing. Delivery of the buildings is expected in mid-August from Wyoming. The Foundation is grateful to Summit Engineering, Q & D Construction, Allison Gorelick, Par Tolles and many others who are making this project possible. Over \$2 million is still needed to complete the project. Please help spread the word. Contact Chris Askin at 333-5499, or caskin@nevadafund.org

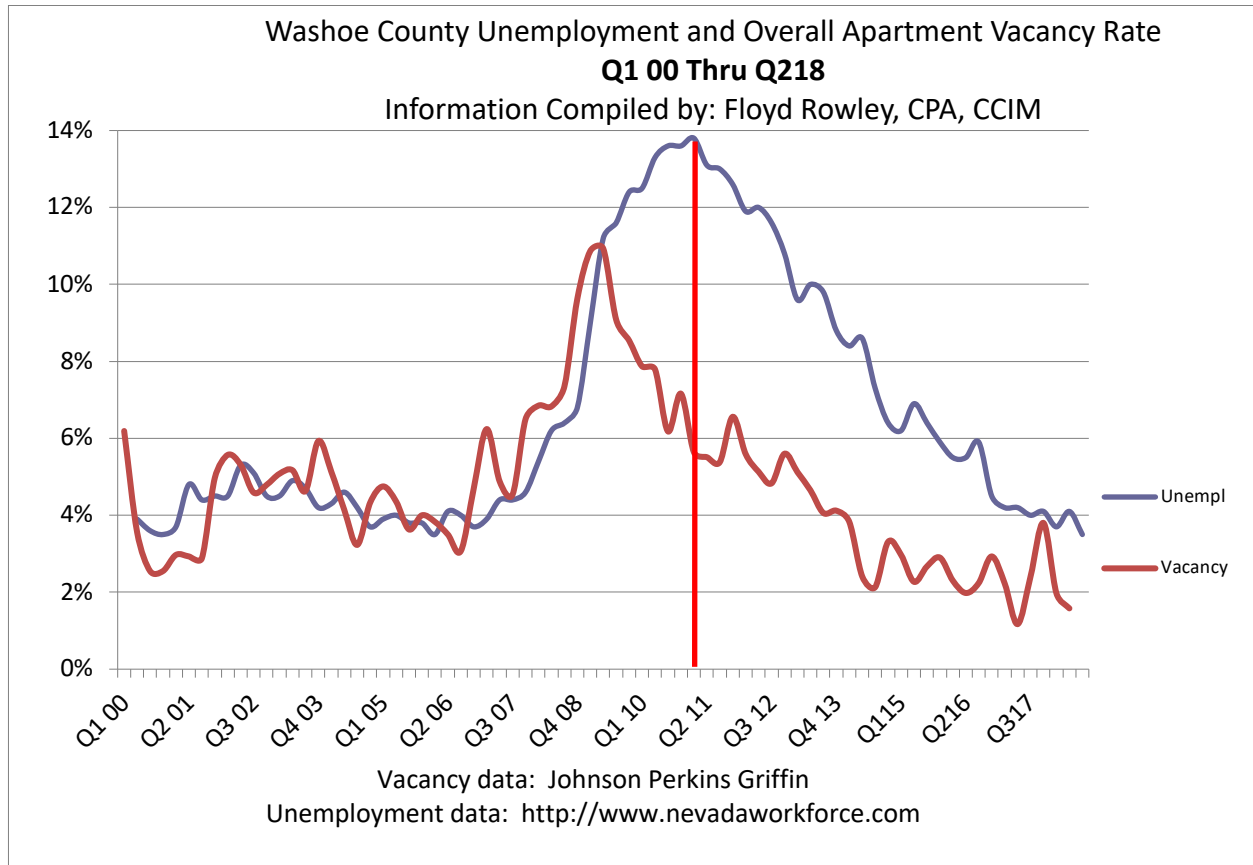
Apartment Statistical Review (Rowley proprietary analysis)

The Johnson Perkins Griffin's (JPG) Q218 survey increased from 86 properties and 21,497 units – to 89 properties and 22,227 units this quarter. As always, JPG's data is representative of regional multifamily performance. Their survey is available at: <http://jpgnv.com/wp-content/uploads/2018/07/Q2-ApartmentSurvey2018.pdf>

- **Overall vacancy continued to drop:** from 2.0% in Q1 to 1.6% in Q2. This is now 13 of the last 14 quarters that our overall apartment vacancy rate has been UNDER 3%, and 18 quarters in a row that vacancy has been under 4%.
- In Q118, 10 of 11 submarkets recorded vacancy **decreases**. In Q2, 4 submarkets recorded increases in vacancy, with the other 7 recording additional decreases. Only 3 submarkets recorded vacancies over 3%.
- **Average rental rates** rebounded \$50, or 4.2% in Q118, followed by another \$88, or 7.15% in Q2. Note that these are rates paid by *new* tenants. Renewing tenants generally get a break from these new market rates in recognition of their renewals, saving landlords from vacancy rent loss and unit "turn" costs.
- East Sparks continued its 1st place average rent status in Q218 – with a \$114 increase on top of \$104 in Q1. Downtown Urban stayed in 2nd place, and NW Reno stayed in 3rd place.

- East Sparks average rents have now broken through the \$1,500 / mo. threshold. 5 of 11 submarkets are now over \$1,300 with only the blue-collar submarket of Brinkby-Grove still left out of the "\$1k / mo. club".

Conclusion: I continue to believe that most of the *new* "expensive" units being built will be snapped up by *new* employees coming to our region who don't feel that these new Class A rents are 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 \$247+ million in 82 transactions** in our market. Starting in the fall of 2008 he started focusing on distressed assets, mainly apartments. He has **completed 67 broker price opinions totaling \$503.7 million**, mainly during the Great Recession, resulting in \$64 million of listings, mainly apartments and land, since early 2009.

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