

## **Northern Nevada Commercial Investment Real Estate Report: Q117**

### **The “Google, Apple, Apple & Sands Regency” Issue**

The worst kept secret in commercial real estate in our region was finally confirmed by the sleuths @ the Reno Gazette Journal (RGJ) who disclosed sales documents had been recorded in Storey County - followed by a little more sleuthing – confirming that Google had finally closed on its huge land deal. Google has yet to say a word publicly. Then, a much better kept secret, the Fourth Street land assemblage that I have been working on since last May, was jointly revealed by my client, the City and the Housing Authority. Finally, what started out as a small note about Apples’ autonomous vehicle testing, and rumors of its next big data center expansion, blossomed into a pending resurgence of its July 2012 deal with the City and the State regarding the dormant Tessera District in downtown Reno.

As if that was not enough exuberance for one quarter, The West Second District is rumored to be getting back on track – and a major aerospace company is rumored to be circling over Stead to ramp up its drone R&D. Given all the rain, snow and floods our region endured in January, it looks like everything is now blooming!

#### **Major Planned / Under Construction Apartments (Rowley proprietary research)**

Every quarter I make almost 50 phone calls and emails to developers to update my proprietary survey. This quarter, even though I ADDED 2,113 new planned units, I lost a net planned 114 units by removing 413 units in three deals that I don’t believe will be built – mainly Landmark’s 250-unit student housing (non) deal, AND moving 1,814 units in 6 projects into the “under construction” category – a HUGE 175% increase in apartments under construction. I am now tracking the following projects:

Planned apartments: 35 projects totaling 13,764 units

Under Construction: 14 projects totaling 2,849 units

**Total: 49 projects totaling 16,613 units**

This compares to **11,976** units one year ago, **6,362** total units in Q115 and **only 2,420** in Q114 BT (Before Tesla). Due to the explosion of construction starts this quarter, my commentary is limited to these major deals:

1. ERGS’ **North Peak Apartments** has broken ground on 104 units.
2. Silverwing’s 220 unit, **Fountain House @ Victorian Square**, should be fully-leased by end of summer.
3. Silverwing has broken ground on 194 units in Victorian Square, called **The Bridges**.
4. Kromer’s 210 units, **Vineyards at the Galleria**, is taking reservations for a summer 2017 opening.
5. Kromer’s 336-unit JV with Maddox is under construction, called **Sierra Vista** on ArrowCreek Parkway.
6. Nearby, Ryder’s 252 unit, **Village South Apartments** has started leasing.
7. Lewis’ 278 unit, **Harvest at Damonte Ranch Phase I** is almost done – and is also leasing up.
8. LandCap’s 209 unit, **Waterfront at the Marina** has broken ground on their ultra-luxury apartments.
9. **The Summit Club**, by Reno Land Development, is grading its 574-unit site by The Summit mall.
10. Greenstreet’s **Vintage @ the Crossings** is underway just NE of the Southtowne Crossing Wal-Mart.

### **The Local News Bag**

On February 27, the NNBW announced that **United will start daily non-stop service from RNO to Chicago O'Hare on June 8<sup>th</sup>**. The route is seasonal to accommodate the busy summer traffic and is set to sunset September 5. The flight will operate a Boeing 737 with 143 seats.

The RGJ reported on February 14 that **the 108 ksf, \$47.5 million E.L. Wiegand Fitness Center opened at UNR** to serve students, faculty, staff and alumni. It has three basketball courts, areas for weightlifting, cardio training and fitness classes. Also featured are in an indoor running track and stadium stairs for training. The facility, in the center of campus, doubles the fitness space at the growing university. The project was funded by student fees, donors, state slot tax bond proceeds and institutional funds.

Mike Higdon reported in the Jan 27 RGJ that the developer of the former **Park Lane Mall has filed a demolition permit for 12 of the site's 20 parcels**. The permit describes demolition of the former mall's infrastructure: pavement, curbs, gutters, sidewalks, lighting, storm drains and signage - all in preparation for redevelopment. Plans for the Park Lane project include mixed-use housing, retail and a grocery store.

On February 28, the Northern Nevada Business Weekly (NNBW) reported that the **Sparks City Council approved an agreement to renovate and re-open the Victorian Square Cinema this summer**. The City will provide \$1 million in lodging tax proceeds upon the opening of all 14 auditoriums in the theatre. The City will also provide \$100k / year for 5 years as long as the theatre remains open to the public. Prior to the initial payment, Syufy Enterprises, the owner of the cinema building, will provide the City a lease between Syufy and Galaxy Theatres for an initial term of at least 10 years, with Syufy and Galaxy collectively investing at least \$6.1 million. Lodging tax proceeds come from a 2.5% tax paid to the Reno-Sparks Convention and Visitors Authority, which then distributes the proceeds to the City, which can only use them for capital improvements at Victorian Square, the City's Redevelopment Area One.

On April 14, Ethan Baron reported in the San Jose Mercury News **that the California DMV has issued Apple a permit to test self-driving vehicles on California roads** for three 2015 Lexus RX450h's and six drivers. This is tantalizing confirmation that not only is Apple working on automotive technology, it also has plans for autonomous vehicles. Apple has long been rumored to be working on "Project Titan" connected to vehicles, but has never confirmed that. No other information was provided by the DMV. Apple is probably not building its own car. Likely, Apple is working to create the "Apple experience" in self-driving cars by creating an autonomous-driving system based on computer vision, laser-based navigation and mapping, while also building an in-car environment for passengers that leverages Apple's dominant position in entertainment and workspace technology, such as a kind of living room on wheels or an office on wheels.

Writing in the NNBW, Sally Roberts reported on April 3 that the **Tahoe Reno Industrial Center is getting its first lodging accommodations**, called Studio 6 Hotel & Recharge Bar, under construction at USA Parkway and Electric Avenue. The 44 ksf, three-story, extended-stay hotel is part of the Motel 6 chain. It will have 91 units, each with kitchens, Wi-Fi, and large-screen televisions, plus a laundry room for long term guests. Separately, Marriott announced in January that they plan to build a Courtyard Hotel at the same intersection. Other hotel companies are reportedly in negotiations to open in TRIC.

The REreno Daily Digest blog, in a posting titled, "Portfolio Buy" on March 7, reported that **TDC Reno Office 1-DE SPE LLC purchased most of the AMH / TICO / Alex Hose portfolio** for a combined \$22.36 million for 6 buildings totaling 144.9 ksf, and 3 parking lots. TDC is a new entity called Tolles Development Company, started by Par Tolles, formerly the main man at Basin Street Properties in Reno.

On March 27, Duane Johnson, writing in the NNBW, reported that the **Reno-Tahoe International Airport exposed its first draft of studies as part of a new Airport master plan**, which began in October 2016. The studies forecast commercial airport passengers, air cargo, general aviation and military operations for the next 20 years. Based on these projections, the airport will present growth scenarios for 2021, 2026 and 2036. The last full-fledged airport master plan was done in 1991. Mead & Hunt, a national firm that

specializes in airport master planning is the lead firm. Airports parallel the economic viability of a region's economy. RNO has added 1,500 daily seats and 14 new flights in the last two years.

Writing in the April 5 RGJ, Mike Higdon reported that **the Renaissance Hotel, a non-gaming, full-service hotel, opened April 4<sup>th</sup>** with 214 guest rooms in the former Siena Hotel Casino on the Truckee River. The renovation harkens back to the original Holiday Hotel, which opened in 1956 without table games and was meant as a destination for the era's sportsmen. The main restaurant deck was extended by 15 feet over the Truckee River, and includes a wrap-around fire pit. The hotel contains an outdoor pool, hot tub, exercise facilities, 38 ksf of meeting and event space. The 22 ksf of former casino area was converted into Bundox Bocce, a family friendly restaurant, bar and game area with seven indoor bocce courts, shuffle board tables, skee ball alleys and two, 50-foot giant screens. The name Bundox pays homage to the restaurant which was located on Lake Street adjoining the former River House Motor Hotel.

The NNBW reported on April 14 that Olympia Companies and partner Tharaldson Hospitality Management **broke ground on two hotels at The Outlets at Sparks near the Sparks Marina:** a 102-room Hampton Inn & Suites by Hilton, and a 104-room Residence Inn by Marriott. The properties are expected to open in spring 2018 and are needed before construction of the planned, 70 ksf Legends Bay Casino can start on the 13.5-acre site in 2018. Both properties offer lake front views of the Sparks Marina.

### **The Big Story: Google buys industrial land near Tesla Gigafactory east of Reno**

On April 17, Jason Hidalgo wrote in the RGJ that Google purchased 1,210 acres of land at the Tahoe Reno Industrial Center (TRIC) for nearly \$29.1 million, according to documents filed with Storey County on April 14, which list Wilmington, Del.-based Silver State LLC as the buyer. Multiple sources confirmed that the purchaser is Google. A Google representative declined comment, as did Lance Gilman, a principal with TRIC, as did Steve Hill, director of the Governor's Office of Economic Development (GOED). Google has not publicly applied for incentives from Nevada - yet. A source familiar with the deal says there are no immediate plans for development on the site. The most likely use for the site would be a data center, which would put Google in familiar territory with its neighbors at TRIC. Another use that has been floated for the property is to serve as a test track for Google parent company Alphabet's Waymo driverless car. In 2011, Nevada became the first state to authorize self-driving vehicles. Nevada is also pushing at the current session of the Legislature to make it easier for companies to test and set up driverless fleets in the state. A source familiar with the Google transaction described talk about testing self-driving cars at the site as just baseless speculation at this point. Gilman says there are several other projects in the pipeline, including one that could potentially eclipse the Gigafactory, but he's not at liberty to talk about any due to non-disclosure agreements. He did say though, "When you start getting a Starbucks in the middle of the community, you know retail is coming."

### **Apple Chapter One: What We Know About Apple's Secret Data Center: Project Isabel**



Writing in Fortune.com on Feb. 21, Kirsten Korosec reported that Apple is preparing to start construction on a new \$50 million data center as demand for its iCloud business continues to grow. Apple's iCloud stores user contacts, calendars, photos, and documents and keeps all that information up-to-date, across all their Apple devices. Third-party apps can also use iCloud to store and sync documents. An Apple contractor submitted a building permit application on February 2<sup>nd</sup> - and withdrew it the same day - for the complex codenamed Project Isabel at the company's massive campus in the Reno Technology Park.

The new 373 ksf center will consist of eight clusters, an admin building, garage and generator yard, according to Buildzoom. It will be located on 345-acres and cost \$50.7 million. Apple's first data center at the Reno Technology Park, Project Mills, was approved in 2012. They received \$89 million in tax abatements over 10 years from Washoe County for its project. Before the buildings were complete, Apple applied for permits to build another data center complex codenamed Project Huckleberry nearby. Information in the new permit aligns with Apple's recent renewable energy activities. NV Energy announced in January that it had reached an agreement to build 200 megawatts of new solar energy in Nevada by early 2019 for Apple.

### **Apple Chapter Two: Stalled Tessera project files permit, lists Apple as proposed buyer**



Jason Hidalgo, reported in the March 21 RGJ that Northern Nevada Urban Development Co., is requesting a new special use permit for a warehouse project in the Tessera District, with Apple being listed as the proposed buyer. The proposed Evans Avenue Warehouse will consist of 27 ksf and will be built on 1.38 acres between Fifth and Sixth Streets. It is projected to handle 5-7 truck deliveries / day. Apple was initially expected to build an office building downtown as part of a deal involving its data center at the Reno Technology Park east of Sparks.

In 2012, GOED helped craft an \$89 million tax incentive deal for Apple in exchange for \$400 million in investments by them over the next four years and \$1 billion over a decade on its data center and office building. The City of Reno also approved a 1.5% abatement of Apple's sales tax on \$1 billion in computer equipment as part of an agreement to have its office building in downtown's Tourism Improvement District (TID). The data center flourished, yet two permits for the proposed downtown site expired on Oct. 15, 2013. The initial excitement by City officials faded. Tessera, created in 2009, has access to its own tax breaks, but has so far failed to deliver any revenue-generating projects. The District got more time in 2015 after state lawmakers approved SB 310, which extended the TID to 2034. This gave Tessera more time to deliver on its original vision of mixed-use commercial and residential projects in the blighted area.

### **Casino company investing over \$50M into Sands and 3 blocks of downtown**

Mike Higdon reported in the April 26 RGJ that casino operator Jacobs Entertainment agreed to purchase the Sands Regency Casino Hotel for \$30 million, has assembled two blocks of Fourth Street and purchased the rest of the Gold Dust West Casino in downtown Reno from the Piazza family. JEI is a Colorado-based company that has operated the Gold Dust West for over 10 years and invested millions into the property. Jacobs' plan is to transform West Fourth Street into an urban neighborhood while separately upgrading the Sands. The purchases include \$1 million of Reno Housing Authority (RHA) land on 4<sup>th</sup> Street. The RHA considered developing that lot but was unable to get the density they wanted due to parking restrictions and other requirements. Separately, the RHA will work with Jacobs to purchase \$1.5 million worth of affordable housing units throughout the city - which will promptly be deeded over to the RHA. For now, Jacobs is considering paving the empty land on 4th Street to create festival space and possibly turning the area into a green park area with large fountains. Jacobs still needs to hire land-use planners and architects before starting. In the 1990's, Jacobs helped revive the Cleveland Cuyahoga riverfront with mixed-use housing and retail. He developed a vacant power plant into lofts housing and entertainment. In the last two decades, Jacobs owned shares in two Las Vegas hotel casinos: the Riviera and the Boardwalk.



Jacobs sees the gaming industry staying flat, so now is a good time to invest in Reno. He is following in the footsteps of Marnell's purchase of the Nugget, the Eldorado's purchase of Circus Circus and Station's announcement to build near the Convention Center. It will take about a year to finalize plans for the Sands Regency, which is one of our region's longest continuously operating casino properties with 833 rooms, a 30 ksf casino and five restaurants. Jacobs bristled at using ideas from Las Vegas to improve the Sands and downtown Reno. He wants to attract people from the surrounding cities in our region and compete with California's gaming industry using a more local approach with some new "Reno" ideas to build off the strengths and assets of Reno.

### **Northstar Mountain Master Plan approved by Placer County Board of Supervisors**

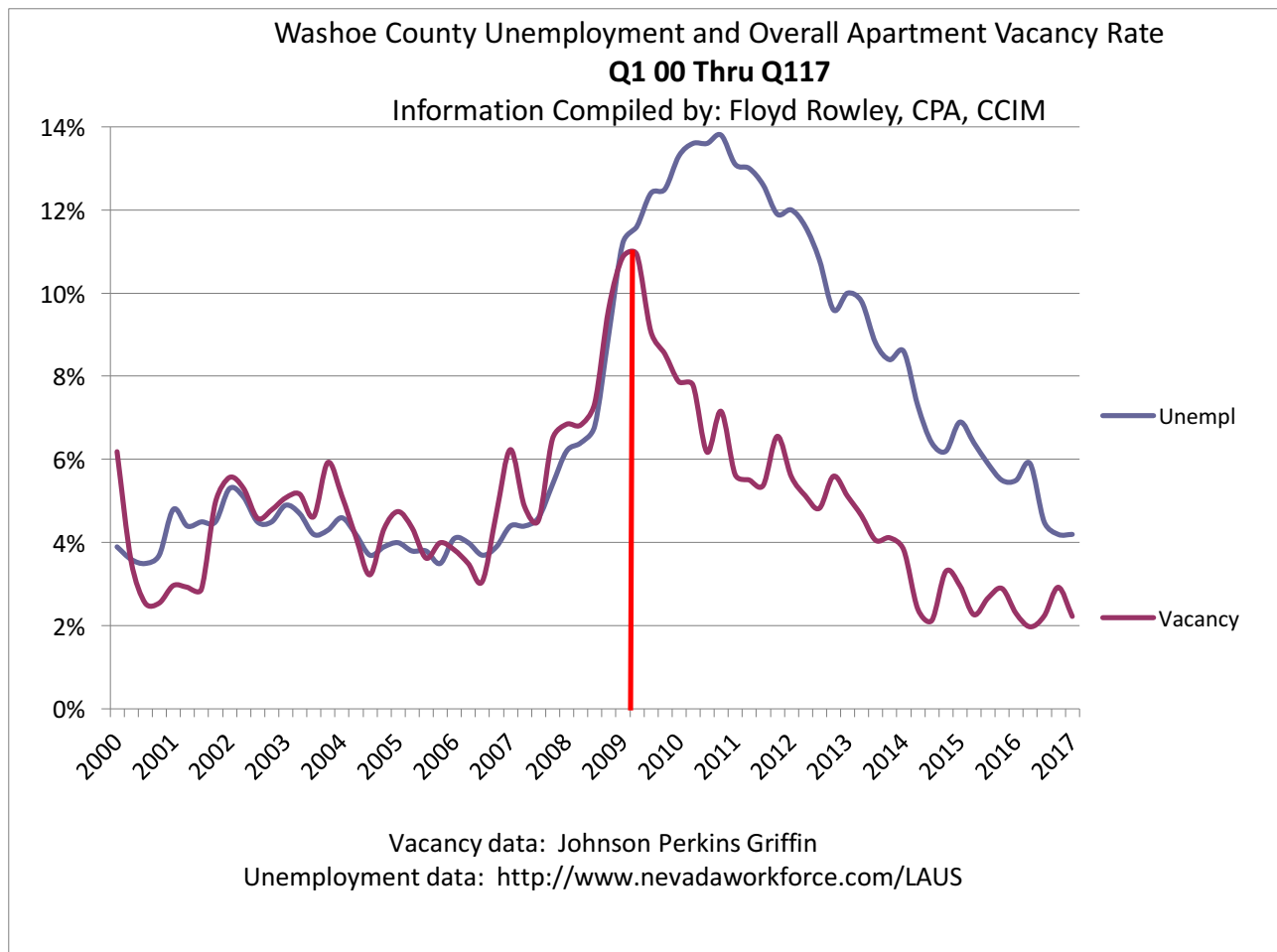
The NNBW reported on February 22 that the Placer County Board of Supervisors voted 5-0 in favor of the Northstar Mountain Master Plan. A roadmap for the next two decades, the plan will increase beginner, intermediate and expert terrain by 700 acres. 293 acres of new groomable ski trails are planned, resulting in 3,870 acres of total skiable terrain. Adding new lifts will improve the distribution of guests across the mountain, facilitating circulation while reducing congestion and crowding in higher-use areas on the mountain. Additional energy-efficient snowmaking equipment will improve coverage. Skier services will be improved with additional seating, restrooms and food service.

### **Apartment Statistical Review**

The Johnson Perkins Griffin's (JPG) Q117 survey added 1 property this quarter (Square One in Sparks) to now cover 84 properties and 21,182 units. Because of this they announced their intention to create a new submarket, to be called Downtown Urban, as both Fountainhouse and 3<sup>rd</sup> Street Flats lease up and become part of their survey data soon. As always, JPG's data is representative of regional multifamily performance. A full copy of the survey can be found at: <http://jpgnv.com/wp-content/uploads/2017/04/Q1-ApartmentSurvey2017.pdf>

- Overall vacancy dropped back to 2.23%, 1 bp lower than the Q316 rate of 2.24% after rising to 2.93% in Q416. This is now 11 of the last 12 quarters that our region's overall apartment vacancy rate has been UNDER 3%, and 16 quarters in a row that vacancy has been under 4%.
- In Q416 9 of 10 submarkets registered vacancy increases. Q117 reversed this anomaly, with 8 of 10 submarkets registering decreases. West Reno has the lowest vacancy at 0.44%, followed by the blue-collar submarket of Brinkby Grove at 0.5%, and SE Reno at 1.23%. SW Reno is the only outlier, coming in at a whopping 6.71% - up from 5.76% last quarter.
- Average rental rates rose a healthy \$45 / unit / mo. this quarter, or 4.22%.
- While rents have risen 25.0% in 2 years, they have increased ONLY 25.4% since the **TOP** of the last cycle in Q108 – an amazing 9 years ago. This works out to an annual growth rate of 2.55% / year. Overall rents were basically flat for the preceding 7 years – but this does not make the news headlines.
- East Sparks continues in 1<sup>st</sup> place for the highest average rents, with a huge \$155/unit/mo. rent increase. Lakeridge moved back up to 2<sup>nd</sup> place, bumping NW Reno back to 3<sup>rd</sup> place.
- In Q116 we achieved 4 out of 10 submarkets topping \$1k / unit / mo. in average rent, consisting of SE Reno, East Sparks, NW Reno, and Lakeridge. This quarter NE Reno joined the club at \$1,005. SW Reno and West Sparks continue to close in on the \$1k club.

**Conclusion:** There continues to be a huge amount of bottom-up compression occurring – the blue-collar submarkets are now at an amazing 98% full – confirming that most of the workers we lost in the Great Recession have now either returned or been replaced. Also, JPG's planned projects number has now grown to 7,358 planned and 2,713 under construction – catching up to my proprietary research numbers. Finally, while still lagging the demand published by EDawn, these numbers prove that apartment developers are doing all they can to provide new units, albeit mostly at premium rents - caused by a combination of land prices, construction costs and the ever-increasing code requirements and approval delays by various local agencies.



### **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 \$179 million in 69 transactions in our market. Starting in the fall of 2008 he started focusing on distressed assets, mainly apartments. He has completed 64 broker price opinions totaling \$472 million, mainly during the Great Recession, resulting in \$61 million of listings, mainly apartments and land, since early 2009.

### **Floyd Rowley, CPA, CCIM**

**Senior Vice President, Investments**

**JOHNSON GROUP**

**5255 Longley Lane, Suite 105, Reno, NV 89511**

**775.224.3183**

[Floyd@JohnsonGroup.net](mailto:Floyd@JohnsonGroup.net)

<http://www.johnsongroup.net/floyd.html>

**Founder, Northern Nevada Executive Council** [www.nnec.biz](http://www.nnec.biz)

