

Northern Nevada Commercial Investment Real Estate Report: Q415 **The "Remembering the Past: Planning for the Future" Issue**

It's hard to break with tradition, but for the first time in 5 quarters I am NOT leading off with an article by Mike Kazmierski. Instead, the following is an edited book review by Guy Clifton, originally published in the 11/21/15 Reno Gazette Journal (RGJ) that speaks volumes about our region, a bit of its history, and the need to preserve those memories as our region lurches forward into "Ludicrous Mode" with Tesla, etc.

Reno's reawakening as a vibrant city has been a long time coming. While some point to the arrival of Microsoft, Tesla, Switch, etc. as the jolt to our resurgence, longtime Reno ad man Mark Curtis makes the case in a new book that the reawakening is much more home-grown, culturally based and has been steadily building for the past 20 years. It all started with a little summer event in 1996 called Uptown Downtown Artown – later shortened to Artown. "There is that moment in time when Renoites discovered we had a river and we really liked living here," said Curtis, who spent a year writing, "Reno: A Fabled City Finds its Soul." For many years Reno was perceived differently from the outside. Dubbed the original "Sin City, in the early 20th century, it was known for quickie divorces and gambling. Residents knew differently: a community with great neighborhoods, a river, bustling downtown businesses, four seasons, abundant recreational opportunities and a cultural element. As Reno grew, many businesses left downtown for malls (a fate suffered by many cities), casinos closed, and the perception was a city in decline. We were left with the question: What the heck is Reno going to do? We finally figured out it's a combination of things. Artown brought focus to Wingfield Park and the Truckee River and fed a cultural need residents were eager to embrace. Artown today dominates July with scores of events, but has a year-round connection to the community. Many performers from Reno's entertainment heyday fell in love with Reno and decided to stay, including cast members from the long-running "Hello, Hollywood, Hello!" at the former MGM Grand. Also, musicians who were part of house orchestras at casinos stayed and became the foundation of the Reno Philharmonic, the Chamber Orchestra and others. "This is how one of America's best known, yet least understood cities came back," he said. John Brodeur, a UNR graduate who runs a national advertising firm in Boston, agreed and said Curtis makes a compelling case for Reno - and any other city. "Three takeaways give hope to cities seeking to find their True North, their heart and soul:"

1. Arts and culture are dynamic springboards for economic development.
2. Entrepreneurs and creative types are highly persuasive to those reluctant to change.
3. It takes just a small group of passionate, well-positioned believers to make big things happen."

To be sure, Reno is no longer famous for divorce. Gambling is an option for visitors, but not the main draw. The Biggest Little City in the World – a slogan that Curtis says fits as well today as it ever has – is just that. There is always something to do, any time of day or night. And it's in a setting unlike any other.

Major Planned / Under Construction Apartments

Q4 saw a net increase of 336 planned units, mainly due to a new development in the Pioneer Meadows area. Units under construction showed a net increase of 1 unit this quarter, reflecting the completion of Bungalows at Sky Vista Phase II, Villas at Keystone Canyon and Vale II, offset by Ryder's Village South project starting site grading and Silverwing's Fountainhouse at Victorian Square. I am now tracking the following projects:

Planned (these are more likely to be built): 25 projects totaling 5,995 units

Under Construction: 7 projects totaling 1,021 units – described below

Total: 32 projects totaling 7,016 units vs 5,224 ONE YEAR AGO

- **Edgewater at Virginia Lake** continues construction with 47 of 48 condos pre-sold. Its 288 apartments are now 40% leased with the balance to be completed June 2016.
- Foundation work continues at **Silverwing’s Fountain House @ Victorian Square** – 220 total units.
- LandCap’s 100 “urban style” units at Victorian Square called the **Square One** are moving along nicely.
- **Sterling Summit** student housing apartments east of Valley Road are under construction for 186 bedrooms (sic) to be delivered in August of 2016.

Q415 Multifamily Sales Analysis (Rowley proprietary research)

Multifamily (MF) sales plummeted by \$78 million, or 61% in Q4 to only \$49.2 million from \$127.2 million in Q315 when three huge MF sales closed. As a result, MF sales dropped back to only 16.1% of Q4’s total sales. There were only 2 MF sales over \$3 million totaling \$35.4 million, compared to 3 in Q315 - for a decrease of \$76.7 million in dollar volume. There were 27 total MF sales in Q4 versus 31 in Q315. In the quarter there were 2 sales in the \$1 - \$3 million range, compared to 3 in Q3 for a large decrease of \$4.3 million. The only bright spot were small MF sales under \$1 million. While the total number of transactions decreased from 25 to 23 deals in Q4, the total Q415 dollar volume rose nicely by \$2.9 million, or 41.3% over Q315. The net result was the average small deal size grew dramatically to \$437.8k vs \$285k in Q3, a 53.6% increase, or \$152.8k / deal. The small investor is back!

Major Q415 Sales Transactions

Total commercial sales in Q415 increased by only \$1.2 million - or 0.4% over the very robust Q315 - to \$305.9 million – the third time this year that quarterly sales have exceeded \$300 million. Last quarter the top 3 deals were apartments totaling \$112.1. This quarter only 1 apartment made my Top 9 list. As you can see below, this quarter’s top sales were distributed evenly among retail, office and land – with two sales closed by Reno Land & Development Company – one for apartments and one mainly for SFR.

Transaction	Address	Date	Price
Oakmont continues its buying spree by scooping up Canyon Vista Apartments from Sentinel	5200 S Los Altos Pkwy, Sparks	11/20/15	31,750,000
The McKenzie family sold it’s South Creek Center to a 3-some from San Jose.	55 Foothill Road	12/18/15	25,500,000
John Harrah sells 8 parcels of his Ranch Harrah estate to an entity controlled by Chip Bowlby.	6001 Talbot Lane	10/13/15	18,072,962
Sierra Pacific Power Company (sic) purchases its 347.5 ksf HQ building from Silliman Assoc. of Illinois	6100 Neil Road	12/31/15	18,000,000
Brett Barker & Lance Faulstich sold the Holland & Hart / Ticor Building to a partnership from San Jose	5441 Kietzke Lane	12/18/15	16,295,274
DP Partners sold the Inter Tel / Mitel Building to Proequity Asset Management of El Dorado Hills, CA.	885 Trademark Drive	10/02/15	12,442,000
An entity controlled by Blake Smith sold 90 acres of partially subdivided land to Lennar	Beckwourth Dr., E of North Hills Drive	10/14/15	11,250,000
The Mahoney Family Trust sold its StorQuest facility (with retail in the front) to the William Warren Co.	10815 Double R Boulevard	10/28/15	10,680,000
Redus Reno sold 26.4 acres to an entity controlled by Chip Bowlby planned for 584 apartments.	Mt. Rose Hwy, next to the Summit Mall	10/23/15	9,000,000
Totals			\$152,990,236

The Local News Bag

Writing in the 12/14/15 Northern Nevada Business Weekly, Sally Roberts wrote that **Dermody has broken ground on its LogistiCenter at 395 Phase 2 development in the North Valleys.** The 130 acre site is located between Military Road and Lemmon Drive, with completion of the first building by United Construction expected in May. Jarden Corporation has signed a 270 ksf lease for its Marmot and ExOfficio clothing brands. The project will generate \$800k annually in real estate taxes, as well as impact fees to benefit community infrastructure. It is also expected to bring 300 new jobs to the area. The project will be constructed in two or three phases with two or three buildings. Total build-out is approved for 1.6 million sf.

Jason Hidalgo in the 1/7/16 RGJ reported that SuperNAP operator **Switch announced that all its data centers are being completely run with renewable energy** as of Jan. 1. Switch is partnering with NV Energy to use existing renewable energy sources within the state. It also commissioned the construction of 180 megawatts of new solar capacity, which will be completed by the end of 2016.

Jason Hidalgo wrote in the January 5th RGJ that **Apple filed a permit with Washoe County to build a new data center** that it is dubbing "Project Huckleberry." The project will involve a new full shell, several data center clusters as well as a support building. The permit application continues activity at Reno Technology Park just east of Sparks since the Apple data center deal was approved in 2012. Prior to the filing for Huckleberry, the data facility was shaping up to have 14 buildings with a total size of 412 ksf.

In an email released on January 26th **Mount Rose announced that Fritz Buser is looking to sell the ski resort.** Fritz, the majority owner since 1971, played a key role in the unique history of the property. While promoting Henke ski boots at ski shows around the country in the 1950's and 60's, Fritz met the founders of Mount Rose and became an early investor. In 1971 he became the majority shareholder and has controlled the resort's growth and direction ever since. In the last 15 years, the resort has installed 2 high speed, six-passenger lifts, extensive snowmaking infrastructure, parking expansions, terrain expansion to include the Chutes, several renovations to the main lodge and the construction of the Winters Creek Lodge. Future projects may include expanding into the Atoma terrain across the highway.

Writing in the 11/30 RGJ, Geoff Dornan reported that **eBay will build a major data center at TRIC.** The deal was finalized Nov. 18 when GOED approved \$16.5 million in incentives, with estimated new taxes at \$27.8 million. Our region will also benefit as eBay attracts additional peers: firms that use and need eBay. The project will cost \$230 million for equipment and \$111 million in building and improvements. eBay will also expand its Las Vegas center with \$182 million in enhancements. The total \$500 million investment is needed to support eBay's worldwide business growth to be able to serve the world from the USA. Construction will employ 983 people, with 50 permanent jobs that will pay an average of over \$20 an hour.

The NNBW, in its 12/14/15 Daily Update, reported that **the Cal Neva Resort is scheduled to reopen in time for Memorial Day Weekend 2016.** The 10-story, 191-key resort at CA-NV state line in North Lake Tahoe, once owned by Frank Sinatra has been under renovation since 2014. It was originally expected to reopen this past December, but asbestos led to construction delays. 300 permanent jobs will be created.

Marcella Corona, wrote in the 12/8 RGJ that **Southwest Airlines will resume 3 daily flights to Oakland beginning on June 5th** to complement existing flights to San Jose via Alaska and San Francisco via United.

The NNBW reported that on January 11th **NDOT approved Ames Construction as the contractor to build the USA Parkway extension** connecting I-80 and U.S. 50 in Storey and Lyon counties. Ames' bid of \$76 million and a construction schedule of only 606 working days won the deal. The extension is being fast-tracked using the design-build method of construction, which brings the final design and construction of a project together in one contract, often providing enhanced project innovation, collaboration and value. Originally slated for completion in 2019, construction will begin in early 2016, with completion scheduled by late 2017. The project will extend the Parkway more than 12 miles to reach U.S. 50 near Silver Springs, creating an 18-mile-long, four-lane state roadway, to better link Reno/Sparks with the Fernley/Fallon areas.

'Hybrid' housing coming to Summit Sierra land (my big 2015 deal !)

Jason Hidalgo wrote in the 12/10/15 RGJ that plans are underway for a new apartment complex featuring regular and workforce housing on Mount Rose Highway and Interstate 580, next to the Summit mall. The \$100 million Summit Club will consist of 584, 1 & 2 bedroom apartments, 117 of which will be allocated as workforce housing for tenants who make 50% or less of the region's median income. The unit distribution uses the 80/20 concept, which is used in many large metro areas to set aside units as affordable housing. Chip Bowlby, a managing partner for the developer, says this will be the first project in Nevada to use this bond financing program on a "Class A" location. He cited the property's center-of-the-region location and access as key reasons why the land was so attractive: it's within the Redfield Regional Center Plan, within the southern tip of the South Virginia Street Transit Oriented Development Corridor, and is adjacent to an RTC Park & Ride lot, which is integral to the workforce housing plans. The project is seeking approval using a bond financing program from the state that uses federal funding. The 80/20 mix is one of the requirements. Neither taxpayers nor the state assumes any risk from the bonds. The term "workforce" is a conscious one, as "affordable" carries a stigma among some people who equate low-income housing with lower property values and even a higher incidence of crime. Since the 80/20 concept addresses these issues while filling a community need, HUD is a big proponent of these projects. Washoe County has few affordable units available, so this new supply is much needed. All units at the Summit Club will look similar, with residents spread around to prevent any stigma or segregation. Workforce unit rents are planned at \$595 for a 1-bedroom unit and \$715 for a 2-bedroom unit. Regular renters will pay about double. Construction is planned to start in Q216 with occupancy starting in late 2016.



The RTC is Finally!! Vindicated

On 11/19/15 the Regional Transportation Commission (RTC) issued a press release to announce that the **U.S. District Court dismissed the lawsuit trying to stop construction of the SouthEast Connector.** On Nov. 18, the Upper South East Communities Coalition filed to voluntarily dismiss its own lawsuit, which came in the wake of two recent major federal court decisions that denied the Coalition's requests for an

injunction. In June, the U.S. District Court denied the Coalition's motion for a preliminary injunction to stop the Connector. Then, on November 2, a unanimous panel of the U.S. Court of Appeals for the 9th Circuit upheld that ruling. It determined that the Corps adopted mitigation measures in response to identified environmental impacts, properly involved the public in its procedures, and effectively compared alternatives and properly concluded that the project was the least environmentally damaging practicable alternative. The court found that the project will actually result in a net increase of wetlands and that the plan to excavate and sequester 22,000 pounds of mercury deposits under the roadbed to be to be "well-reasoned". Anyone who thinks this area is currently pristine is wrong. So far the RTC has removed 4 million pounds of auto parts, refrigerators, tires, etc. The project is on schedule to be completed in late 2017.

Nevada governor approves \$335M Faraday deal

In a report filed with the Associated Press on 12/120/15, Michelle Rindels reported that Gov. Sandoval approved a \$335 million incentive package for upstart electric carmaker Faraday Future's billion-dollar factory, even though the company has yet to unveil a concept car or bring a product to market. The Legislature voted overwhelmingly to support the deal, after a four-day special session. Lawmakers learned that Chinese billionaire Jia Yueting was backing the secretive California-based company, which employs some former Tesla Motors executives, and that Faraday plans to bring 4,500 (desperately needed) direct jobs to North Las Vegas. Nevada triumphed over California, Louisiana and Georgia to land the factory and will offer \$215 million in tax credits and abatements, and publicly finance \$120 million in infrastructure improvements at an industrial park in North Las Vegas. Nevada officials who negotiated the deal testified that they built protections into the bills that acknowledge the company's short history. Faraday won't be able to tap into all of its abatements until it meets a \$1 billion investment threshold. Faraday hopes to break ground on the plant in early 2016. Improvements at the arid industrial park, including planned water service, are expected to activate the sleepy site and attract other major tenants every few months, according to North Las Vegas Mayor John Lee.

UNR Palmer Engineering building renovations planned

The 11/2/15 issue of the NNBW reported that Clark/Sullivan Construction has begun a joint collaboration with H&K Architecture for the design of the renovation of UNR's Palmer Engineering Building. The \$10.5 million project will renovate existing classrooms and labs. Construction is expected to start in September 2016, with completion in April 2017.

In Memoriam: Marion Hose

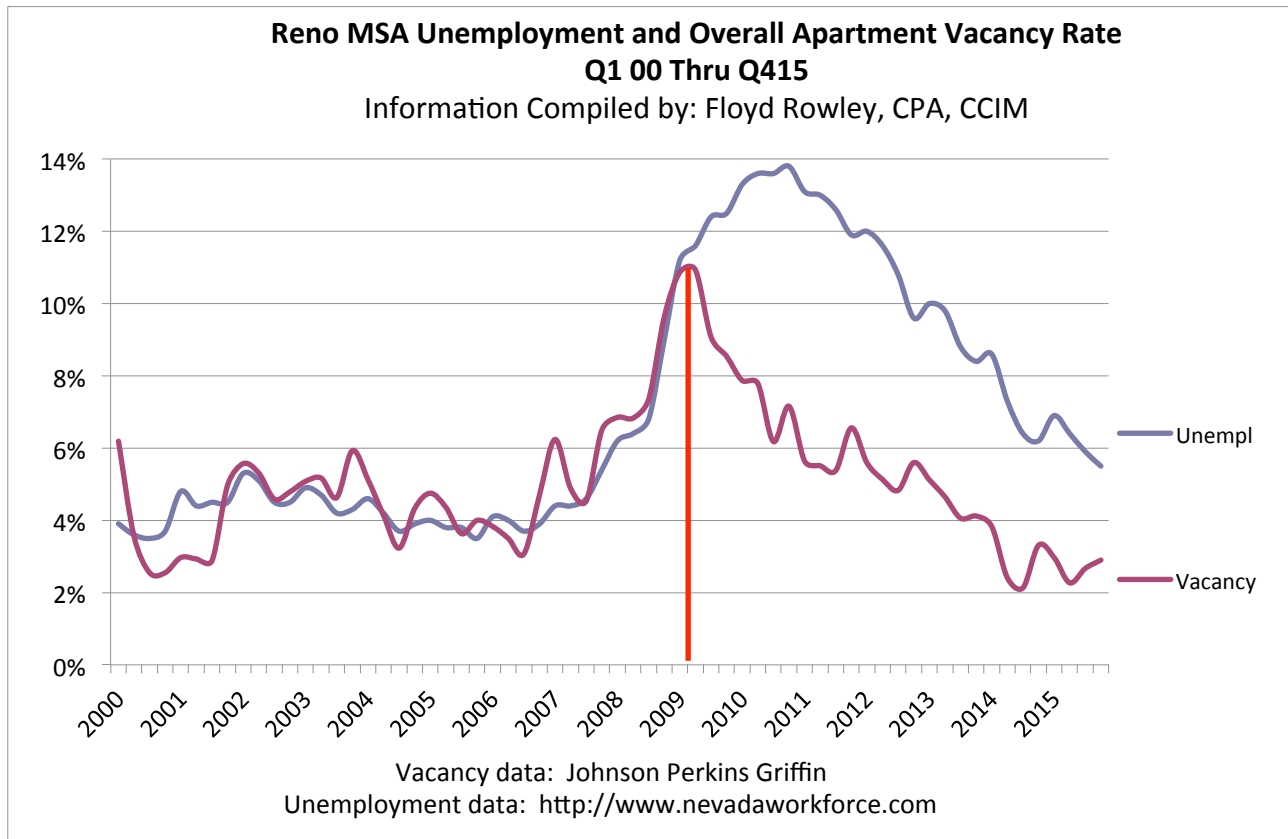
The recent passing of Marion has left a deep sadness in me. I met Marion Tavener in 1988 as a spunky, quirky, driven young woman who was the property manager and controller of a small firm I had just joined. I had the pleasure of working with her until our careers moved on. In 2004 we were suddenly reunited when she and her husband Alex Hose noticed my business card at the reception desk at Colliers in Reno. A social and business relationship followed to include skiing, welcoming their son Alexander, and many lunches at SoDo. Marion, always upbeat, was a positive and professional force in our community. Her laughter, smiles and thoughtfulness will remain with me and will be sorely missed.

Apartment Statistical Review

Recurring thanks to Johnson Perkins Griffin for allowing me to present their quarterly data. Their Q415 survey covered 81 properties – 2 more than Q3 - and 20,657 units – 650 more than Q315. Thus their data continues to be representative of regional multifamily performance. My quarterly observations are as follows:

- Overall vacancy rose a tiny 0.23% to 2.9 % from 2.67% in Q3 – approaching the lows from the last cycle.
- 4 of 10 submarkets registered vacancy declines - with one unchanged – 5 actually had increases.
- Average rental rates rose only \$4 / unit / mo. this quarter, which is healthy, since Q4 is traditionally our weakest quarter. East Sparks stayed in 1st place at \$1,047, with Lakeridge still in 2nd place at 1,021, and NW Reno still in 3rd place - at \$1,015 / unit / mo., comprising the 3 submarkets in the "\$1k Club" - having topped \$1,000 / unit / month for their average rents - up from 2 submarkets in Q215.

- West Reno continues to report the lowest vacancy at 1.33% - with NE Reno and NW Reno rounding out the top 3 – replacing Airport and SE Reno from their temporary perch.



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 dwindled to under 3%.

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 \$175 million in 58 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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