

Q119 Northern Nevada Commercial Investment Real Estate Report The "Goldilocks" Issue

Recall the children's story, "Goldilocks and the Three Bears", where she ate only the bear's porridge that was neither too hot nor too cold. Like the porridge, the Goldilocks economy is one that is "just right." According to Investopedia, the Goldilocks economy is one that's operating with economic stability, characterized by low unemployment, increasing asset prices such as stocks and real estate, low-interest rates, steady economic growth, and low inflation. The same can be said for the northern Nevada economy. In the last 4 quarters our region's unemployment has trended down from 4.1% to 3.1%, apartment vacancy has almost doubled to 3.06% and the 2018 year-end median home price dropped \$6k to \$369K – the first drop since early 2012. The cumulative effect of all these things – combined with the S&P 500 recovering 13% this past quarter, Google breaking ground on 400 acres in TRIC, EDawn's EPIC2 jobs projection on February 7th, etc., things are looking "just right" in our region. Now, what could possibly mess it all up "this time"?

April [Federal] Jobs Report <https://www.marketwatch.com/>

By Jeffrey Bartash, Published: May 3, 2019



Major Planned / Under Construction Apartments (Rowley proprietary research)

A lot of activity this quarter! The numbers are as follows:

	Rowley Research Totals	Plan	Under Const.	Total
Units:	This Quarter	9,526	3,768	13,294
	Last Quarter	10,034	3,669	13,703
	Net Change	(508)	99	(409)
	% Change	-5.1%	2.7%	-3.0%
Projects:	This Quarter	30	13	43
	Last Quarter	30	13	43
	Net Change	0	0	0
	% Change	0.0%	0.0%	0.0%

The **net zero change in projects** reflects the completion of 3: The Bridges (at Victorian Square), Sierra Vista Phase One and Lyfe at the Marina, offset by the start (finally) of the massive Lakes at Lemmon Valley and Harvest at Damonte Ranch Phase 3. Sierra Vista Phase 2 was added to Planned Projects.

The net increase of **99 units under construction** reflects the units associated with the properties discussed above, as does the net reduction of 508 planned units, due mainly to the Lakes at Lemmon Valley.

The Local News Bag

Sam Gross, wrote in the 3/15 Reno Gazette Journal (RGJ), that the Bureau of Land Management (BLM) released a draft environmental impact statement analyzing what would happen to the Black Rock Desert in response to **Burning Man's application to increase its total event population from 80 to 100k people over a 5-year period**. BLM has granted permits on its land since 1991. No permit has yet been issued for this year's event. It's the largest special recreation permit for the BLM and one of the largest on federal land.

A Northern Nevada Business View (NNBV) staff report on April 12 reported that **Heritage Bank of Nevada, has entered into an agreement to join Glacier Bancorp of Montana**. Pending board and regulatory approval, Heritage will officially be under the Glacier umbrella in Q319. Heritage will continue to operate as a community bank under the same management team. All branch offices of Heritage Bank will remain open.

The NNBV reported on April 25 that **EDAWN announced that MOBE is establishing its co-headquarters in downtown Reno**. They plan to create ~300 highly skilled jobs within 3-5 years, many of which will be high-paying - with career track positions. They expect to open by Q319. MOBE works with health plans and large employers to identify people who are frequent users of health care with unresolved issues, who deal with chronic conditions that can be improved through lifestyle changes, along with medical care. MOBE's services focus on diet, sleep, movement, medications, etc. to improve overall health, and to lower costs.

An NNBV staff report dated April 26, 2019 reported that **Bibo Coffee Co. will soon open its fifth location: inside the West Street Market in downtown Reno**. They will move into space vacated by IceCycle Creamery and plans to offer 18 flavors of gelato, pour-over coffees and a cold brew bar. Bibo also makes small-batch gelato from scratch. Bibo's newest location should be open by the beginning of May. The company's other four locations are downtown, Midtown, near UNR and in south Reno.

Writing at <https://thisisreno.com/2019/04/rtc-approves-agreement-with-ndot-for-spaghetti-bowl-project/> on April 20, Carla O'Day reported that **the RTC approved an agreement with NDOT to collectively pay \$30 million of the ~\$150 million for the Spaghetti Bowl Xpress**, or SBX. The interchange has been identified by NDOT as having the highest crash location statewide. RTC will contribute \$10 million each year for 3 years, the agreement states. The project is part of the 2040 Regional Transportation Plan.

Sam Gross wrote in the March 13 RGJ that **the historic Nystrom Guest House in downtown Reno was moved to West Fourth Street near Chapel of the Bells**. The house, which was added to the National Register of Historic Places in 2001, was moved by Jacobs Entertainment from 333 Ralston Street. The company previously moved the Borland-Clifford House, another 19th century historic home last August.

The April 14 issue of [ThisisRenoBusiness Weekly](#) reported that **UNR received a 5-year, \$11 million grant to its Cardiovascular Research Facility** by the Centers of Biomedical Research Excellence, a highly competitive program of the National Institutes of Health. The research center is focused on better understanding the molecular and cellular signals that regulate the cardiovascular system.

Jason Hidalgo wrote in the Feb 14 RGJ that **NDOT released a rendering showing that the Airport will retain the direct southbound link from I-580** as part of NDOT's 2nd alternative for the Spaghetti Bowl, which is NDOT's preferred plan. This change will have no additional environmental impacts, NDOT said. The Airport will still lose its direct northbound exit from I-580/US395. The Airport considers its southbound entry as the more critical ramp for passengers trying to catch flights. The Project recently saw a delay in its environmental review process due to the shutdown, but construction is still on track to begin in 2020.

Apple finishes Reno warehouse & announces Northern Nevada expansion

A NNBV staff report on Feb 14 stated that Apple officials visited Reno to announce that construction is now complete on both Apple's downtown warehouse facility and its east campus at its Northern Nevada Data Center in [way east] Sparks, close to TRIC. Separately, the RGJ reported that Apple's 30 ksf warehouse at 5th & Evans in downtown is seen by the City as a pivotal piece in its efforts to revitalize the Tessera tourism improvement district. After Apple picked Reno in July 2012 as its new data center site, it was required to build a downtown Reno facility in order to receive part of the \$89 million in tax abatements it negotiated with the state.

Apple also announced plans for new construction for a west campus at the data center, as well as partnering on expanding a solar power project for the region. These expansions will increase the data center's footprint to 1.2 million sf. The new facilities are part of Apple's five-year, \$10 billion investment in U.S. data centers announced in 2018, and joins over 4 million sf of centers in five states. Construction of the solar facility will expand the nearby Turquoise Solar Project, which is expected to generate 60 MW of solar energy. Construction on the 1st phase began in July 2018 and is scheduled to be complete by the end of 2019. The project's goal is to use a workforce of 80% Nevada residents, with up to 20% veterans. The staffing is being headed up Mario Pabon, President / CEO of Empower America. <https://weempoweramerica.com/> [Ed note: The Builders Association of Northern Nevada is a strong supporter of this organization, of which I am a member.]

Reno Redevelopment Agency could default

Jason Hidalgo wrote in the April 14 RGJ that the City of Reno was notified on April 2 that revenue from its downtown redevelopment area will not cover debt payments for bonds issued in 2007. The Reno Redevelopment Agency issued three bonds that year totaling \$20.7 million. The consulting firm Fraser & Associates warned that the Agency will be short ~\$2 million for debt service payments this year, with deficits projected to grow to \$10 million over nine years. Fraser recommended that the City restructure the 2007 bonds with new bonds at current interest rates, and with a longer term. Fraser also recommended using a general obligation (GO) bond, which would be more attractive to investors because it would be backed by the full faith and credit of the City. The new bond could also put the Agency in a position to help fund payments for the Reno Aces ballpark, which run through 2043. In 2011, the agency had to tap into bond reserves and insurance to make its payments and stave off a technical default.

Daybreak developer files \$50 million lawsuit against Reno for denying housing project

Anjeanette Damon, wrote in the Feb. 20th RGJ, that Newport Pacific Land (NPL), developers of the proposed Daybreak housing development, sued the City of Reno for \$50 million. The City Council voted 6-to-1 to deny the development in Nov. 2018. Councilwoman Bonnie Weber supported the deal, saying the region is in dire need of housing. NPL asserts they stand to lose \$100 million if the project doesn't move forward. NPL proposed to build 4,700 units on the former Butler Ranch in the South Meadows. Council decided such a massive development isn't appropriate for this floodplain. NPL argued that the City arbitrarily denied Daybreak's application based solely on politics, ignoring the facts, law and uncontroverted, substantial engineering and technical information in the records. NPL said it spent \$50 million to buy the land and crafted careful engineering solutions to the challenges the site presented, including flood storage, mercury-contaminated soils, high ground water levels and traffic. NPL won the support of City staff and the Reno Planning Commission. NPL agreed to a host of "extractions", such as buying the City an ambulance despite the fact that REMSA is the primary ambulance service provider in the City. NPL also agreed to pay \$500 per lot into a land trust for affordable housing, even though NPL wants to focus on the "missing middle" of "attainable housing" in the region. NPL agreed to expand the South Reno Fire Station and buy the City a new ladder truck, even though nothing in Daybreak will be taller than 55 feet. In all, NPL agreed to pay \$11.5 million to gain the opportunity to be heard by the City Council. Opponents rested their opinion on the fact that Daybreak is planned for a sensitive flood plain and is the last natural storage area for Truckee River flood waters and Steamboat Creek. NPL argues that Council has approved 13 projects in the floodplain since it adopted a master plan that discourages such developments, ranging from a single fast-food restaurant to more sizable subdivisions.

Prado Ranch Development Decision Delayed

Writing in the [ThisIsReno](#) blog on March 27, John Seelmeyer reported that the Reno City Council voted unanimously to delay its hearing of the proposal until June 5. The delay was requested by Wood Rogers to address concerns that residents of the area raised during neighborhood meetings. They worry that the project will worsen flooding around Swan Lake and throughout the North Valleys. They also have raised questions about traffic and school crowding that would result from the development. The project, located northeast of the Reno-Stead Airport, is envisioned to include 176 houses, 529 apartments, 3.6 million sf of industrial buildings and 57.8 ksf of commercial space. ~450 acres of parks and open space are part of the plan. It would be developed by Lansing Companies, headquartered in San Diego, who stated that their plans would help to resolve flooding in the area. The industrial and commercial areas at Prado Ranch would employ over 2,000 people. The Planning Commission in January recommended that the City Council deny approval of the project. Before the June meeting, Council members hope to meet with representatives of Washoe County, which is making decisions on parts of the Prado Ranch development that are outside the city limits.

Toolmaker Makita Gets Warehouse Approved in the North Valleys

On April 11th, Bob Conrad wrote at <https://thisisreno.com/2019/04/makita-warehouse-north-valleys/> that Japanese power tool company Makita is coming to the North Valleys. The Reno City Council overrode the Planning Commission's denial to build two buildings totaling 820 ksf on 47 acres near Echo and Military Road. The denial was due to a split vote. Developer Prologis then appealed the failed motion to the City Council. Developers assured Council that the project will exceed building standards and City requirements. City staff said that flood concerns at Swan Lake will be addressed with retention basins to meet code requirements. The project is expected to increase traffic by 1.4k trips / day from workers and delivery trucks.



Lyon County industrial park will mimic TRIC

Amy Alonzo, of the Fernley Leader-Courier, in an article published in the RGJ on 4/25/19, wrote that developer NV-Reno Industrial LLC is looking to build out 12k acres on a 20k acre parcel on the Lyon / Storey County border, about 3.6 miles from the intersection of USA Parkway and Highway 50. Plans for the Northern Nevada Industrial Center (NNIC) include two Tesla-sized developments with access strictly from USA Parkway. Dave Brown, President of Land Development Associates in Las Vegas, said the first user is negotiating for a site on the Lyon County side, and wants to be up and running within 18 months. Full development on the site will take 5 to 25 years. The pace depends mainly on access to water. There are a few small wells on the site, as well as some water rights, but NNIC will have to acquire additional water before there is substantial development. They're trying to attract similar uses such as existing tenants at TRIC. High speed internet already runs along the parkway, as well as storm drain infrastructure.

WCSD moving forward on Wildcreek high school to replace Hug

Siobhan McAndrew wrote in the 3/28 RGJ that the Washoe County School District is moving forward on its plans to build a high school on a portion of the Wildcreek Golf Course. The 295 ksf school will be 3 stories and include a 435-seat performing arts center, 3 gymnasiums and more than 80 classrooms, group rooms and art and music labs. The 87-acre property is in escrow. In February, the County Commission unanimously approved to transfer a portion of the golf course to the District for \$5 million. WCSD will sign a development agreement with the City of Sparks. Improvements include adding roundabouts at each of the 3 entrances, lengthening streets, and adding lanes on Sun Valley Boulevard. Bike lanes on streets near the school will be added. The

estimated cost will be \$200 million. The County is committed to keeping a 9-hole golf course and clubhouse at Wildcreek. The school is scheduled to open in August 2022. Construction bidding would start in late 2019-early 2020. The school will take all students zoned for Hug and will rezone 700 students from Sun Valley who are now zoned for Spanish Springs HS. Hug will convert to a career and technology education academy to reopen in 2023 for students across the District and relieve overcrowding at other high schools. The new school will be considered a model for future high schools, with a prototype design, 60% of which is already finished.

New Normal? Reno-Sparks median price sees first yearly drop since 2012

Writing on the 4/23 RGJ, Jason Hidalgo reported that our region saw its first year-over-year (YOY) decrease in median home prices since 2012. The median price in March was \$369k - down from \$375k in March 2018, according to the Reno/Sparks Association of Realtors. The Center for Regional Studies at UNR reported that the median price for an existing single-family home in February was down by 0.1% YOY - with another decrease in March. The last time our region saw annual YOY decreases was April 2012, when it dropped by 1.7%. With talk of a potential slowdown in the U.S. economy in the next 1-2 years, combined with our region's experience as one of the hardest-hit areas during the Great Recession, any downward trend in pricing can stoke fears about another housing collapse. However, the area's housing market has been on a historic tear. Last year, the area broke the median price record several times, culminating in a new record of \$404.5k for Reno. These numbers were still below the highs reached in the mid-2000's when adjusted for inflation. Median family income has been increasing 4.5% annually over the last 3 years. The region also has seen 15k new jobs to date this year. The recent YOY dip is seen as a normal correction for a housing market that is starting to settle down after being on fire during the last few years. The recent YOY decrease would be a good sign if it portends a normalizing of the area's housing market. Competition remains fierce, however, and anything below \$300k gets snapped up quickly. The residential segment between \$300-450k is also seeing strong activity. The area is also seeing a lot of relocations, both from out-of-state as well as in-state from Las Vegas.

Stonegate developer wants Reno to help finance its infrastructure with a \$56 million bond

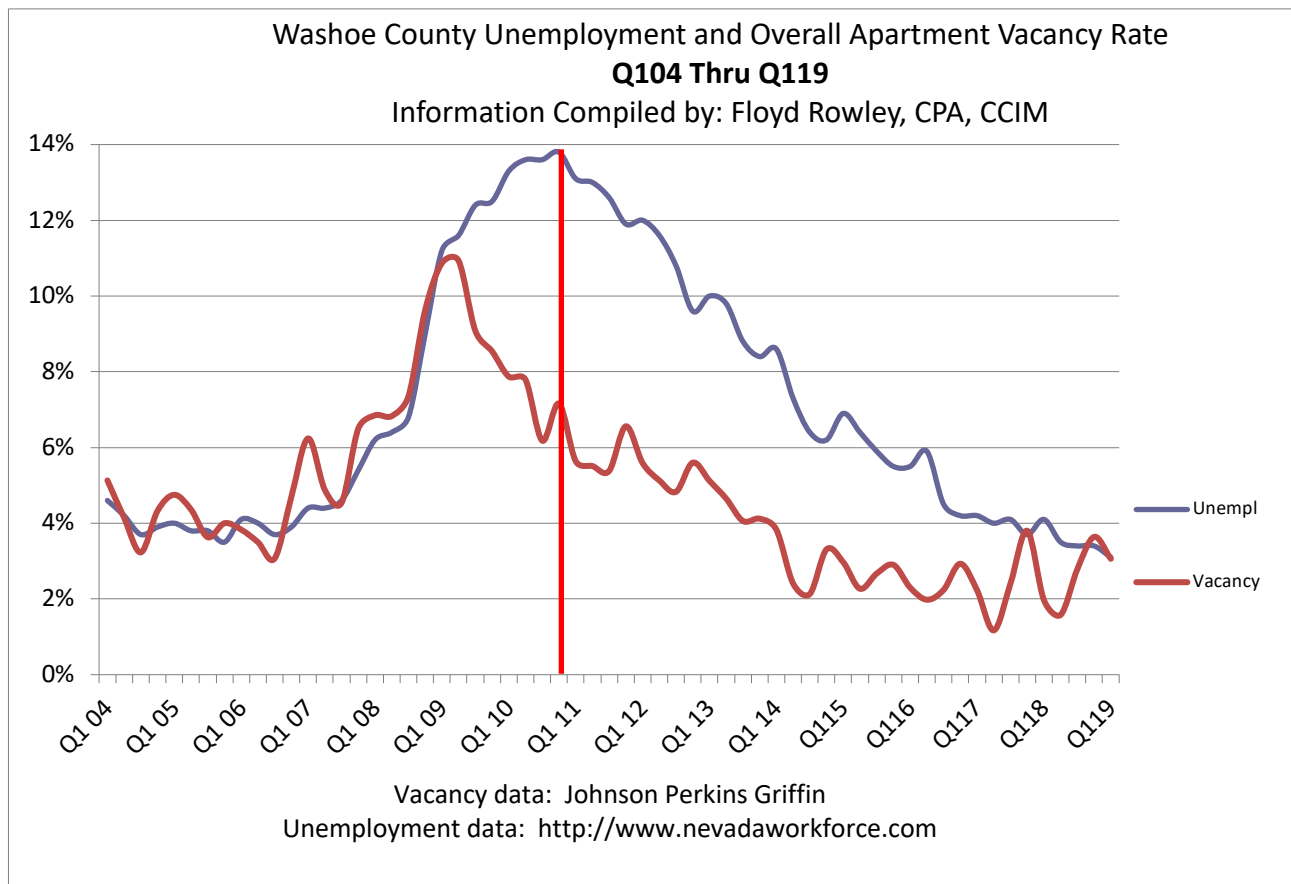
Anjeanette Damon wrote in the Feb 19 RGJ that the Reno City Council is mulling over whether to support \$56 million in debt to help the Stonegate development finance public infrastructure needed for their massive housing development in Cold Springs. Under the proposal, which is in its early stages, Stonegate - and ultimately homeowners - would be responsible for bond payments through a special assessment district (SAD) on their properties. Council voted 5-1 to start its due diligence on the proposed financing agreement, with Stonegate funding \$150k. Reno Finance Director Deborah Lauchner said the \$56 million in bond proceeds would fund ~1/3 of the public infrastructure needed for the development. The infrastructure includes the usual streets and sidewalks, a new freeway interchange, extending water service to the development and building a sewer line to connect to the County's nearest plant. Stonegate said the bonds are a critical component of the project's capital stack. Municipal bonds are a cheaper way of borrowing money for developers, which translates into more affordable homes. Lauchner said she sees little risk to the City in issuing the bonds, which would not be backed by the City's general fund. The bonds would be secured by the land, which the City could foreclose on if the developer and subsequent owners failed to make the assessment payments. The City's credit rating and ability to take on new debt could be harmed if the bonds went into default. The developer said they would work protections into the deal by putting money into a reserve fund to be used to make the bond payments should progress on the development falter. Reno has only used SAD bonds a few times, but never for this much money. The developer hopes to issue the bonds in June.

Apartment Statistical Review (Rowley proprietary analysis)

The Johnson Perkins Griffin's (JPG) Q119 survey continues to remain unchanged at 90 properties and 22,375 units. As always, JPG's data is representative of regional multifamily performance. Their survey is available at: <http://jpgnv.com/wp-content/uploads/2019/05/Q1-ApartmentSurvey2019.pdf>

- While rents increased \$24 to \$1,316, or 1.9% in Q119, they have effectively been flat since Q218 – a full 3 quarters. The timing of this is good for our market, given political noise re rent control in Carson City.

- Within the submarkets, the top 3 highest rents moved around in ranking: East Sparks dropped to 2nd place behind Downtown Urban, with Lakeridge staying in 3rd place.
- Interestingly, Downtown Urban reported the highest vacancy in our region – 6.3% - vs 4.35% in Q418. I suspect many of these affluent urban renters have either relocated for jobs – or bought houses.
- The submarkets of NW Reno, NE Reno and SE Reno all scored impressive rent increases, ranging from \$44-48 / unit / month.
- Overall vacancy ticked down from 3.6% in Q418 to 3.1% in Q119. This is now 3 of the last 6 quarters where vacancy exceeded 3%.
- By unit type, the only vacancy exceeding 3.4% are 3X2's @ 5.2% - and townhomes @ 4.1%. These vacancies are probably people buying homes in Q1 - always the highest quarter for larger unit vacancies.
- The lowest submarket vacancies continued to be the "workforce" submarkets – but there was considerable movement: Airport moved from 3rd to 1st lowest – reporting a suspicious 0% followed by West Reno at 0.9%, with SE Reno in 3rd place @ 2.6%.



About the Author

Rowley Real Estate Advisors was formed November 1, 2018 as the culmination of Floyd’s 15.8-year brokerage career in northern Nevada. Previously, Floyd joined the Johnson Group in January 2011, after serving for 7+ years as Senior Vice President 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 leasing, sale-leaseback transactions and build-to suit leases. Since 2004, **Floyd has closed \$265+ million in 88 transactions, of which \$100 million are apartments or apartment land.** Starting in the fall of 2008, he started focusing on distressed assets, mainly apartments. **He has completed 69 broker price opinions totaling \$510.7 million,** mainly during the Great Recession, resulting in \$66.9 million of listings, mainly apartments and land, since early 2009. Floyd hired his son, Trevor, as an associate on December 1, 2018. We now have 3 land deals under contract and 5 other transactions in process.