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Q318 Northern Nevada Commercial Investment Real Estate Report The “Blockchains, LLC is Coming” Issue

As predicted in my Q218 report, Blockchains, LLC made its major announcement on November 1st at the Devcon4 conference in Prague. The conference was sponsored by the Ethereum Foundation, a major blockchain platform. Please see the Cryptocurrency article below. This could be *huge* for our region. The Apartment Statistical Review section shows that overall rents took a pause this quarter, which is a good thing, after rising 11.7% in the first half of this year. Vacancy bumped up to 2.8%, another healthy sign. EDAWN’s EPIC Report tracking continues to show steady growth, with our region having announced 83.7% of the 52,370 jobs projected to come to our region starting 1/1/15. Not all those jobs are here yet, but they are baked into company growth plans, so they represent a good indicator of future growth. Nationally, the threat of tariffs - and the Fed’s planned interest rate increases - are both blankets on the economic exuberance of recent quarters. Still, our economy produced a 3.5% GDP growth rate in Q3. No one knows if this can be sustained going forward – or if the Fed is hell-bent on starting the next recession, as they usually do. Please see the article on the potential delay to 2021 below.

Major Planned / Under Construction Apartments (Rowley proprietary research)

My quarterly phone calls and emails to developers revealed only Grupe’s Loft 205 apartment project completed this quarter: Many others completed buildings *within* their developments. The numbers are as follows:

Rowley Research Totals		Plan	Under Const.	Total
Units:	This Quarter	10,176	4,806	14,982
	Last Quarter	12,809	4,412	17,221
	Change	(2,633)	394	(2,239)
	% Change	-20.6%	8.9%	-13.0%
Projects:	This Quarter	31	18	49
	Last Quarter	36	18	54
	Change	(5)	0	(5)
	% Change	-13.9%	0.0%	-9.3%

The reduction in **planned** units reflects two things: the removal of 1,547 units that I do not believe will be built in this cycle, with the balance moving into the “Under Construction” column. The net 394 additional units under construction reflects developers starting to build their next phases.

Recall 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 Nevada Appeal reported on July 19 that Tesla announced an initial grant of \$1.5 million at the state Board of Education meeting, as part of **Tesla’s commitment to contribute \$37.5 million over five years to K-12 education in Nevada** on a quarterly basis. The recipients were selected in conjunction with educators, business leaders and government officials.

Sam Gross reported in the 9/19 Reno Gazette Journal (RGJ) that **S&S Activewear will open a massive 800 ksf distribution center in Panattoni's North Valleys Commerce Center around 3/1/19**. This lease is the largest occupant of a pre-built facility in the history of Nevada. The facility is expected to bring 350 new jobs to our region. S&S, a wholesale distributor of imprintable apparel, was offered no incentives to relocate from the Chicago area. Panattoni started building the \$50 million facility without any pre-leasing.

Writing in his ThisIsReno blog, Bob Conrad reported that **Galaxy Theatres opened its second Sparks location on September 20th**, this time in Victorian Square. The theater offers similar amenities to its property at The Legends. New reclining leather chairs greeted visitors, which has 13 screens, a large format DFX screen, digital and laser projection, and Dolby Atmos sound. Wine, beer, daiquiris, and margaritas are also served. The attached garage, with refurbished lighting, provides direct access to the theater.

Siobhan McAndrew wrote in the 10/30 RGJ that **UNR has broken ground on the \$91 million William M. Pennington Engineering Building**. It will be 100 ksf and have 40 faculty offices, 150 graduate work stations and more than 40 laboratories. The building is being paid for through private donations, university funds and \$41.5 million allocated by lawmakers during the 2017 legislative session. Also, the 42.5 ksf University Arts building will open in January. It is attached to the Church Fine Arts Building via a skywalk.

Mike Higdon, writing in the 10/13/18 RGJ, reported that downtown Reno's oldest building, **the 1872 Reno Mercantile and Masonic Lodge will be demolished**, along with the former Old Reno Casino and Vino's to make way for a Whitney Peak Hotel expansion. Decades of neglect and water seepage made the building structurally unsound, even with a recent interior framing structure that currently prevents the building from collapsing, according to Preserve Nevada's list of the 11 most endangered historic structures in Nevada. Whitney Peak spent more than \$250k installing the internal bracing to stabilize the Mercantile building. The hotel's owner and developers plan to begin the \$13 million construction on a new 90 to 100-room extended-stay hotel in their place. The Whitney Peak Hotel opened in 2014 on Commercial Row and Virginia Street in front of the Reno Arch. Construction of the new hotel is planned to be completed in mid-2020. Each room in the new non-smoking property will also have an in-unit washer and dryer and a kitchenette.

Jason Hidalgo wrote in the 10/6 RGJ that **NDOT released a 3D video rendering of the Spaghetti Bowl Xpress project**. The rendering is preliminary and no design plans are finalized. Planned changes include widening the I-80 eastbound and I-580 southbound interchange to two lanes to relieve congestion, which will make southbound travel safer to Villanova Drive. Proposals include adding auxiliary lanes and reconfiguring ramps to reduce current weaving and merging. The Spaghetti Bowl was built in the 1960's and early '70's. The region's population has increased 4 times since then. The next step is publishing a draft environmental impact statement (EIS) this winter for public review. The EIS is required by the federal government, which provides key funding for various infrastructure projects.

Jennifer Kane, writing in the 10/10 RGJ, reported that **the Burning Man Project will open a year-round, 2.8 ksf office in the historic Post Office building** at 50 S. Virginia Street to enable the organization to better support operations in Northern Nevada. Headquarters will remain in San Francisco with over 100 employees; Reno's office will employ less than 20 during its 3-year lease. Burning Man organizers, who are working to increase the main annual event size from 80,000 to 100,000, have said repeatedly that they are working to remedy the recent failed "Leave No Trace" efforts after the annual event.

REreno reported on September 21st that **Costco is expanding by 20 KSF into the adjacent former Office Depot space on Harvard Way**. Permit fees were paid on September 19th.

REreno reported on September 28, that **a building permit has been filed for a 5 story parking garage for the Park Lane project** a bit NW of the existing theater. The original plan indicated 202 units, and an RGJ story mentioning 227 units on the 3.5 acre site, for a density of 64 units per acre.

Court rejects suit challenging Squaw Valley resort redevelopment

In the August 13 RGJ, Benjamin Spillman reported that Placer County Superior Court Judge Michael Jones rejected every argument in Sierra Watch's lawsuit seeking to overturn a Placer County Board of Supervisors' 4-1 vote on Nov. 15, 2016 to approve a proposal to redevelop Squaw Valley. The plan would add an estimated 1,500 lodging units and thousands of additional vehicles (according to Sierra Watch) on the roads in and around the valley. The proposed redevelopment would cover about 93.3 acres in Squaw Valley, about 80 of which are already developed. It could take as long as 25 years to fully implement. Contrary to Sierra Watch's assertion, Jones stated that the project is outside the Tahoe Basin and doesn't need to be evaluated against development standards inside the Basin. Jones also wrote that the project environmental impact report did adequately assess traffic, emergency evacuation, climate change and noise impacts. In response to the ruling leaders of Sierra Watch vowed to appeal the ruling. Stay tuned.....

A Cryptocurrency Millionaire Wants to Build a Utopia in Nevada

Nathaniel Popper, wrote in the Nov. 1st New York Times that Blockchains, LLC bought 67,000 acres in Tahoe Reno Industrial Center (TRIC) earlier in 2018 for \$170 million in cash. Jeffrey Berns, a lawyer and cryptocurrency millionaire, owns the company. He spent most of his professional life on class-action lawsuits, many of them against financial companies. Berns learned about Bitcoin in 2012 then bought Ether, the digital token [ed: similar to Bitcoin] associated with Ethereum in 2015. Thanks to an astronomical increase in the price of Ether, and some well-timed selling last year before it crashed, he became wealthy enough to fund his dream project. He is planning an experimental community of over 1,000 acres called South Valley, where houses, schools, commercial districts and production studios will be built around blockchain. It will be a



research campus with a college and an e-gaming arena. A blockchain is a decentralized, distributed and public digital ledger to record transactions across many computers so that the record cannot be altered retroactively without the alteration of all subsequent blocks **and** the consensus of the network. Some blockchain aficionados believe blockchain will make it possible for people to control their own data without relying on big companies or governments. There is a fuzzy line between these utopian visions and get-rich-quick schemes.

A rendering of what this blockchain-based community might become. Credit Design by Ehrlich Yanai Rhee Chaney Architects and Tom Wiscombe Architecture

Berns is different from his crypto-brethren in one big way: he has spent \$300 million of his own money on the land, offices, planning and a staff of 70. Also, buying undeveloped land is old-fashioned, real estate risk-taking. Berns is promising to give away all decision-making power and 90% of any dividends the project generates to a corporate structure that will be held by residents, employees and future investors in a structure called a "distributed collaborative entity." Governor Sandoval read a proclamation that named the Blockchains' property "Innovation Park" at an event last month where Berns sat with Elon Musk. Tesla's Gigafactory is surrounded by Blockchains' land. Google, Apple and Switch are nearby. Also, last week, Berns announced a memorandum of understanding with NV Energy to team up on projects to run energy transactions through a blockchain. Blockchains has already received preliminary county support for a new town along the Truckee River [ed: farther east], planned for thousands of homes, a school and a drone delivery system. They are working closely with the county on a broader master plan. They won't begin construction until at least late 2019.

Tesla Hits Model 3 Output Goal

Writing in the 10/3 Wall Street Journal, Tim Higgins reported that Tesla met its Q3 production goal for its Model 3 sedan. Tesla made 53,239 Model 3s in Q3, up from 28,578 in Q2, and delivered 55,840 of them during the period, slightly above analyst consensus forecasts. Model S sedan sales rose slightly to 14,470, and Model X SUV deliveries rose to 13,190. Sales for Q3 totaled 83,500 vehicles vs 26,150 a year earlier, exceeding analyst's estimates of 80k. The surge in Model 3 sales was key to Musk's plans to turn a profit in Q3. Tesla is betting the Model 3 will become its first mass-market vehicle after proving it could build a global luxury brand of electric cars with its high-end Model S and X vehicles. Musk had once pledged to deliver 500k vehicles this year with a high-tech assembly process. Instead Tesla's production line struggled and repeatedly missed goals. Also, it has yet to sell any Model 3s at its long-promised price of \$35,000; the cheapest version is \$49,000. Tesla finally proved its ability to make 5,000 Model 3s during the final week of June, a pace that Musk said they must consistently reach to avoid raising new capital. During Q3, Tesla averaged about 4,000 Model 3s a week. Tesla is facing challenges to put cars into customers' hands, running short on trailers to deliver cars and was building its own carrier cars to alleviate the situation. The challenge for Tesla will be to maintain its breakneck pace going forward. Q3 was tumultuous as Mr. Musk made several self-inflicted missteps, many on Twitter. He was sued for defamation after suggesting that one of the men who helped in the rescue effort of the boys' soccer team in Thailand was a pedophile. He then shocked Wall Street on August 7 by announcing he had secured funding to take Tesla private. 17 days later he stunned investors again by announcing he was backing away from the effort. Also, he SEC filed a lawsuit claiming his tweets misled investors. The Justice Department also was investigating. Mr. Musk settled with the SEC by giving up his chairman role, while Tesla agreed to add two new independent board directors and install stronger governance over Mr. Musk's communications. Musk will remain as CEO and retain his board seat.

Downtown Reno Crest Inn to be revitalized as Renova Flats by Jacobs Entertainment

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

Jason Hidalgo wrote in the 10/25 RGJ that the redevelopment of downtown Reno's West Fourth Street corridor continues as the former Crest Inn kicked off its transformation into new urban apartments to be known as Renova Flats. Jacobs Entertainment (JEI) revealed plans for the property which will include the former gas station and mini-mart at the corner of Ralston Street. Renova will be the first market-rate housing project in Reno for JEI, which purchased the Sands Regency and a slew of real estate across several blocks to connect it to the Gold Dust West. Renova will cost \$11 million to renovate 46 motel units, followed by 10 more, as the mini-mart is demolished. Renova will feature a community kitchen, lounge and landscaping. Renova Flats is planned to be ready next spring. With Renova Flats switching to market rate units upon renovation, Jonathan Boulware, JEI's Reno VP, pushed back against claims that it will remove another option for cheap downtown rentals. Prior to JEI's purchase, the Crest Inn was #1 in service calls downtown to the Reno Police Department and posted the second-highest number of police calls among *all* motels in Reno. Rooms rented for \$750 to \$1,500 / mo. JEI stopped charging rent at the Crest Inn after taking over and provided assistance such as donated furniture, moving laborers, food, utility payments and rent money to help them relocate. 38 of the 42 residents received assistance for moving. JEI will research the market rate for the property once the renovation is finished. They will also set aside a number of units as affordable housing for seniors. As for the rest of its properties, the company will announce plans for additional green space as well as streetscape for West 4th St. before the end of the year. Although it would like to make more announcements about its other projects, Boulware says they want to make sure to only announce plans that are assured of completion.

Reno Downtown Partnership seeks to address homelessness and boost business

Writing in the 10/26 Northern Nevada Business View, Kaleb Roedel stated that the newly formed nonprofit, Reno Downtown Partnership (RDP), is seeking to meet visitors' expectations that there should be more retail downtown and address many other issues plaguing the central core of the Biggest Little City. The RDP is a privately funded business improvement district (BID) created in August. It encompasses 120 city blocks (24.9 million sf), bounded by I-80/9th Street to the Truckee River, Wells Avenue to the east, California and Moran

streets to the south; and Keystone Avenue to the west. Alex Stettinski, executive director (ED) previously was the ED for the Beverly Hills Chamber of Commerce, and VP of Visit West Hollywood. Reno's BID has launched an Ambassadors Program, with 15 ambassadors to be trained and deployed to provide hospitality, safety and maintenance services in the District. The vagrant population is a big challenge downtown. Stettinski pointed to downtown's lack of vibrancy as a reason the homeless community is so pronounced. He said it's important for stakeholders to recognize that homelessness is a complex issue that can't be addressed in isolation. LA County has a homeless population of 58,000, compared to 184 homeless across Reno, Sparks and Washoe County. Stettinski said the Village on Sage Street housing project in east Reno, which is on track to open in late November, is a prime example of what our community needs. He expects downtown Reno to be vibrant within 5 years. One of the challenges will be dealing with is the politics and established habits of downtown businesses and property owners. He needs to have them understand that they could [ed: should] become part of an amazing vision and that they can make a difference that can last for generations.

Business Economists Extend Recession ETA To 2021

Writing in GlobeSt.com on October 1, Erika Morphy wrote that forecasting when the next recession will begin has become the business community's favorite parlor game. Many have pinpointed 2020 as the likeliest ETA for the next recession. Now the influential National Association for Business Economists has weighed in to give us a bit more runway for positive growth. Two-thirds of the economists surveyed expect the next recession to begin at the end of 2020 while 1/3 expects no recession until 2021 or later. Another finding from the report (no surprise to the CRE community): the industrial market is driving current growth. On the downside many economists have trade concerns. Half of survey respondents moderately increased their inflation forecasts as a result of trade policy changes and over one-half have reduced GDP growth forecasts for 2018. Nearly 80% did so for 2019. 47% report they lowered forecasts for 2018 by 0.25% or less, with only 4% lowering their forecasts > 0.25%. 14% boosted their GDP growth forecasts for this year by 0.01 to 0.25%. The remaining 35% made no change to their 2018 GDP growth forecasts. For 2019 GDP growth, 78% lowered their forecasts between 0.01 and 0.5%, while only 8% of panelists raised their forecasts.

Cal Neva comeback?

Ryan Hoffman wrote in the 10/26 Tahoe Daily Tribune that the odds of Cal Neva's comeback improved on the news that the new owner of the historic resort on Lake Tahoe's North Shore intends to restore the property and establish a five-star resort. Earlier this year, a VC firm headed by Oracle Corp. co-founder Larry Ellison acquired the Cal Neva through bankruptcy. A new cultural resources investigation report introduced plans to renovate the 10-story hotel tower, with other structures, such as the low-rise casino, celebrity showroom, wedding chapels, cabins and signage, will be demolished. Plans call for a new two-story building at the base of the hotel to consist of restaurants, casino, conference center, spa, etc. This would be a welcomed return to its former glory. The Cal Neva was a world-renowned gaming and entertainment venue under Frank Sinatra's brief ownership in the 1960's. It then changed hands multiple times before it was bought in 1985 by developer Charles Bluth, who restored the property to a high standing. Under his ownership the lodge was named 'Nevada's best Getaway,' and cited as one of America's 50 Flagship Hotels." After a tumultuous period afterwards, the resort landed in the hands of a Napa Valley-based real estate firm, which purchased the property in 2013. The company planned major renovations, but never fully completed them and filed for bankruptcy. The new project team is still working on crafting a viable project application.

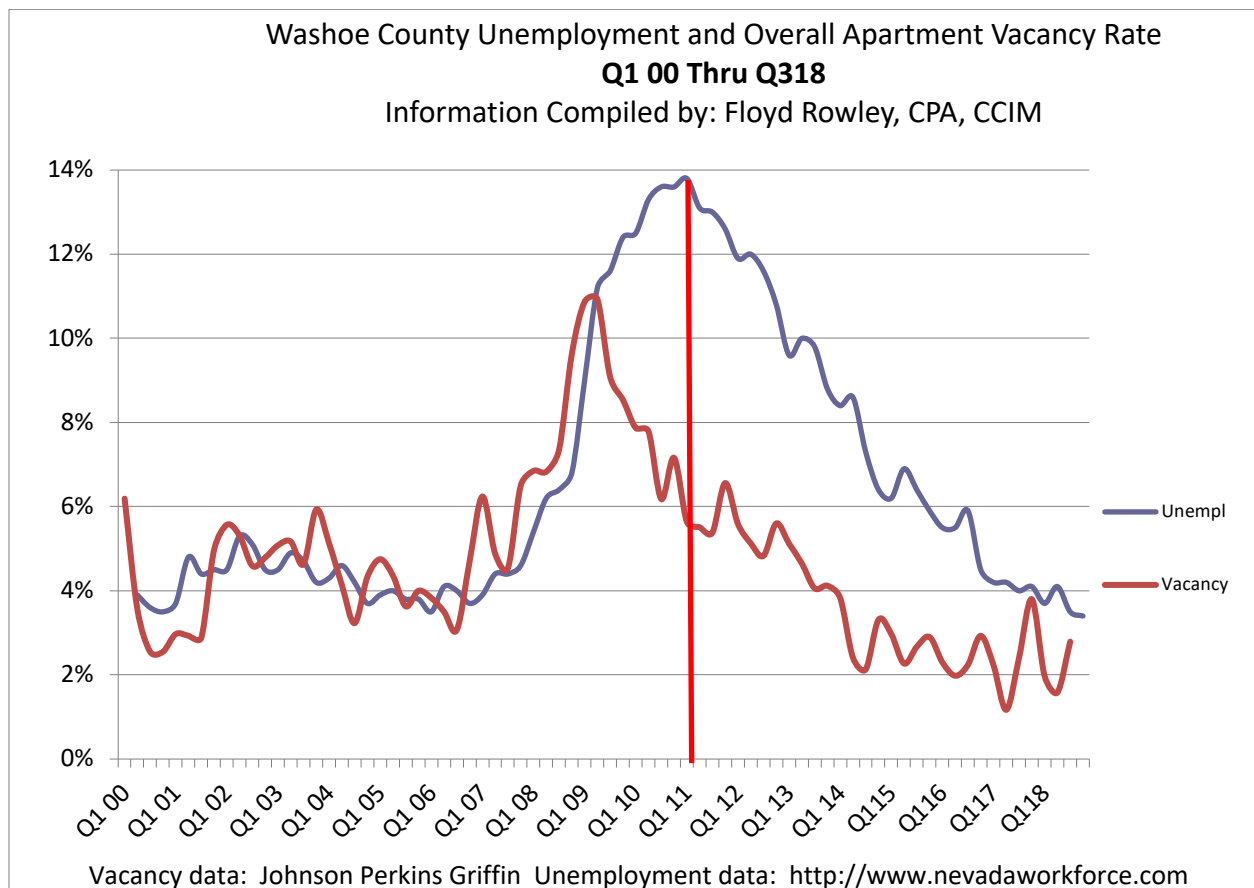
Apartment Statistical Review (Rowley proprietary analysis)

The Johnson Perkins Griffin's (JPG) Q318 survey increased from 89 properties and 22,227 units – to 90 properties and 22,375 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/2018/10/Q3-ApartmentSurvey2018.pdf>

- **Overall vacancy rebounded:** from 1.6% in Q2 to 2.8% in Q3. This is now 14 of the last 15 quarters that our overall apartment vacancy rate has been UNDER 3%, and 19 quarters in a row that vacancy has been under 4%.

- In Q218, 4 submarkets recorded vacancy increases, with the other 7 recording further decreases. **In Q318 9 of 11 submarkets recorded vacancy increases**, with the 2 decreases between 0.18% and 0.24%.
- **Average rental rates were flat:** reporting a \$1 or 0.08% increase in Q318.
- East Sparks continued its 1st place average rent status in Q318 – even with a \$63 **decrease**. Downtown Urban stayed in 2nd place with a \$17 increase, and Lakeridge bumped NW Reno down to 4th place, registering a \$52 increase – the highest in the region.
- After breaking through the \$1,500 / mo. threshold last quarter East Sparks average rents have now dropped to \$1,490 – still the highest in the region. 5 of 11 submarkets are still over \$1,300 / mo., with only the blue-collar submarket of Brinkby-Grove still left out of the “\$1k / mo. club”.

Conclusion: Most of the *new* “expensive” units being built are still being 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 re-rented by existing workers in our region, albeit at higher prices as well.



About the Author

Rowley Real Estate Advisors was formed in October 2018 as the culmination of Floyd’s emphasis that had been moving towards apartments throughout his 15.5-year brokerage career in northern Nevada. Floyd joined the Johnson Group in January 2011, after serving 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 2004, **Floyd has closed \$258+ million in 85 transactions** in our market. Starting in the fall of 2008 he started focusing on distressed assets, mainly apartments. Of his total transactions, \$97+ million are apartments or MF land. He has **completed 67 broker price opinions totaling \$503.7 million**, mainly during the Great Recession, resulting in \$66+ million of listings, mainly apartments and land, since early 2009.