

## Q219 Northern Nevada Commercial Investment Real Estate Report

### The "Industrial is on Fire" Issue

This quarter was highlighted by the announcement of 3 significant industrial announcements – two of them in Fernley – and two downtown Reno announcements. Opportunity zones were clearly a large part of 3 of them. These deals are highlighted below my "News Bag" section. With many new Class A apartments being completed and leasing up, absorption in existing properties continues to be strong, with overall vacancy back under 3% again. Google is cranking on their data center in TRIC – and just broke ground on a big one in Las Vegas. In housing, the median price hit \$400k – but this is only a 5% increase over one year ago. The capital markets seem rattled by tariff talk, but the Dow has been comfortably over 26,000 for most of the year.

#### **NV State Apt Association Newsletter 8/19/19: Explaining the New Laws**

Our industry hasn't had to make significant changes to operations in quite some time. The last significant change was with the 2013 domestic violence bill and we were able to accept and process quickly. Regarding the new notice rules, only "base" rent and flat rate recurring monthly charges can be reflected on the 7 Day Notice to Pay or Quit and that same amount is used to calculate the 5% late fee. You cannot pass through or chargeback any fees related to serving the notice or eviction unless you win an eviction judgement.

On affordable housing: SB448 created a Low-Income Housing Tax Credit (LIHTC) program for our state to supplement federal funding. The Nevada Housing Division will manage the program which has \$10 million / year for 4 years to disburse to new LIHTC deals. The Cities of Reno and Sparks have already added additional funding to their meeting agendas to bolster the program.

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

Rowley Research Totals		Plan	Under Const.	Total
Units:	This Quarter	9,596	3,884	13,480
	Last Quarter	9,526	3,768	13,294
	<b>Net Change</b>	<b>70</b>	<b>116</b>	<b>186</b>
	% Change	0.7%	3.1%	1.4%
Projects:	This Quarter	33	14	47
	Last Quarter	30	13	43
	<b>Net Change</b>	<b>3</b>	<b>1</b>	<b>4</b>
	% Change	10.0%	7.7%	9.3%

The **70-unit net increase in planned projects** reflects adding several projects that Johnson Perkins Griffin has on their planned projects list that we did not, offset by moving Oakmont / Greenstreet's 440-unit project on Double R to "under construction". Our planned total is still 3,773 higher due to projects like Stonegate that we fully believe to be a "planned" project.

The **net increase of 116 units under construction** reflects the start of construction of Lewis' 126-unit, high-end, Esprit townhomes and the Oakmont/Greenstreet deal starting construction, reduced by 3 completions this quarter: Harvest at Damonte Ranch Phase 2, Lumina Phase 1 and Waterfront at the Marina.

### **The Local News Bag**

Siobhan McAndrew wrote in the 8/3 (Reno Gazette Journal) RGJ that **UNR has reached a deal to house 1,300 students in a tower of the Circus Circus hotel in the wake of the July 5 explosion** that damaged Argenta and Nye halls. The \$21.6 million lease runs through May 16, 2020, with an option to renew for one year. The lease cost will be submitted as part of UNR's insurance claim. Wolf Pack Tower will have 24-hour security and a key-card system. 65 washer and dryers are being installed. 1,557 unreserved and free parking spaces are part of the agreement. UNR said their student housing fees will not change.

Riley Snyder wrote in the Nevada Independent on July 1<sup>st</sup> that **Jeff Berns, co-founder of Blockchains, LLC, has acquired the Las Vegas-based Kirkwood Bank of Nevada for \$28 million**. This is a small but critical step in helping the nascent company achieve its wildly ambitious goals, since purchasing the bank will ensure that he and Blockchains have access to the financial system. Berns purchased the bank through a separate holding company and not through Blockchains.

A Northern Nevada Business View (NNBV) staff report on June 7 reported that **The Reno Housing Authority broke ground on a 2-story affordable apartment project for low-income seniors** at 1202 Hillboro (sic) Avenue, across Sutro Street from the Reno Livestock Events Center. The Willie J. Wynn Apartments will feature 44 one and two-bedroom units for low income seniors. The project required \$13 million in public and private funding, including Wells Fargo and Jacobs Entertainment, which donated \$1.5 million.

Benjamin Spillman wrote in the 6/29 RGJ that **the Tahoe East Shore Trail has opened**. It stretches ~3 miles from the Tunnel Creek Café in Incline Village to Sand Harbor. The project cost \$40.5 million with funding from local, state, federal and private sources. The trail, underpass and new parking lots cost ~\$21.5 million with the remainder for stormwater runoff reduction and safety improvements. The trail is mostly squeezed between Nevada State Route 28 and the lakeshore. A bridge, made of steel and fiberglass, spans 810 feet and overhangs the lakeshore. The trail is 10 feet wide and paved for multiple users and uses.

The NNBV reported on June 24 that **Eldorado Resorts is buying Caesars Entertainment in a cash-and-stock deal valued at \$17.3 billion**, effectively creating the largest owner and operator of gambling assets in America with ~60 casinos and resorts in 16 states under a single name. The combined company will retain the Caesars name. The new company will continue to trade on the Nasdaq Global Select Market and will be based in Reno. The transaction values Caesars at about \$8.6 billion, and Eldorado will pick up about \$8.8 billion of the casino's debt.

The NNBV reported on June 13 **that ten years ago Hub Coffee was born at 32 Cheney Street** in Midtown as a 400 sf café with a few seats and limited parking. The Hub now has three locations: the flagship store on Riverside Drive; in the Reno Town Mall; and across from UNR on North Virginia Street.

The NNBV on June 12 reported that **Gov. Sisolak signed three bills centered on blockchain technology into law**, all sponsored by Sen. Ben Kieckhefer, R-Reno. The bills will continue Nevada's position as a national leader in legislation supporting the development of blockchain technology. Kieckhefer is one of 14 members of Nevada's Tech Caucus and sponsored SB 398, which was approved during the 2017 Legislative session, the precursor to the blockchain-related bills introduced this year.

Andy Barron reported in the 5/30 RGJ that **the 100 ksf William N. Pennington Engineering Building under construction on the UNR campus was topped-off** with the placing of the of the highest and last piece of steel during a ceremony on May 28<sup>th</sup>.

On April 24th, Joey Lovato, writing in The Nevada Independent, reported that **students succeed in making neon the state element**. Gov. Sisolak signed AB 182 into law, surrounded by smiling students from Carson Montessori School. Assisted by Will Durham, director of the Nevada Neon Project, the students helped write the bill and lobbied lawmakers. The bill passed both houses unanimously with only one hiccup when it was suggested that gold should also be considered as a candidate, but the students had an answer for that. Gold is also a mineral, while neon is solely an element. Neon joins 22 other official state emblems.

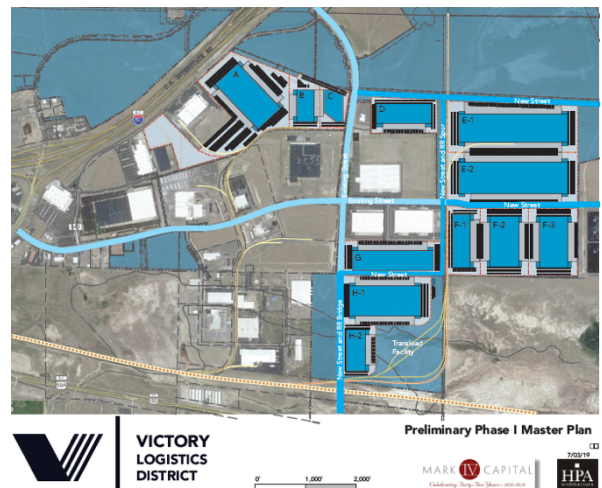
Siobhan McAndrew wrote in the 6/9 RGJ that on June 7, **UNR received unanimous approval to move forward with plans for a parking garage and two academic buildings in the Gateway District**, located between I-80 and Ninth Street, and Virginia Street and Evans Avenue. It is part of UNR's master plan and includes moving or demolishing 12 homes built between the 1890's and the 1970's. The first building will be a new 110 ksf College of Business, to cost ~\$100 million and be funded through donations and school fees. The parking garage is expected to cost \$20-22 million, to be completed by 2021. Also planned for the area is a Life Sciences building. Photo below from UNR.



The Tahoe Daily Tribune reported on 5/24 that **Lake Tahoe's renowned clarity experienced a dramatic improvement in 2018** compared to the previous year — a fact researchers attribute to a more mild winter. According to data released by the UC Davis Tahoe Environmental Research Center, Tahoe's annual clarity value improved to 70.9 feet in 2018. The number represents a 10.5-foot increase over 2017.

### **Mark IV Capital Acquires the 4,300 Acres Crossroads Commerce Center in Fernley**

Mark IV Capital issued a press release after the EDAWN press conference at 10 AM on July 16<sup>th</sup> to announce its acquisition of the Crossroads Commerce Center in Fernley, and the rebranding of the 4,300-acre property as Victory Logistics District. The deal was completed in partnership with New Nevada Resources. The District has direct access to both I-80 and US Highway 50, and a dual-served rail line serviced by Union Pacific and BNSF. The District will benefit Fernley through its creation of thousands of jobs, its ability to facilitate manufacturing and distribution throughout the Western US, and attract new investment capital to our region. The first phase will consist of ~7.5 million sf of industrial, with plans to be built out within 7-10 years.



The first building will be a spec ~800 ksf bomber designed by HPA Architects of Irvine. Mark IV's master plan includes manufacturing, distribution and data center development. They anticipate integration of housing, convenience / daily needs retail, and quick service retail. Mark IV has also partnered with Black Gold Terminals to construct a full-service transload rail facility in Phase 1 to serve all rail customers throughout the region.



### **Tahoe-Reno Industrial Center developers ink deal for new Fernley industrial park**

James DeHaven wrote in the 8/11 RGJ that Tahoe-Reno Industrial Center (TRIC) developers Lance Gilman and Don Roger Norman have opened escrow on 5,700 acres in Fernley. They plan to build a business hub about 1/3 larger than Fernley's massive Victory Logistics District. Terms of the purchase have not been disclosed and the seller has not been identified. They claim to have identified a site in Fernley which is even better for development than the land they started with at TRIC. Fernley, a once-sleepy city of about 20,000 people, seems undaunted by the sudden surge of land buys and commercial construction. Gilman, who also owns the Mustang Ranch brothel in Storey County, said the city's mayor and city manager have been "incredibly supportive" of his latest land deal. "Due to the proximity to TRIC and I-80, we believe this site has a huge amount of potential for industrial and tech companies," he said.

### **Next phase of 1.36 million sq. ft. North Valleys Commerce Center begins**

Rob Sabo wrote in the 5/1 NNBV that Panattoni began the second phase of its North Valleys Commerce Center project in April as the largest speculative industrial project ever undertaken at one time in the state. They plan to build five buildings totaling 1.36 million sf within a 18-22 month window designed to capitalize on the region's low vacancy rate in Class A industrial. Panattoni broke with the historic – and safe – model of building as buildings were leased - to better meet market demand. To reduce costs, they started a building and then started the next 45 days later, leading to 3 buildings going up at once. Securing that much manpower and materials takes a lot of pre-planning with suppliers. The entire project calls for more than 65k cubic yards of concrete. On pour days it can take 25-30 trucks, which will bring a halt all concrete activity in the region. Panattoni already has completed four new buildings totaling 2.28 million sf in phase 1 of North Valleys Commerce Center, which were quickly leased, with institutional investors snapping up three of the buildings.

### **Firm sets sights on Reno**

Jason Hidalgo reported in the July 3 RGJ that SVE Development Partners is under contract for two key properties in Reno's core. SVE is a San Francisco-based company that specializes in opportunity zone projects. The first property is the former Woolworth's building in downtown, renamed as 101 North Virginia. The 97 ksf building will undergo a remodel to replace the facade with floor-to-ceiling glass windows. Inside, the 1st floor will target retail businesses and feature 18-foot ceilings and a modern lobby. The top seven floors will be office space. A roof deck will overlook the Truckee River and City Hall Plaza.

The second property involves parcels owned by Simon Property Group, located along Lake Street, just west of Greater Nevada Field, down to the Truckee River. The property, to be called T3 North, includes: a 459 ksf, 17-story, 448-unit high-rise residential tower, a 362 ksf office tower, a 230-unit podium residential building, and a parking garage with 1,200 stalls in phase 1, followed by 1,000 more stalls in phase 2.

Both building projects represent a big vote of confidence from SVE that Reno's growth will continue. The company strongly believes there's a market for the kind of Class A office space and residential housing it has planned for both sites after doing extensive market studies on the region.

### **Tesla sets up service center for Reno area**

Jason Hidalgo wrote in the May 17 RGJ that Tesla opened a service center in Reno. Previously, the closest permanent service location was in Sacramento. Tesla filed a permit to remodel the former Sport Haus building on S Virginia St., and described the project as a "car dealership". It also mentioned new foundations for service lifts. This is part of Tesla's push to expand its service center network. Tesla announced this year that it plans to reduce its number of stores and dealerships, yet has expanded the number of service centers by 20%. All repairs are available at the Reno center: software diagnostics, adjustment of hardware and replacing parts. [Ed Note: I did this deal!]



### **Jacobs' \$1 billion Neon district aims to clean up West 4th Street**

Rob Sabo wrote in the July 26 NNBV that the makeover of West Fourth Street began in earnest this summer with the creation of the Reno Neon Line District (District) by Jacobs Entertainment (JEI). They own much of the land from West Street to Keystone and between Fifth and Third Streets. JEI also owns the Gold Dust West and the Sands Regency, which is in the midst of a \$250 million modernization, to transform the aging hotel into one of the region's premier hotel-casino destinations. Initially, the District will consist of four concrete pads holding sculptures from Burning Man, part of a larger plan to drive customers back to West 4<sup>th</sup> Street, with the goal of creating an art/entertainment/retail/residential district anchored by the Sands Regency. In mid-July, JEI announced it would spend > \$1 billion to create the District that will eventually consist of ~2,000 residential units on 10 sites already acquired by the company. JEI plans to renovate the Sands' 225-room Empress (west) Tower before modernizing rooms in the other two towers. They also plan to significantly expand the pool deck. JEI purchased the Sands in 2017 from Truckee Gaming. Cleaning up 4<sup>th</sup> and Ralston also ranks high on JEI's plans. They purchased the Quik Mart and demolished it. They modernized 44 rooms at the former Crest Inn and rebranded the property as Renova Flats, and rehoused residents during the renovation. The Lido Inn, Mardi Gras and In Town motels between West Street and Arlington were demolished to strengthen the brand of West Fourth Street, which was once the major thoroughfare for visitors through Reno, with plenty of history as far back as Highway 40 and the Lincoln Highway – before I-80 was built.



SQUARED, built by Charles Gadeken



Desert Guard, by Lu Ming

*Renderings courtesy Jacobs Entertainment*

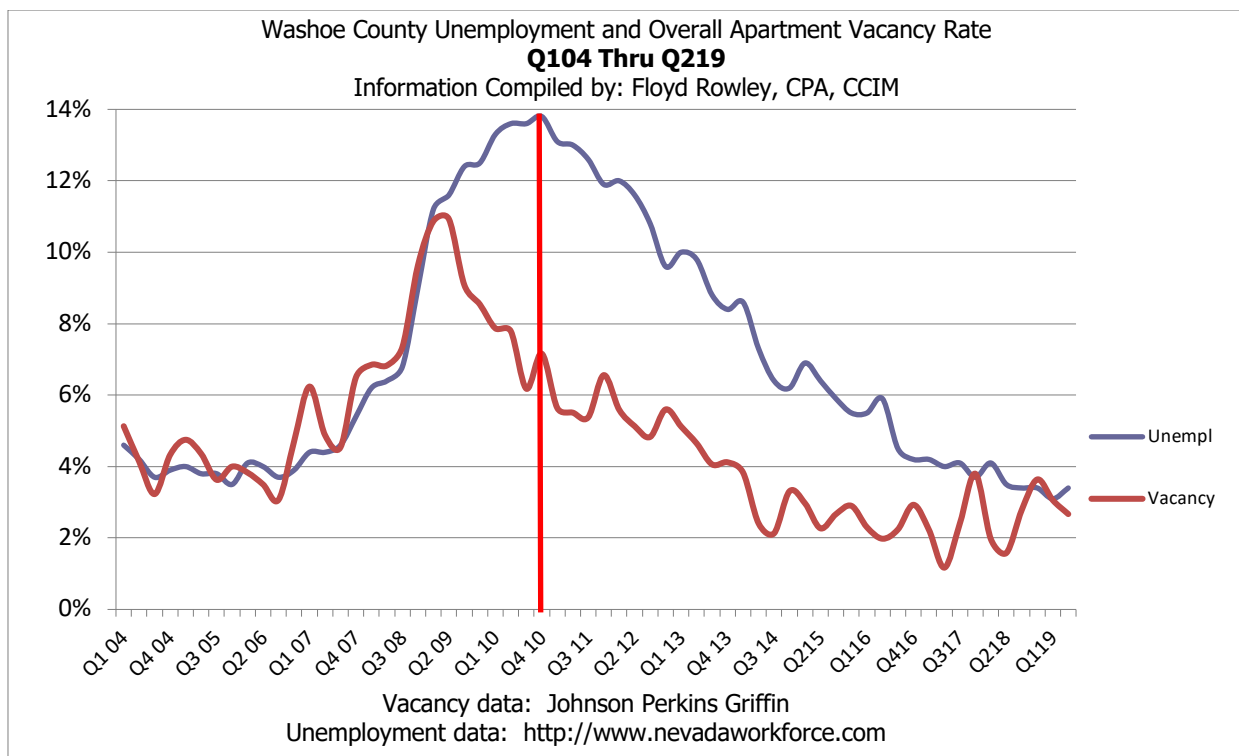
### **Apartment Statistical Review (Rowley proprietary analysis)**

The Johnson Perkins Griffin's (JPG) Q219 survey continues to remain unchanged at 90 properties and 22,375 units. As always, JPG's data is representative of our regional multifamily market. Their survey is available at: <http://jpgnv.com/wp-content/uploads/2019/07/Q2-ApartmentSurvey2019.pdf> Here is my analysis of their survey:

- **Overall rents have resumed their steady growth this quarter:** up an average of \$28 to \$1,344, or 2.13%, after having been effectively flat since Q218 – a full 3 quarters.
- Within the 11 submarkets **the top 3 highest rents** once again moved around in ranking: East Sparks resumed their traditional 1<sup>st</sup> ranking at a whopping \$1,529, with Lakeridge moving back to 2<sup>nd</sup> place, and Downtown Urban dropping from 1<sup>st</sup> to 3<sup>rd</sup>.
- Downtown Urban continues to report the **highest vacancy** in our region: 4.35% in Q418 --> 6.3% in Q119 and now 8.21%. I suspect many of these affluent urban renters have either relocated for jobs – or bought houses. 8.21% is within a few bps of one month vacant per year for the entire property!

- The submarkets of SW Reno, East Sparks and Lakeridge all scored impressive rent increases, ranging from \$57-75 / unit / mo.
- **Overall vacancy continued to tick down** from 3.6% in Q418 to 2.67% in Q219.
- This makes **22 quarters in a row that vacancy has been UNDER 4%** - and 17 of 22 quarters where vacancy was under 3%.
- Of the 5 of 22 quarters where vacancy exceeded 3%, four of these quarters were the December quarter – with the 5<sup>th</sup> Q4 coming in at 2.93%.
- By unit type, **the only vacancy exceeding 3.4% are townhomes @ 4.3%**. In Q2, 3 X 2'a dropped to just under 2%. The T-home vacancy is likely due to people buying homes.
- Once again, **the lowest submarket vacancies continued to be the "workforce" submarkets** – the same 3 just traded places: Airport moved from 1<sup>st</sup> to 2<sup>nd</sup> lowest @ 1.79%, with West Reno jumping to 1<sup>st</sup> @ 0.44% vacant, and SE Reno in moving to 2<sup>nd</sup> from 3<sup>rd</sup> place @ 1.7%.

There are > 2,000 new units coming on the market in the next 4 quarters. The ability to absorb these depends on continued economic growth. So far, the economic news: locally, regionally and nationally – is very positive.



### **About the Author**

Rowley Real Estate Advisors was formed November 1, 2018 as the culmination of Floyd's 16-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 \$270+ million in 92 transactions, of which \$100 million were apartments or apartment land.** Starting in the fall of 2008, he started focusing on distressed assets, mainly apartments. **He has completed 71 broker price opinions totaling \$514.2 million,** mainly during the Great Recession, resulting in \$69.3 million of listings, mainly apartments and land, since early 2009. Floyd hired his son, Trevor, as an associate on December 1, 2018. He is a huge help on property searches, tours and spreadsheets.