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Q319 Northern Nevada Commercial Investment Real Estate Report The “Lots of Reno News” Issue

Last quarter I highlighted 3 significant industrial announcements: two in Fernley, one in the North Valleys - and two in downtown Reno. This quarter the City of Reno is the focus, with the approval (finally) of Daybreak, Lakeridge Tennis Club rezoning, the RGJ building sale to the City , a proposed high-rise, Class A hotel on the River – and the sale of a portion of the UNR “farm” land. Fernley is again in the news with a huge development planned N of I-80, and Lance Gilman’s predictions for that submarket. On the flip side, apartment rents have resumed their temporary flatlining as thousands of new Class A properties are being absorbed. To use the pig in the python metaphor – I think we are halfway there.

Major Planned / Under Construction Apartments (Rowley proprietary research)

Rowley Research Totals		Plan	Under Const.	Total
Units:	This Quarter	10,441	3,686	14,127
	Last Quarter	9,596	3,884	13,480
	Net Change	845	(198)	647
	% Change	8.8%	-5.1%	4.8%
Projects:	This Quarter	37	13	50
	Last Quarter	33	14	47
	Net Change	4	(1)	3
	% Change	12.1%	-7.1%	6.4%

The **845-unit net increase in planned projects** reflects three components: an 86-unit reduction to reflect better information on 6 projects, added 9 projects from Verdi to Fernley from credible sources for a total of 1,534 units, and removed 603 units due to completions, removal by developers and several minor corrections.

The **net decrease of 198 units under construction** reflects mainly the completion of Lyfe at the Marina and 95 more units at Lumina in Wingfield Springs.

Finally, we have spent a fair bit of time in the last 2 quarters comparing our data to Johnson, Perkins, Griffin’s (JPG) data. It turns out our definitions differ in several respects. We include senior and workforce housing as they add to our region’s overall apartment stock. Secondly, since inception, we reduce the units under construction every quarter as the developer delivers completed buildings to the market. We understand, accept and agree with JPG’s methodology because they use their apartment data for appraisals and need to insure they are comparing consistent income property data to each apartment property they appraise.

The Local News Bag

Steve Ranson wrote in the 9/2 Northern Nevada Business View (NNBV) that **Polaris held a grand opening on 8/28 for its new 475 ksf western distribution center**, located on 11 acres east of Fernley at the Pacific Parkway exit off I-80. Polaris invested \$47 million in the facility to support aftermarket, parts, garments & accessories. Polaris, a \$6 billion company, has 14 product lines, and is the global leader in power sports serving more than 100 countries. The facility employs 50 people with plans to employ up to 100 at full capacity.

An NNBV staff report announced that a new Northern Nevada Medical Center campus, known as **Northern Nevada Sierra Medical Center, held a private groundbreaking ceremony on October 18.** The facility, at the corner of Longley and Double R, should be open within 3 years. All beds at the facility will be private.

Benjamin Spillman, writing in the 10/6 Reno Gazette Journal (RGJ) reported that **the newest segment of the Tahoe-Pyramid Trail between Reno and Truckee features a million-dollar view** - a 600-foot boardwalk attached to a slab of rock known as "Hogback" hanging above the Truckee River near Floriston. The segment cost \$1 million and is the final link in an ~15-mile stretch connecting Reno to Truckee on a dirt route that's protected from vehicles. The ultimate plan for the Trail is to connect biking and walking from Lake Tahoe to Pyramid Lake - a distance of ~115 miles. The project is now 80% percent complete.

Jason Hidalgo wrote in the 9/19 RGJ that CAI Investments, **a Las-Vegas based developer is proposing to build a 20-story luxury hotel at 219 Court Street,** just south of the Truckee River off Arlington Avenue. They have submitted an application to the City, which was first reported by [Downtown Makeover](#). The hotel is being planned as the first ground-up, non-gaming, non-smoking upper upscale hotel ever built in Northern Nevada. The project will comprise two towers with primarily glass facades on all sides. The east tower is projected to be the tallest building in Reno at more than 492'. The west tower is expected to be the 3rd tallest building in Reno, just eclipsing the Silver Legacy.

On October 9, www.thisisreno.com, quoting a KPS3 press release, reported that **construction is scheduled to begin in October on the new Sportsdome XL.** The 120 ksf indoor facility is expected to be completed in 2020. It will be the largest indoor multi-sport facility in our region. It will have indoor turf and court space for soccer, futsal, lacrosse, volleyball, basketball, pickleball, flag football and softball. It will be the second facility under the Reno Sportsdome brand and will include a large bar, menu and lounge area. The original Sportsdome remains open and will continue to operate with normal hours after the Sportsdome XL's opening.

Rachel Monahan wrote in the July 1st Willamette Week that **the Oregon Legislature passed a bill that will require at least duplexes in neighborhoods where previously only one home per lot was allowed.** House Bill 2001, the first in the nation to "outlaw" Single-family residences, applies to cities of at least 10,000. For cities over 25,000, triplexes and duplexes will be "allowed". Supporters of the bill hope it will provide one more way to increase the housing supply and to provide economic and racial diversity. Larger Oregon cities will have until June of 2021 to revise their plans. Smaller cities will have an extra year.

Jason Hidalgo reported in the 9/27 RGJ that **Reno ranked as the 6th most dynamic mid-sized city in the US,** according to real estate site Point2 Homes. Among the 18 indicators used by Point2 are median home price appreciation, the share of occupied homes, the number of new companies in the area, school enrollment rates and migration. Reno scored especially high for its low unemployment rate, GDP growth, home appreciation and increased housing activity. Reno also saw a large increase in residents with degrees as well as people working in arts and entertainment. "Despite a significant jump in home prices, Reno remains affordable," the Point2 report stated. "It also boasts the 7th highest growth in the number of building permits."

Jason Hidalgo wrote in the 8/12 RGJ that **demolition is underway to turn Shoppers Square into the Reno Public Market,** which mixes shopping with a new food court, as well as a coworking space and an art collective. Reno Public Market will become fully operational in early 2021. One of the new tenants, an organic specialty grocery, has already signed a lease. Familiar organic specialty grocers in the region include Trader Joe's, Whole Foods, Sprouts Farmers Market. The B of A and IHOP buildings will remain. [Ed: guess which?]

Housing, schools & shops proposed for north Fernley

Amy Alonzo wrote in the 8/23 Fernley Leader-Courier that a Canadian developer, Harold Jahn, of Prosperity Investments Nevada LLC, told the Fernley City Council on August 21st he is in escrow on roughly 10,000 acres north of the city. The three parcels are just north of property recently purchased by Mark IV Capital. The 652 AC parcel is fully in Lyon County, another splits Churchill and Lyon counties - 334 AC in Lyon County, with the third parcel in Churchill County. He is also looking at parcels in Washoe County. The parcels are located as

checkerboards with Bureau of Reclamation land between them. He is also interested in a parcel that Mark IV has expressed interest in just north of I-80. Mark IV's interest prompted Jahn to speak at the city council meeting. Mark IV and other developers also advocated for the acquisition of public lands at the meeting. Jahn plans for ~2k low-rise apartments, a K-12 school, a technical college and a "main street" area with shops and restaurants. Jahn is in the process of creating a master plan for the 640 AC parcel, which includes residential units and technical college with an emphasis on jobs and industry. Jahn said he has been working with EDAWN and Mark IV to bring more than 1,000 jobs to the area.

Reno City Council approves Lakeridge rezoning, allows for more development

Jason Hidalgo wrote in the 9/24 RGJ that the Reno City Council voted unanimously to change the zoning for the Lakeridge Tennis Club. The vote carved out 9.5 acres at the corner of Plumas and South McCarran from a limited specific plan district or SPD, approved in the 80's, and rezoned it to community commercial (CC). The rezoning was requested by Reno Land, Inc. (RLI), which is under contract to acquire the property and expects to close early in 2020. The zoning change allows RLI a wider range of uses for the site, including more housing. The site consists of the tennis club, a fitness center and the Lakeridge East Apartments. The zoning change is the first step to redevelop the site. Reno Land will have to undergo a site plan review process for the site. RLI is planning a mixed-use project with a residential component of up to 300 units and improving the Lakeridge Tennis Club to make it viable again. By infilling additional residential around the club, it provides an economic shot in the arm to improve it and bring it back to its former glory. Concerns were raised about commercial development, increased building height and increased congestion from traffic generated by new housing. The switch to CC zoning raises the height limit from 55' to 65'. The City has also identified 2,000 additional trips potentially arising from the redevelopment. RLI stated that they are not looking to go to 65' and will focus on plans that fit with existing development in the neighborhood. They are also leaning toward an active senior component for its new housing, which typically requires less parking and generates less traffic.

Reno City Council approves Daybreak project, avoids court battle

Jason Hidalgo, writing in the 9/23 RGJ, reported that the Reno City Council approved modifications to the controversial Daybreak housing project in southeast Reno by a 4-3 vote. The approval was part of a court-approved remand negotiated by both parties. The vote mirrored the Sept. 11 council vote, with Mayor Schieve and Councilwomen Duerr and Brekhus voting against. The remand allowed Newport Pacific Land (NPL) to present its modified project again without having to re-apply. The City previously twice rejected Daybreak's application for a 4,700-unit development at the former Butler Ranch. They approved a 3,995-unit development instead – a 15% density reduction. NPL filed a lawsuit against the City on Feb. 15. NPL also modified their plan to increase flood mitigation by 25%. To address concerns about mercury contamination, NPL will excavate 2' of soil in problem areas, which will be buried under 2' of clean soil. No homes will be built in such areas. Councilman Oscar Delgado, who represents the district where Daybreak will be located, pushed back against Duerr's repeated comments about potential flooding - putting people in harm's way - and how it could be interpreted. Delgado voted against the Daybreak project last year before voting yes to approve the modified plan. The approval of the Daybreak plan effectively ends the legal battle between the developer and the City.

Reno Land buys UNR farmland for \$18 million

Jason Hidalgo wrote in the 9/23 RGJ that the developer of Rancharra and Park Lane added another well-known property to its portfolio. Reno Land Inc., has closed on its \$18 million purchase of 104 acres of farmland from UNR. Their initial attempt to buy the land fell through after it missed a 12/24/18 deadline. The sale was initially approved by the Nevada System of Higher Education board in November 2018. Reno Land does not yet have concrete plans for the property, but it will most likely involve more than 1 million sf of industrial, warehouse and retail space on the corner of Mill and McCarran. There are no plans to build residential at the site; however, RLI is excited about the connectivity to the Southeast Connector and I-80.

City of Reno closes on Reno Gazette Journal building sale

An NNBV staff report published on 9/17, reported that Gannett (the parent company of the RGJ) has closed on the sale of its 75.6 ksf building for just under \$7 million to the City of Reno. Gannett has owned the building

since its construction in 1981 and encompasses 7.71 acres. Located at 955 Kuenzli, it was designed by famed Reno architect Raymond Hellman, best known for designing the Fleischmann Planetarium on the UNR campus in 1963. Gannett decided to sell the building in 2017 after outsourcing its printing operations and decreasing staff. The City opted to move forward this summer and purchase the property to turn it into its new police headquarters. It will replace the police station at 455 E. Second Street, which the Reno Police Department (RPD) has outgrown. This building will allow RPD to consolidate all services into one building and will require less of an investment to rehab and customize than building a new facility from scratch. According to the RGJ, the cost to purchase plus moving expenses and new workspaces are expected to total ~\$33 million. RPD anticipates a move-in date of June 2021, with an estimated 450 personnel affected by the move



This artist rendering shows what the new RPD property will look like in summer 2021. Courtesy City of Reno

Gilman: Fernley will be [the] 'epicenter' of growth

Ray Hagar in the Oct. 20 RGJ reported that with little vacancy remaining at Tahoe Reno Industrial Center (TRI), Lance Gilman and partner Roger Norman Sr. are developing another mega-industrial park east of TRI in Fernley. Gilman predicted that Fernley - about 34 miles east of Reno - will become the "epicenter" of the regional economy over the next 10 or 15 years. His Fernley industrial park will enjoy the same logistical advantages that made TRI attractive. Gilman is nearing a deal on the first 6k acres for the Fernley park and estimates the build-out to be more than 20k acres. TRI was billed as the largest industrial park in North America. The Fernley development could be larger. TRI is 104k gross acres but is less than 20k acres on a buildable basis. The land Gilman is looking at for the park is a checkerboard of public and private lands, meaning he must purchase land from the federal government. He needs to complete a series of public works projects on the scale necessary for a small city: building a bypass freeway around Fernley needed for the increased traffic, improve the I-80 interchange and bridges will be needed to cross the Truckee River and the UP railroad tracks. Gilman will use the same formula in Fernley as he did at TRI. With TRI, it was a quick study for prospective companies: the roads were already there. The utilities were in, as well as pre-approved environmental permits. Thus, the risk factors were handled to a degree not seen elsewhere. Gilman does not expect or want much financial help from the City of Fernley to get the project moving: he stated that Fernley officials are not in a position to invest any more than Virginia City was back in 2000 when TRIC was started.

Few Economists See Downturn Despite Waning Growth Outlook

Paul Fiorilla reported in the October 15th Commercial Property Executive website that most economists at the October 5-8 meeting of the National Association of Business Economists (NABE) were sanguine about the prospects for the U.S. economy. Fed Chair Jerome Powell listed these favorable conditions: "healthy" job creation, a "solid" consumer sector, wages rising in line with productivity, the rising prime age labor participation rate, and no obvious financial bubbles. Despite questions about trade, Brexit, growing debt on corporate balance sheets and the amount of reserves in the banking system, economic growth "feels sustainable". He touted the enduring strength of the recovery, while defending Fed interest rate cuts and increasing its balance sheet to keep the market from deteriorating. Powell's take was in line with the consensus of NABE economists, who expect GDP growth will slow to 2.3% in 2019, down from 2.9% in 2018, and decline

to 1.8% growth in 2020. The NABE economists became more pessimistic recently as downside risks have come to the fore such as the trade war with China, the ongoing Brexit negotiations and concerns about volatility in the short-term bank lending markets. These factors, combined with a gradual lessening of job growth and the inversion of the yield curve, have led > 80% of NABE economists to say that the main risks are to the downside. Three-quarters of them expect at least one rate cut by the end of 2020, and 1/3 expect at least two further rate cuts. Even so, there is still little concern about an immediate recession: 47% of them forecast a recession by Q220 and 69% say a recession could come by Q221. The Fed's reserve holdings have dropped to \$1.5 trillion, down from \$2.8 trillion in Q414, but are likely to grow again. Powell tried to downplay the move as not equivalent to the massive quantitative easing begun in the wake of the financial crisis. The differences are in degree, such as the fact that the Fed plans to increase short-term holdings rather than long-term ones.

To help the homeless California turns to rent control

Jim Breslo stated on Fox on October 20th that in November 2018 California voters defeated a ballot initiative to extend rent control statewide. It was rejected by almost 20%, with every county except San Francisco voting it down. While running for governor, Gavin Newsom, was opposed to rent control. But now that he's governor, he changed his position, insisting the state must respond to the homeless problem by signing a statewide rent-control law, overturning the will of the people. The law ignores the fact that the state's epicenters of homelessness, LA and San Francisco, already have more stringent rent control than the new law. In San Francisco, studies show rent caps have sharply decreased the supply of rental housing, driving up rents because landlords demolish properties and built pricey new ones to avoid the caps. If rent control helps reduce homelessness, why is the problem so prevalent in the very cities that already have it? How is extending it to the rest of the state going to address the issue? Many people cannot afford to live exactly where they want - most Californians understand this. The real cause of most homelessness is significant mental illness and substance abuse by the homeless. According to a HUD report, 45% of homeless suffer from mental illness. A U Penn report found that half suffer from alcohol or drug dependence. A US Conference of Mayors 2014 report in 2014 revealed that only 18% of the homeless are employed, meaning that the cost of housing doesn't really matter - they simply can't afford it. Rent control has consistently been proven a failure in addressing housing problems. It deters investment in the housing market, aggravating shortages. When landlords are limited in their ability to raise rents and cannot freely evict tenants, they will be extremely careful who they rent to. This has a huge adverse effect on the ability of low-income people to find rentals. Europe has had such limitations for years, and it's notoriously difficult to qualify for a rental property there. Europe also requires "good cause" before terminating an employee; the thinking being that this will result in fewer layoffs and thus lower unemployment. In fact, it has the opposite effect. The harder it is to fire someone; the more cautious employers are in hiring. The same concept applies to housing.

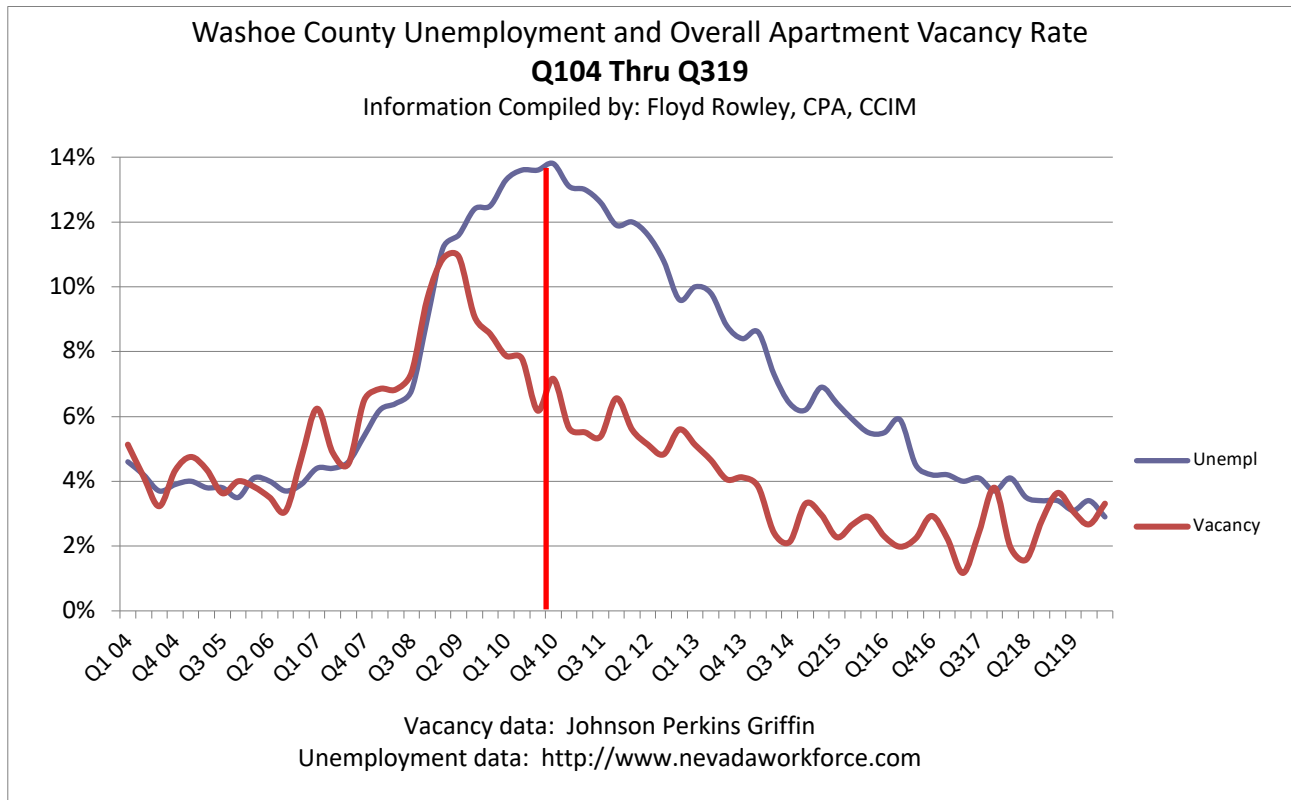
Apartment Statistical Review (Rowley proprietary analysis)

The Johnson Perkins Griffin's (JPG) Q219 survey inventory increased by 2 properties and 518 units (Harvest at Damonte Ranch Phase II and Sierra Vista to 92 properties and 22,893 units. As always, JPG's data is representative of our regional multifamily market. Their survey is available at: <http://jpgnv.com/wp-content/uploads/2019/10/Q3-ApartmentSurvey2019.pdf> Here is my analysis of their survey:

- **Overall rents have once again stagnated:** up only \$1/unit/mo. to \$1,345.
- **Rents have now been flat for 4 of the last 5 quarters,** rising a **total** of only 2.1% since Q218.
- However, **there was a lot of movement in the 11 submarket rents.** SE Reno came in @ 3rd place with a \$21 increase while Downtown Urban moved from 3rd to 2nd with a \$28 increase. East Sparks retained their traditional 1st ranking – even with a \$7 **DE**crease. Lakeridge moved out of the top 3, with a whopping \$64 loss – the largest of all 11 submarkets.
- **Overall vacancy rose substantially** from 2.67% in Q219 to 3.31% in Q3 – a big percentage move - but still a strong number.

- **Downtown Urban rocketed from the highest vacancy in Q2 to 2nd place in Q3:** going from 8.21% to 2.17% - even while posting a \$28 rent increase! West Reno had the lowest vacancy for 2 quarters in a row – now @ 1.33%, with NW Reno in 3rd place @ 2.7%. Airport experienced a huge increase, going from 1.8% in Q2 – to a huge 6.8% vacancy in Q3 – the highest submarket vacancy by far.
- Still, this makes **23 quarters in a row that vacancy has been UNDER 4%** - of which 17 quarters were under 3%.
- Of the 6 of 23 quarters where vacancy exceeded 3%, three of these quarters were the December quarter, traditionally a slow month for leasing.
- **3 of 5-unit types had vacancy exceeding 3% in Q3. Townhomes dropped nicely to 2.7%,** while 2 X2's jumped from 2.73% to 3.62% - the highest vacancy of any property type.

There are ~1,500 new units coming on the market in the next 3 quarters. The ability to absorb these depends on continued economic growth. So far, the economic news: locally, regionally and nationally – is still positive. Of note is these new Class A units are “duking it out” with several offering 1 month free AND a gift card ranging from \$500-\$1,000. This too shall pass.



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 \$271+ million in 93 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 \$67.2 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, research and spreadsheets.