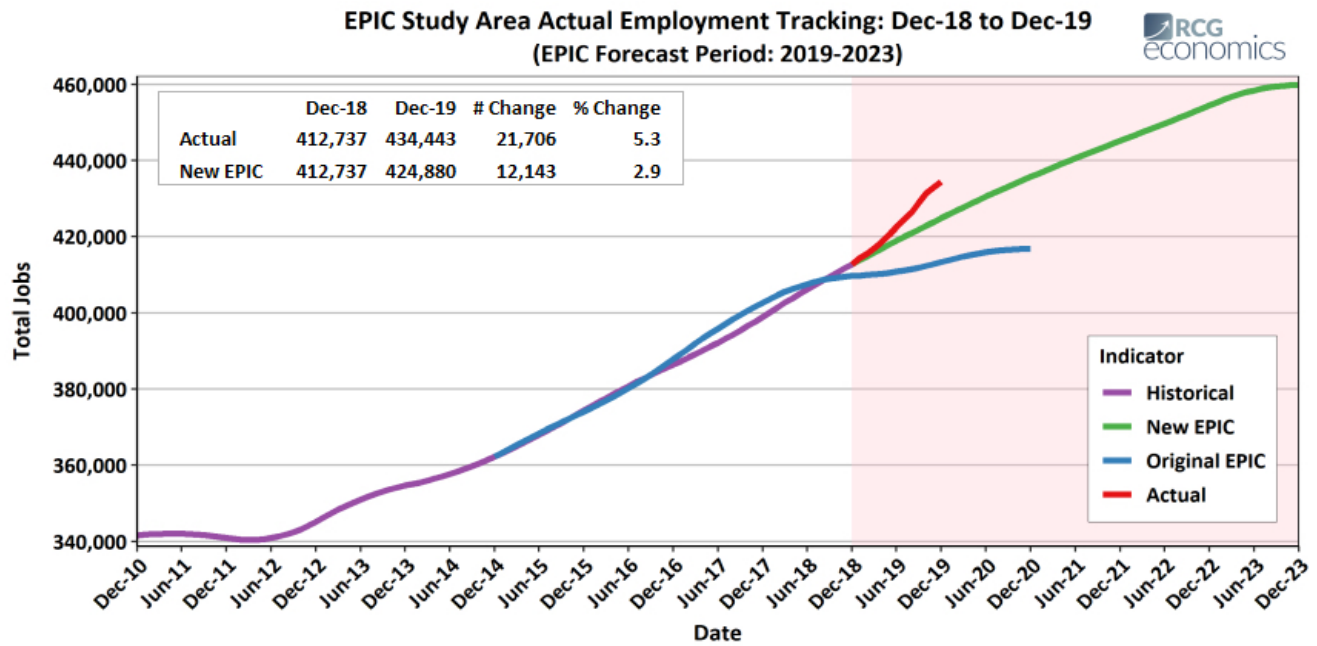


## Q419 Northern Nevada Commercial Investment Real Estate Report The "Steady as she Goes" Issue

As this recovery continues to be the longest on record, everyone at the end of every year recently - and the start of the next – keeps asking, "when will the next recession start?" Every January the National MultiFamily Housing Council's annual conference is consumed by this question. This January I had the honor of being the multifamily speaker at the BANN / CCIM Annual Forecast event on January 30<sup>th</sup>. [ED: I came the closest to predicting the Q319 overall apartment vacancy in 1/19]. The keynote speaker was (once again) Elliot Eisenberg, one of the funniest economists I have ever met. His clear message is that, after the Trump tax act stimulus of 2018, we are reverting back to the new normal, namely the 2% average GDP growth that the US economy has enjoyed since ~2009. While most of us in northern Nevada disagree on that start date, there is no question that we have enjoyed a gradually growing market since at least 2014. 2020 should be no different.

As I did last year, I delayed my Q4 report until after Mike Kazmierski's annual presentation of EDAWN's State of the Economy in Northern Nevada speech on January 23<sup>rd</sup>. His remarks were quite optimistic, and he presented the November version of the graph below, which shows the original 5-year EPIC report he presented in January 2015, combined with the New EPIC report that he presented ONLY 4 years later. Note that we are only 1 year into the New EPIC jobs forecast – and we are already ~10,000 jobs ahead of forecast!



*Note: Light pink area denotes "New EPIC" forecast period.*  
 Sources: EPIC Committee, RCG Economics, NV State Demographer, TMRPA, Woods & Poole, TMWA, EMSI, BLS, Census.

Finally, apartment rents have now been flat for the last **SIX** quarters – and vacancy has soared from 1.6% at Q218 to 4% at Q419. This is because our region is smack in the middle "Peak Apartments", caused by the post-Tesla apartment construction boom – and the original EPIC Report. Landlords are giving away ~1-month free rent and gift cards of \$1,000 – or greater - to fill up all the band new, Class A apartments that are now leasing up. This current supply glut will decrease this year as our regional economy continues its steady growth.

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

Rowley Research Totals		Plan	Under Const.	Total
Units:	This Quarter	10,069	3,744	13,813
	Last Quarter	10,441	3,686	14,127
	<b>Net Change</b>	<b>(372)</b>	<b>58</b>	<b>(314)</b>
	% Change	-3.6%	1.6%	-2.2%
Projects:	This Quarter	35	14	49
	Last Quarter	37	13	50
	<b>Net Change</b>	<b>(2)</b>	<b>1</b>	<b>(1)</b>
	% Change	-5.4%	7.7%	-2.0%

The **372-unit net decrease in planned projects** reflects two items: (1) our decision to exclude Fernley from our published data, as it is a separate market (just like Carson) to continue our efforts to be as consistent as possible with Johnson, Perkins, Griffin’s (JPG) data, and (2) the move of Silverwing’s Atrium project from Planned to Under Construction. These changes also account for the changes in the Projects section.

**The Local News Bag**

Anjeanette Damon, reported in the 12/7/19 Reno Gazette Journal (RGJ) that **the RGJ is moving to the Palladio building in early 2020**. After ~40 years on Kuenzli Street, the RGJ signed a lease for 5,200 sf of office space on the 2<sup>nd</sup> floor, directly above the Campo restaurant. It plans to complete the move in March. Prior to moving to Kuenzli Street in 1981, the paper, then the Nevada State Journal and Reno Evening Gazette, was located on West Second Street in downtown Reno. The City of Reno purchased 955 Kuenzli in August for \$7 million, with plans to spend \$33 million retrofitting it to become the new Reno Police headquarters. The current headquarters was built 70 years ago and is in need of more than \$8 million in repairs. The city hopes to have its new police headquarters completed on the 7-acre Kuenzli Street site by June 2021.

In a 1/23/20 press release, the Reno-Tahoe International Airport (**RNO**) **announced, that for the first time since 2008, it served almost 4.5 million passengers**, up 5.7% over 2018, and the 5<sup>th</sup> consecutive increase in year-over-year passenger growth. Passenger traffic has grown an astounding 35% since 2014 due to new or added flights such as Alaska Airlines to Portland and American Airlines to Chicago and Dallas. United upgraded its Houston service to daily. The upward trend in traffic should continue into May 2020 when Allegiant will double its capacity to Las Vegas and Alaska will upgrade from 76-seaters to 737’s on 3 of its 4 round-trips to Seattle. Delta’s recent announcement to shift its RNO – Atlanta service from seasonal to daily also helps. RNO reported increased passengers during the holidays, with 382K December 2019 passengers, up 12% over December 2018. RNO offers 65 daily non-stop departures to 21 destinations on nine commercial airlines.

Bob Conrad wrote in his 1/22/20 ThisIsReno blog that the **City of Reno received the environmental approval to expand its Reno-Stead waste water treatment facility in the North Valleys**. The Nevada Division of Environmental Protection announced that the city’s expansion plans are unlikely to have a negative impact on the environment. Plant capacity will double from 2 to 4 million gallons / day to serve ongoing development in the North Valleys and to help protect public health. Residents in the area have been concerned, especially in light of Swan Lake flooding, but water officials say those concerns are overblown. Last year TMWA’s wells in Swan Lake, now underwater because of the flooding, are not being used because getting to them is difficult. As a waste water treatment facility, this has no impact on the drinking water supply. The treatment facility according to the state, will not affect adjacent areas. No wetlands, floodplains, agricultural lands, or significant fish or wildlife species or habitats are affected by the project. The treated effluent from the facility is used for irrigating developments, golf courses and parks, with some put back into Swan Lake.

A Northern Nevada Business View (NNBV) staff report dated October 23 reported that **on Oct. 17 Tolles Development Co. celebrated construction at The Village at Rancharrah with a girder signing ceremony.** The property will be a mix of retail, restaurant and lifestyle offerings. Some of the businesses that have previously been announced include Dolce Vita Wellness Spa, Süp Restaurant, Coffeebar, Centro and The Bar Effect. New announcements consisted of Sierra Standard, the new waterfront restaurant by Tahoe restaurateur Tom Turner (owner of Gar Woods, Riva Grill, Bar of America and Caliente), which will have breathtaking views and overlook the recently renovated Club at Rancharrah. Also announced were Base Camp Pizza Co., with a location in the Heavenly Village in South Lake Tahoe, which will offer gourmet pizzas, craft beers, pasta and live music. Other tenants include Rolled Mountain Creamery and Dorinda's Chocolates.

Writing in the 12/18 RGJ, Jason Hidalgo reported that **Jacobs Entertainment (JEI) will invest \$5 million to turn the Courtyard Inn Motel into a 38-unit project to be called the Loft 601 Apartments.** JEI bought the building in 2017 for \$2.1 million. Courtyard tenants will be offered to rent rooms once the conversion is finished. Those who can't afford the new rents will receive relocation assistance and subsidies. About 10% of the units will be set aside for affordable senior housing. Most of the units will be studios. JEI will also build a community room and kitchen for tenants, who should be able to move in by July 1. JEI is also in the midst of a \$250 million restoration of the Sands Regency to turn it into a high-end hotel casino. Construction is ongoing at the Empress Tower with remodel costs of ~\$100k each for 820 rooms. JEI plans to ask the City of Reno to formally recognize the Neon Line District, as well as RTC improvements on W 4<sup>th</sup> Street.

### **Virginia Street construction project began new phase Jan. 6**

A January 3<sup>rd</sup> NNBV staff report stated that construction on the Regional Transportation Commission's \$87 million Virginia Street Project in Midtown started moving north on the E side of Virginia Street from Center St. to Cheney, and then northward to Stewart. Crews are removing and replacing existing sidewalks, curbs and gutters. The project began in 2018 to upgrade aging utility infrastructure along Virginia Street through Midtown and to extend Reno's existing Rapid bus service to UNR. This past summer saw the replacement of underground utilities through Midtown south and to repave and upgrade side streets with added parking and walkways throughout. In late 2019, the Federal Transit Administration released a \$40.4 million grant to help fund the project. Work on the roundabout at Center and Mary will continue through March. All concrete work is scheduled for completion this spring from Mt. Rose Street to Liberty. All other work, consisting of paving, the UNR roundabout and the UNR transit station, are planned to be done by winter 2020.

### **Developer plans high-end boutique hotel in downtown Reno**

Jason Hidalgo wrote in the 12/23/19 RGJ that CAI Investments has proposed a mixed-use development consisting of an upper-upscale, non-gaming hotel, 40 luxury condos and 55 ksf of class-A office space, all in a 20-story tower at 223 Court Street, on the south side of Idlewild Park. They declined to name the hotel brand, but it will have 260 rooms, meeting spaces, a rooftop steakhouse, a luxury spa, and several food and coffee options. The project will have "zero shade" on Wingfield Park during the busy summer event season. CAI plans to start construction this summer. CAI filed its application before the end of 2019 to qualify for the tax breaks available in an opportunity zone. CAI will keep the slope on the site and merge the building at 260 Island Avenue into its project, provided it's environmentally safe to do so. Construction should take ~30 months.



### **Caesars Entertainment sells Harrah's Reno**

In an RGJ article on 1/15/20, Jason Hidalgo reported that Caesars Entertainment announced that Harrah's Reno will be sold to an affiliate of CAI Investments for \$50 million. Caesars, which had been leasing Harrah's Reno from VICI Properties, will split the proceeds 75% to VICI. The property will be handed over later this year and be turned into a mixed-use, non-gaming property. The sale is subject to regulatory approval. The property's roots can be traced back to 1937 when William Harrah, a Reno gaming upstart in his 20s, opened a bingo parlor on the site. In recent years, the downtown hotel-casino started to lag against local competitors such as the Eldorado, Atlantis and Peppermill, which continued to invest in property improvements while Harrah's Reno languished. The property's condition placed it in the crosshairs of the Economic Development Authority of Western Nevada. EDAWN reached out to five different investor groups over the years and encouraged them to turn it into a non-gaming property. The new property is to be called Reno City Center, complete with market-rate apartments, new office space and retail, including restaurants and a grocery store.



### **Council rejects appeal against Stonegate**

Jason Hidalgo reported in the RGJ that on 12/11/19 the Reno City Council voted 5-1 to uphold a tentative map for the 1<sup>st</sup> phase of the 5,000-unit Stonegate project that was previously approved by the City's planning commission. Councilwoman Brekhus filed an appeal against the project, alleging the planning commission made its decision with inadequate information and that the development would stress public safety resources. Councilwoman Duerr was the single "no" vote against the tentative map approval. Brekhus had to abstain as she brought the appeal. In two other appeals, Council voted to approve a special use permit for small lot development for the project and a variance to modify landscape pathways. The 1<sup>st</sup> phase of the massive Stonegate project was approved by Council in February 2018 in a 6-1 vote, with Brekhus as the sole no vote. Phase 1A of the development has also been tentatively approved by the Planning Commission for 671 residential units, an elementary school, a fire station and a temporary facility for fire, police and emergency medical. The developer argued that staffing concerns were already addressed by the adoption of the Stonegate PUD as well as the fire and public safety services agreement that the developer entered with the City last July. They said it's hard to imagine that the city won't be able to afford public safety staffing from the revenue generated by 5,000 new residents. Stonegate expects to break ground in either April or May of 2020.

### **Developer unveils non-gaming hotel, events center in downtown Reno**

Jason Hidalgo wrote in the RGJ that, in mid-December developer P3 Partners presented an updated version of its plan for Reno's old CitiCenter station, now called Inffusion Hotel and Event Center. P3 is eyeing half of

the room tax surcharge levied on downtown hotel-casinos, AND annual subsidy payments from the Reno-Sparks Convention and Visitors Authority that are tied to the events center and the bowling stadium. P3 says the funds are needed to help fast-track its plans to develop the site, while also improving the adjacent City facilities. P3's proposal divides the project into five segments: the National Bowling Stadium, the Events Center, the Ballroom, and the parking garage on Plaza Street. Anchoring P3's plans will be a non-gaming boutique hotel to be built on the former CitiCenter site. The hotel will have retail on the ground floor to help boost foot traffic. P3 is planning office space on the 2<sup>nd</sup> floor, with floors 3-5 focusing on hospitality and hotel space. P3 could potentially add multifamily on top of the property. The hotel will be managed by the Schulte Hospitality Group, which oversees 152 lodging facilities in 32 states. Youth sporting events are a big part of P3's pitch, which has partnered with Jam On It and the American [Ed: as opposed to Amateur] Athletic Union to bring tournaments to the Events Center. Youth and amateur sports are the fastest-growing component of the \$15 billion sports tourism market. Projections show that a three-day, 300-team basketball tournament, can bring in 10,500 room nights and \$3.4 million in economic impact to downtown Reno. P3 also secured a commitment from the American Athletic union to make the facilities a regional headquarters for the organization.

### **The Grill restaurant of Reno celebrates 20 years of power dining**

Johnathan Wright wrote in the Dec. 2nd RGJ that the Grill at Quail Corners began its 20<sup>th</sup> year in business in November under the ownership of Diane and Sam Francovich. Marisa Francovich, the couple's daughter, died suddenly in early 2018 at age 35. Diane and Sam thought about selling the restaurant and their home. Instead they traveled. In 2019 they "settled in." Gone are the copper menus and Vino Reno, a fondue restaurant across the courtyard that is now used for special events. After 15 chefs in 20 years - there's now a consistent kitchen crew sending out familiar standards, such as the Louie-Louie seafood salad, which has been on the menu for ~16 years. The menu philosophy these days can be summed up by the adage: Find your style and stick with it. Food and drink are in the Francovich blood. Eli Francovich opened the Wine House in the early 1860s on Commercial Row in downtown Reno. Twenty years ago, Sam and Diane owned the Hilltop Bar & Eaterie, the present-day Moxie's in Caughlin Ranch, having left their careers as a general contractor and political finance director to enter the restaurant business. After accepting an unexpected offer to sell Hilltop, they were approached by the Quail Corners developer. Would they consider coming aboard? The first iteration of the Grill had a California café feel, with lots of terra cotta and tile. A makeover about a decade ago added marble and artisan metalwork, making the restaurant sleeker, moodier. Several years ago, the ground floor of Arlington Towers was available, they considered a second restaurant there. When the costs grew to \$1.5 million - they decided to tend to the Grill instead. Why would they retire when they are around friends, family, food, liquor and wine? [ED: Don't ever go there for a job interview in the commercial real estate industry!]

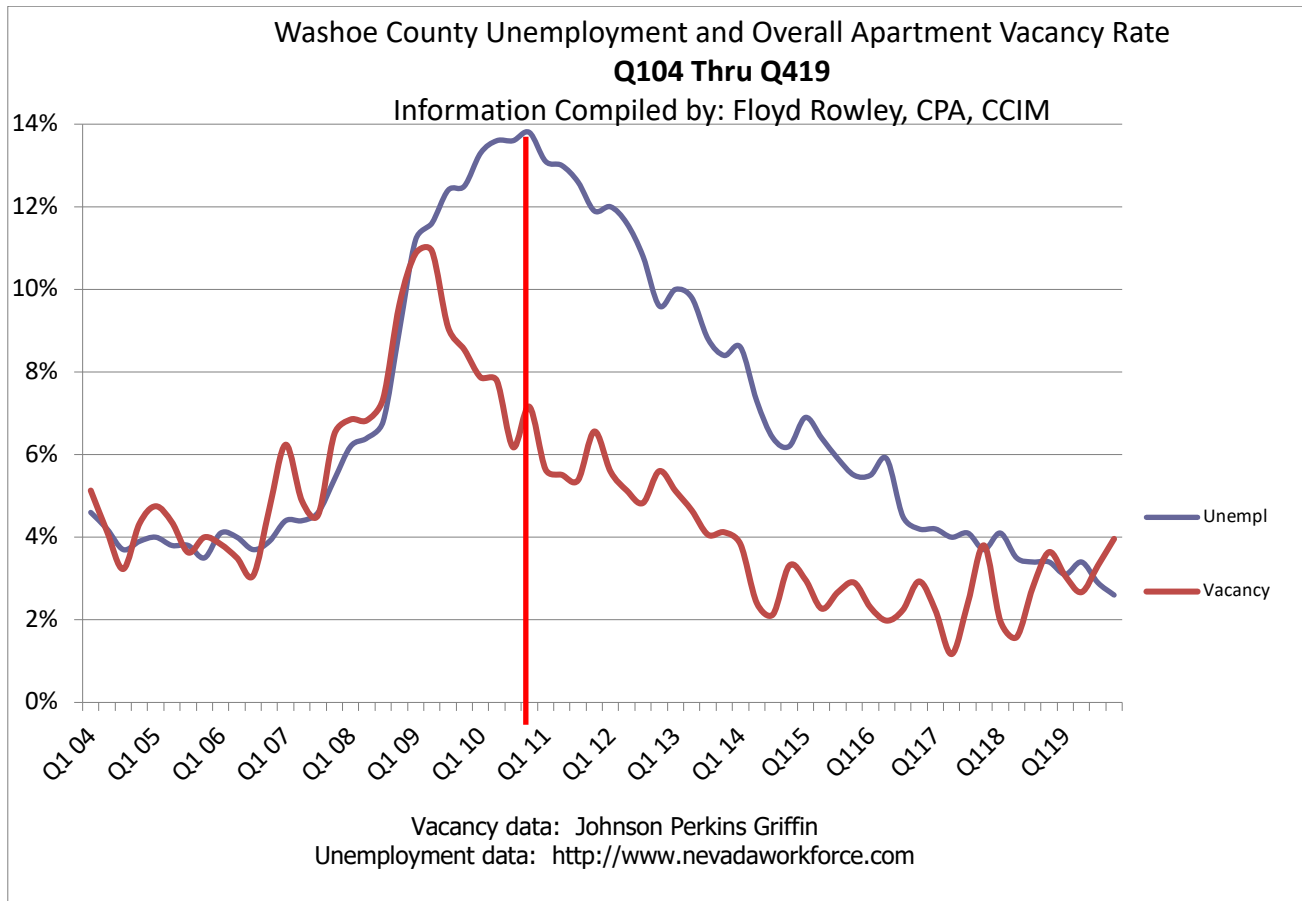
### **Apartment Statistical Review (Rowley proprietary analysis)**

The Johnson Perkins Griffin's (JPG) Q419 survey inventory increased by 1 property and 312 units (Vida Luxury Living) to 93 properties and 23,205 units. As always, JPG's data is representative of our regional multifamily market. Their survey is available at: <http://jpgnv.com/wp-content/uploads/2020/01/Q4-ApartmentSurvey2019.pdf> Here is my analysis of their survey:

- **Overall rents have once again stagnated:** down \$21/unit/mo. to \$1,324.
- **Rents have now been flat for 6 quarters,** rising a total of only \$6, or ½ of 1% since Q218.
- Again, **there was a lot of movement in the 11 submarket rents.** Lakeridge is back, now in 3<sup>rd</sup> place with a \$46 increase to \$1,435. East Sparks dropped to 2<sup>nd</sup> place with a \$49 DEcrease while Downtown Urban continued its rise - moving from 2<sup>nd</sup> to 1<sup>st</sup> with a \$3 increase.
- **Overall vacancy again rose substantially:** from 3.3% in Q319 now at 3.96% in Q419 – another big percentage move.
- **We had large vacancy swings in 2 "blue collar" submarkets:** Brinkby Grove going from 3.56% surging to 6.04%, while Airport dropped significantly from 6.79% to 2.86%

- Still, this makes **24 quarters in a row that vacancy has been UNDER 4%** - of which 17 quarters were under 3%. Note we are only 4 basis points away from hitting 4% in Q419.
- Of the 6 of 23 quarters where vacancy exceeded 3%, three of these quarters were the December quarter, traditionally a slow month for leasing.
- **Only one unit type had vacancy exceeding 4% in Q4:** 2 X 2's continued their vacancy surge, jumping now to 4.5%, again the highest vacancy of any property type. **Townhomes** continued to **drop – now at 2.4%**.

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 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 \$1,000 up. This too shall pass, as we are now in the peak deliveries of “Peak Apartments”.



### **About the Author**

Rowley Real Estate Advisors went live on November 1, 2018 as the culmination of Floyd’s 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. In the last 16+ years, Floyd has closed \$273 million in 95 transactions, of which ~\$106 million were apartments or apartment land. Starting in the fall of 2008, he started focusing on distressed assets, mainly apartments, completing 72 broker price opinions totaling \$515.2 million, mainly during the Great Recession. This resulted 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 contributor on property searches, tours, research and spreadsheets.