

## Q120 Northern Nevada Commercial Investment Real Estate Report

### The "Are We there Yet – Recession?" Issue

How fast things change! The opening sentence of my Q419 report stated, "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?" Well, I think now we know. The Dow Jones Industrial Average (Dow) closed at 29,220 on 2/20 – 32 days later it closed at 18,592 – a drop of 10,628 – or 36%. On Monday 3/16, the Dow dropped 2,998 – or 28% of the total swoon. Since hitting bottom on 3/23, the Dow has climbed ~28%, reflecting the steepness of the swoon, but also fast policy responses by the US Government and the states. After achieving the "new normal" GDP growth of 2.3% in 2019, Morgan Stanley on 4/17 projected **-5.5%** GDP shrinkage for 2020, followed by a 5.3% rebound in 2021.

Locally, we are on the front end of the Covid impact. It is likely that manufacturing and "real" businesses will recover in a steep V curve once the governor's restrictions are lifted, while discretionary businesses like hotels, casinos and restaurants – and anything related to discretionary spending and tourism – will take a VERY long time to recover – just like they did after 9/11 when air travel ceased in the midst of the Great Recession.

Things are looking a bit scary for the apartment market as my commentary on Page 6 discusses.

#### **NMHC: April Apartment Market Conditions Show Weakness Amid COVID-19 Outbreak**

Apartment market conditions weakened **dramatically** in the National Multifamily Housing Council's (NMHC) Quarterly Survey of Apartment Market Conditions for April 2020, released April 22. The survey was conducted April 13-20, with 241 senior executives of apartment-related firms nationwide responding. With residents nationwide under directives to stay home to contain COVID-19, much of the nation's economy has been put on hold. With > 20 million Americans now out of work, it is not surprising that respondents adopted a 'wait-and-see' attitude towards apartment sales, due to COVID-19 creating a lot of uncertainty around asset pricing for transactions to occur. There are buyers looking for deals, but few sellers are willing **so far** to lower prices.

- **Market Tightness Index decreased** from 48 to 12, indicating looser market conditions, with 82% reporting looser market conditions than last quarter.
- **Sales Volume Index slid** from 43 to 6, with 90% reporting lower sales volume than Q419.
- **Equity Financing Index dropped** from 61 to 13, the first quarter of the last 10 to mark worse conditions for the equity market, with 75% reporting that equity financing was less available.
- **Debt Financing Index** dipped from 68 to 20, with 71% reporting worse conditions for debt financing.

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

Rowley Research Totals		Plan	Under Const.	Total
Units:	This Quarter	7,054	4,826	11,880
	Last Quarter	10,069	3,744	13,813
	<b>Net Change</b>	<b>(3,015)</b>	<b>1,082</b>	<b>(1,933)</b>
	% Change	<b>-29.9%</b>	<b>28.9%</b>	<b>-14.0%</b>
Projects:	This Quarter	25	17	42
	Last Quarter	35	13	48
	<b>Net Change</b>	<b>(10)</b>	<b>4</b>	<b>(6)</b>
	% Change	<b>-28.6%</b>	<b>30.8%</b>	<b>-12.5%</b>

Back in Nov-Dec 2018 we did a detailed market study for a client, resulting in our sharing of the high-level results in my Q418 report re new unit absorption. We updated that study in February (pre-Covid) and seriously changed our judgement of planned projects that were likely to be built in this cycle. A net 1,082 units in 4 projects started construction in Q1: Park Lane, Parq Crossing and Westlook. The 4<sup>th</sup> project, unnamed at this point, started their sitework, but may be put on hold after that phase, so we will not identify them at this time.

### **The Local News Bag**

Jenny Kane wrote in the 4/10 Reno Gazette Journal (RGJ) that - for the first time ever - **Burning Man has been canceled** to limit the spread of the COVID-19 virus. The event draws ~80k people to Nevada each year, many from out of state and out of country. It is a major economic driver for our region, pulling in \$60 million/year, according to Burning Man's economic analysis. Burning Man tickets will be reimbursed, costing ~\$475 each, on top of \$140 vehicle passes. The Burning Man Project will incur substantial staff layoffs, pay reductions, and other belt-tightening measures, although the organization has a \$10 million rainy day fund.

Jenny Kane wrote in the 2/13 RGJ that **Tesla is contributing \$1.25 million to the Nevada Museum of Art's STEAM education initiatives** over the next 4 years. STEAM stands for Science, Technology, Engineering, the Arts and Mathematics. This multi-year partnership will support the Museum's commitment to injecting art programs into every school district in Nevada, and its STEAM-focused school tours for K-12 students in Washoe County. The contribution will also help to fund the Museum's annual STEAM Conference, professional development for educators, selected exhibitions and First Thursday events.

On 4/12 the [ThisIsReno](#) blog reported that Music Director and conductor **Laura Jackson has renewed her contract with the Reno Philharmonic through 2025**. She will begin her 12<sup>th</sup> season with the Phil this fall. She is known for her artistry, leadership, and creative community engagement. Jackson will continue to work closely with the Reno Phil's staff and board to sustain and grow the organization in a rapidly changing environment. In addition, Ms. Jackson guest conducts with symphonies in thirteen states, 3 Canadian cities and L'Orchestre Symphonique de Bretagne.

The January 28 website for Commercial Property Executive reported that **Panattoni sold the Lear Industrial Center, a four-building business park encompassing 1.4 million sf to Clarion Partners for \$117.3 million**. Developed by Panattoni between 2005 and 2008, the property sits on 73.7 acres. The Class A structures feature 30-foot clear heights, ESFR sprinklers, adjustable floorplans, 164 dock-high doors and 32 grade-level doors. The multi-tenant property houses national companies such as Urban Outfitters, Cold Chain Technologies, Burrows Packaging, SA Automotive and InMusic Brands.

A Northern NV Business Weekly (NNBW) staff report on 2/10 reported that **Tolles Development Company plans to break ground on a 132-room Hyatt Place hotel**, to be located on a 1.58-acre plot of land between the Jared Galleria of Jewelry store and the Century Summit Sierra movie theater. Development partners include Pelzer Hospitality, Bayer Properties, Azul Hospitality, Reno Engineering and DLW Architects. The hotel will also include event space, meeting rooms and a personal storage / locker room for golf clubs, skis, etc.



On 4/6 Benjamin Spillman wrote in the RGJ that **the plan for a gondola to carry 1,400 people / hour and unify ~6,000 AC of terrain at two Lake Tahoe ski areas just took a big step forward** as Squaw Valley Alpine Meadows announced they settled a lawsuit with the Granite Chief Wilderness Protection League. The suit in Sacramento Superior Court challenged Placer County's approval last July of the base-to-base gondola. The settlement + a favorable decision from the Tahoe National Forest - means the gondola can proceed. Resort officials have yet to announce a start date. Upon completion, skiers and riders with Squaw Alpine passes can move by gondola between the resorts in < 20 minutes vs. driving or riding in shuttle vans.

The NNBW reported in a March 9 staff report that the Greater Reno Community Ice Skating Assn. (GRCISA) announced that **the Jennifer M. O'Neal Community Ice Arena will break ground** on its first phase and cost \$9.5 million. It will cover 3.8 acres of the 6-acre lease held by GRCISA on Wedge Parkway in the South Valleys Regional Sports Complex. It will consist of a 39 ksf building that will house locker rooms, a rental and pro shop, mechanical and Zamboni room, and the rink itself. The NHL regulation facility will offer year-round recreation: skating lessons for all ages, power & figure skating, broom ball, ice & sled hockey and curling.

Rob Sabo wrote in the 3/2 NNBW that **GOED is updating the state's 2012 Economic Development Plan** to bring it more in line with the state's economy. The plan was written in 2011 and based on data available in 2010. So much has changed in Northern Nevada since then. GOED plans on presenting the plan in June. A proposed model for state tax incentives is to target specific concerns and needs rather than just [ED: sic!] subsidizing companies to choose Nevada through tax abatements. The most notable tax abatement in state history was the \$1.25 billion package to Tesla in 2015. While many question the merits of that decision, there's no denying that Tesla's Gigafactory was the spark that fully ignited Northern Nevada's economic engines.

### **Tesla slashing Nevada Gigafactory workforce 75% due to COVID-19 pandemic**

Benjamin Spillman wrote in the 3/27 RGJ that Tesla will slash its workforce at the Gigafactory by up to 75% by early April to cope with the economic fallout of the pandemic. Tesla already "paused" non-essential operations and lines. On March 20, Gigafactory partner Panasonic announced it suspended operations which affected ~3,500 workers. Tesla will allow essential employees to continue working with precautions. The Gigafactory produces battery cells and drive trains. Panasonic builds the cells on one side of the factory and delivers them to Tesla for assembly into packs, mainly for vehicles. These are then shipped to Tesla's Fremont, CA, factory where they're mated with the Model 3 sedan. On March 19, Tesla announced it would suspend operations at Fremont, which provided insight into their ability to endure an extended shutdown, as its cash position at the end of Q419 was \$6.3 billion before a recent \$2.3 billion capital raise. Tesla believes this level of liquidity is sufficient to successfully navigate an extended period of uncertainty. [ED:] The EDawn Weekly Executive Update of April 16 stated that Tesla and the Gigafactory will be operational again by May 4<sup>th</sup>.

### **UNR signs \$10 million contract with 2 student housing developments**

A 2/25 NNBW staff report announced that UNR will contract with two new off-campus student housing complexes to house students for the 2020-21 school year. Canyon Flats, located at 661 N. Center Street, will house ~506 students, while Uncommon Reno, at 1669 N. Virginia, will house ~330 students. Both housing options will be part of UNR's Residential Life and Housing programs. The contract for both properties will cost \$10.1 million for the 20-21 academic year, to be paid primarily from insurance proceeds from last summer's explosion. Housing rates will remain consistent with the University's currently published rates.



Canyon Flats at 661 N. Center St



UnCommon on N Virginia Street.

Nye Hall, closed after the 7/5/19, explosion in nearby Argenta Hall, will reopen this August with 530 beds. Argenta is under construction and on track to reopen in August 2021. UNR did not renew its lease with the Circus Circus, currently housing ~1,300 students this year after the explosion. That lease cost > \$21 million.

### **Jacobs unveils new Sands Regency design & invest \$150 million more on Reno Neon Line**

Jason Hidalgo wrote in the 3/9 RGJ that Jacobs Entertainment unveiled its new design for a planned remodel and expansion of the Sands Regency, and an additional \$150 million in investment for its Reno Neon Line district project, and that it will remodel four blighted downtown Reno motels it acquired: The Castaway Inn, Seven Eleven Motor Lodge, Town House Motor Lodge and Sarrazin Arms Apartments, all located in and around the West 4<sup>th</sup> Street corridor. After previously setting aside 10% of units for senior housing at its remodeled Renova Flats and Loft 601 apartments, the company will preserve another 100 affordable housing units, representing 30% of its apartment units along Reno's Neon Line.



The company plans to present a master plan development agreement to the Reno City Council this summer. One of Jacobs' goals is to get the Reno Neon Line recognized as an actual city district. Jacobs announced its new Sands Connect event space last month. In October, Jacobs told the RGJ that he is spending > \$100k / room for the Sands remodel X 725 rooms + adding a spa, new restaurants, a rooftop pool, a second parking garage and an exciting new casino to give the property a bold, contemporary look and feel. The first phase of the Sands remodel is expected to be finished by early 2022. Jacobs estimated the Reno Neon Line mixed-use project will garner \$1 billion in total investment over its development, including from outside investors.

### **Plans nailed down for Skypointe at McCarran & South Virginia**

<https://thisisreno.com/2020/03/plans-nailed-down-for-mccarran-south-virginia-project/>



On March 31, John Seelmeyer reported that construction on Skypointe at the SE corner of S. McCarran and S. Virginia - the property near the Meadowood Mall that's been vacant forever - is scheduled to begin mid-year by McKenzie Properties, the longtime Reno development company. The project has been on the drawing boards for ~1 year to determine how much space to devote to offices, restaurants, stores and parking. The plan now calls for a 6-story, 180 ksf office building, ~50 ksf of retail, and parking for ~950 vehicles. The office building will be on the north side of the property. Retail and restaurant spaces will be on the south side, along South Virginia. Skypointe will contain large, top-quality floor plates. Tenants that need large amounts of top-quality office space today have few options in Reno. About 1,000 people are likely to be working in the new office building. Gensler, a global design and engineering company, is heading up the architectural design.

### **Former UNR farm land to turn into The Park at McCarran, an industrial and retail park**

Jason Hidalgo wrote in the 3/31 RGJ that developer Reno Land and partner Dermody Properties announced their plans for The Park at McCarran, to consist of 1.13 million sf of industrial space spread across 5 buildings that will cover ~60 acres of the property. Seven acres will be set aside for a retail center. Retail amenities planned include a gas station, bank and fast-food restaurants. The first phase of the project is [ED: was?] expected to break ground in either June or July. The industrial buildings will be designed for industrial, logistics and manufacturing uses that need 20 ksf - up to 300 ksf - with individual buildings ranging from 147 ksf to 317 ksf. Ceiling heights will range from 32-36 feet high. The site is close to the Airport and <1 mile from I-80.



A rendering of The Park at McCarran, courtesy of Dermody Properties

The project is a rare chance to develop one of the largest undeveloped parcels remaining within the Airport submarket. The land had been used by UNR since 1956 for teaching and research. After several fits and starts, including the initial deal with UNR falling through early last year, Reno Land closed on the property last September for \$18 million. The natural challenges with the project site was one reason why acquiring the property took as long as it did, due to the floodplain. The first phase of the project will create 465 ksf of logistics space in 2 buildings. Work on the 1<sup>st</sup> phase is planned to be completed by Q221 [pandemic allowing].

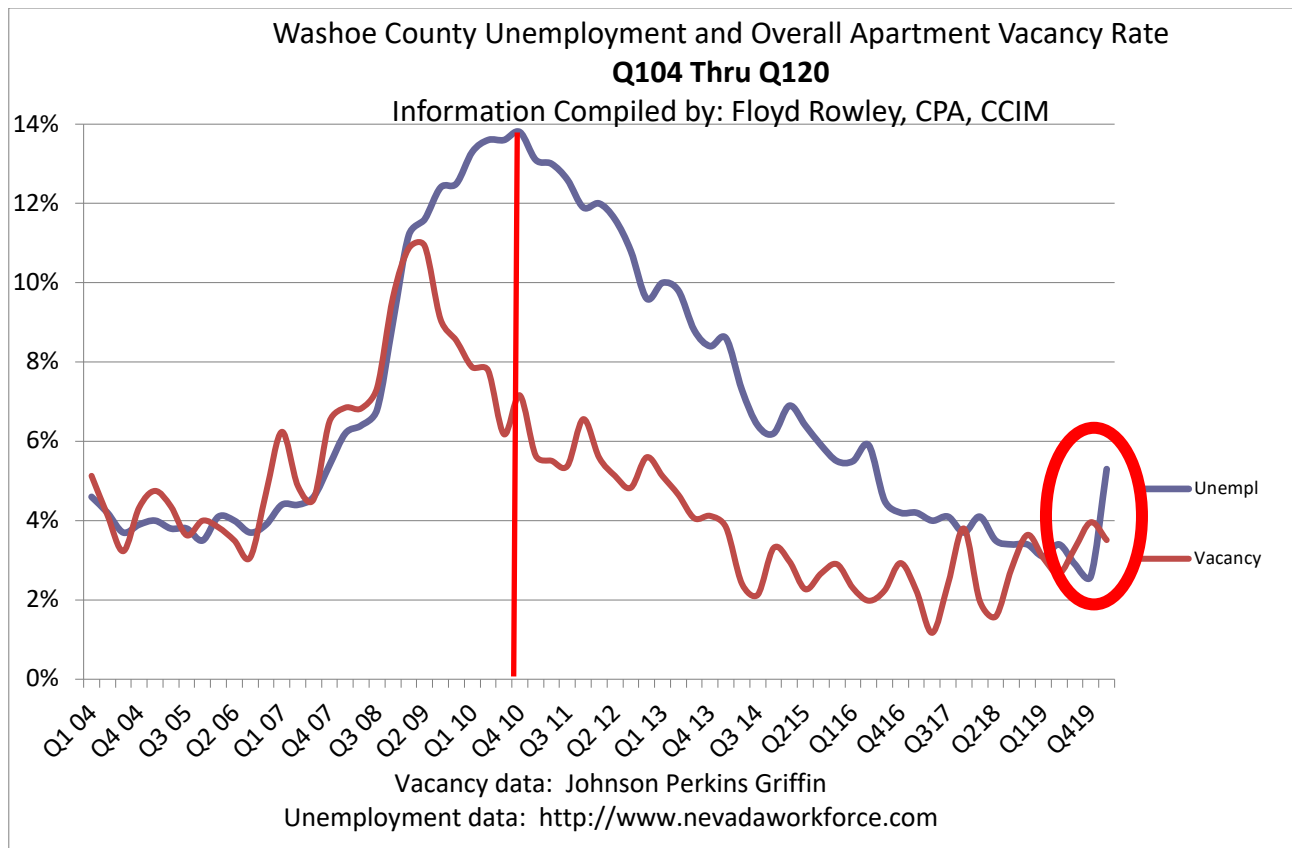
### **Apartment Statistical Review (Rowley proprietary analysis)**

The Johnson Perkins Griffin's (JPG) Q120 survey inventory increased by 2 properties and 489 units (Lyfe at the Marina and Waterfront at the Marina) to 95 properties and 23,694 units. As always, JPG's data is representative of our region's multifamily market. Their survey is available at: <http://jpgnv.com/wp-content/uploads/2020/04/Q1-ApartmentSurvey2020.pdf> Note that the pandemic was in full swing for the 2+ weeks before the end of Q1, but rent data is reported monthly. Here is my analysis of their survey:

- **Overall rents** rose only \$17, or 1.3% to \$1,341. **Rents have now been flat for 7 quarters**, rising a total of only \$23, or 1.75% since Q218. Our market has added almost 1,500 units since then, or 6.6%.
- **There was not much movement within the 11 submarket rents**, although NW Reno scored a huge \$84 gain. Lakeridge dropped back to 3<sup>rd</sup> place with a \$1 increase, while East Sparks climbed back to 1<sup>st</sup> place with a \$13 increase, trading places with Downtown Urban in 2<sup>nd</sup> Place, with a \$1 increase at \$1,477.
- **Overall vacancy finally dropped noticeably:** from 3.96% in Q419 to 3.51% in Q120. Expect this to rise noticeably in Q220 due to the pandemic.
- **Downtown Urban had a huge vacancy swing:** going from 2.66% to 7.25% - the highest in the region.
- Still, this makes **25 quarters in a row that vacancy has been UNDER 4%** - of which 17 quarters were under 3%. This could come to a screeching halt in Q2 if people don't get back to work soon.

**BAD NEWS:** There are over 800 Class A units coming on the market in the next 2 quarters. The ability to absorb these units depends on a fast, V-shaped recovery from the current pandemic. These new Class A units have also been "duking it out" for several quarters, with some offering 1+ month free rent AND a gift card ranging from \$1,000 up. If all that happens is the Tesla's and Panasonic's of our region simply rehire their laid off employees, the competition for tenants could accelerate, causing some B properties to lose tenants to A properties – and C properties losing tenants to the B's – just like what happened in the Great Recession.

Finally, when the Governor's March 16 "no eviction" order is lifted, landlords will almost immediately file eviction notices to tenants who have not paid rent since as far back as February, causing another spike in the vacancy rate – and more competition for the tenants that have not left our region.



### **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.

### **IN MEMORIAM, Robert Alan Cashell Sr.**

KNOWN AS "MAYOR BOB" DURING HIS THREE CONSECUTIVE TERMS AS RENO MAYOR, 2002-2014, AND WHO ALSO SERVED AS LIEUTENANT GOVERNOR AND BUILT A HUMBLE TRUCK STOP IN VERDI INTO THE BOOMTOWN HOTEL CASINO — PASSED AWAY FROM NATURAL CAUSES ON FEBRUARY 11<sup>TH</sup>. HE WAS 81.