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Q220 Northern Nevada Commercial Investment Real Estate Report “We’re in the Pandemic Recession Now” Issue

Last quarter’s newsletter, published in mid-April, was deep in the heart of the COVID-19 lockdown to “flatten the curve” so we could reopen our economy. No one was sure how long that would take. The majority of us rallied together for the greater good – and ate and drank more. Apartment owners were worried how skyrocketing unemployment would impact collections, retail owners were worried how many of their tenants would shutter for good, and office owners were grappling with what their future will look like with major companies like Facebook stating they would allow their employees to work from home indefinitely. Meanwhile industrial (besides manufacturing) was humming - since the only option for most of us was to shop online. Eventually quarantine measures appeared to be making a positive impact and state governors began to reopen their economies. Fast forward to July and things have taken a big step backwards. Cases have spiked: Nevada has one of the highest positive test rates in the nation, over four times higher than the CDC recommended rate to reopen businesses (5%). It’s nothing new for our region to have state level decisions be heavily influenced by Las Vegas due to its larger population and economic impact of its casinos. As of 7/20, the daily positive test rate for Washoe County was 6.8%, whereas the State as a whole was 22.2%. Nevertheless, the governor implemented a mask order on June 26th and then mandated the closure of all bars that don’t serve food. Face coverings are an imperative part of containing this virus, and it’s sad to see how it became a divisive issue. The interesting takeaway is there was no requirement to wear masks during the peak months of March/April/May, when the community rallied together to “flatten the curve”.

So, what does this mean going forward? From anecdotal evidence while conducting our quarterly planned & under construction apartment survey, many large apartments have reported an increase in late payments and payment plans, but only a minor impact on overall collections. This is especially true in Class A properties, where many tenants simply worked from home and continued to receive a paycheck. However, in Class B & C properties, tenants were more likely to have been laid off and relying on their stimulus check and unemployment to pay the rent, while waiting to get their jobs back. The recent spike in cases has resulted in further implementation of social distancing practices with some properties going back to virtual leasing only - to avoid human contact. Though COVID has caused some delays on the construction side, many seem to be related to projects still in the planning / approval phase, due to the limited operations of Reno’s Building Department since the pandemic began. Projects already under construction continue to deliver units and seem to be less impacted by COVID-19 related delays.

Major Planned / Under Construction Apartments (Rowley proprietary research)

Rowley Research Totals		Plan	Under Const.	Total
Units:	This Quarter	8,339	4,256	12,595
	Last Quarter	7,054	4,826	11,880
	Net Change	1,285	(570)	715
	% Change	18.2%	-11.8%	6.0%
Projects:	This Quarter	32	15	47
	Last Quarter	25	17	42
	Net Change	7	(2)	5
	% Change	28.0%	-11.8%	11.9%

The number of planned units & projects increased significantly this quarter, mainly due to projects that applied under the Mayor Schieve's "1,000 Homes in 100 Days" program. This includes the 527-unit City Center, the planned redevelopment of Harrah's Casino into a large mixed-use project. Park Lane was reduced by 450 units with the announcement that they will develop a 320 ksf tech campus / office space on that land. Total units under construction decreased due to the completion of Harvest at Damonte Ranch Phase III in South Reno, and Lumina in Spanish Springs, as well as other projects currently under construction that continue to deliver units such as The Lakes at Lemmon Valley and Inova at the Summit Sierra mall.

The Local News Bag

Anjeanette Damon reported on 5/20 in the Reno Gazette Journal (RGJ) that **the Reno City Council approved a "Flat" city budget to take effect July 1st**. The budget received comments both for and against, but all agreed that no one knows what the future will look like. Some were concerned about deep cuts now, only to realize things may not end up as bad as expected, while others pondered why not take action now when there will certainly be a COVID-related drop in revenue. The approved budget contains a \$1.25M net shortfall, with early projections suggesting that City revenue will decrease by ~\$30M or 13% of the general fund budget.

Meanwhile, Carla O'Day of the website ThisIsReno.com, reported that the **Washoe County Commission unanimously approved their 2021 budget**, which includes a \$6.6M decrease. The County's general fund of \$355.6M is balanced by the aid of \$15.8M remaining from the prior year. The budget totals \$714.6M and will add a number of full and part time positions including 3 sheriff deputies focused on homeless issues, four health district appointments, and one judicial role. As the true economic impact of COVID-19 is still unknown, the County indicated that there may be a need for future measures to ensure financial stability.

Siobhan McAndrew of the RGJ reported that **UNR is moving forward with its plan for a 7-story, 814 space parking garage at 9th and Lake Street**. The project includes a skybridge to cross 9th Street and will terminate in front of Morrill Hall, to reduce the number of pedestrians crossing 9th Street as well as provide easier access to campus for people with disabilities. The skybridge requires a special use permit, which was approved by the Reno City Council in their July meeting. The project is expected to cost \$33 million.



Jenny Kane wrote in the 5/26 RGJ that **the iconic Space Whale will be moving from its home in Reno City Plaza**. The City leased the 40-foot stained glass sculpture of a humpback whale mother and calf that debuted at Burning in 2016, from 2017 to 2019, and has asked the artist, Matt Schultz, to remove the sculpture by September 1st. Schultz offered it to the City for \$500k, but they declined. He then listed the piece for sale on Facebook Marketplace. The City would like to replace it with another sculpture from Burning Man.

Sam Gross reports in the May 14 RGJ, that after the results of a speed study that showed that showed the "vast majority" of commuters on the SE Connector aka Veterans Parkway exceeded the 45-mph speed limit, **the City of Reno increased the speed limit to 55 mph**. The stretch from Veterans Parkway to South Meadows will remain at 45 mph.

Jason Hidalgo wrote in the 7/5 RGJ that **south's Reno new Safeway eyes a Spring 2021 opening**. The 62 ksf store will be the 3rd major anchor of the Damonte Ranch Town Center developed by Lewis Retail Centers.

Johnathan Wright reported in the RGJ that another piece of Old Reno passed into eternity as the **Santa Fe Basque Restaurant closed permanently on July 11**. The North Lake Street restaurant debuted in 1949.

Carla O'Day wrote in the May 15 [thisisReno](http://thisisReno.com) blog that **the Reno City Council approved a \$55 million expansion of the Stead Water Reclamation Facility**, the majority of which will be paid for via General

Obligation sewer bonds issued in August 2019. Council approved a contract to increase the flow of the facility from its current capacity of 2 million cubic feet / day to 4 million cubic feet / day. Current projections show a need for 3 million gallons / day by 2026 and 4 million gallons / day by 2035.

Panasonic Resumed Work at its NV Facility according to the May 15 [Seeking Alpha](#) website. However, work at their Erie, NY solar panel facility is still halted by the pandemic. Panasonic had previously announced that its ending its relationship with Tesla at the New York factory, and had planned to fully exit the facility by September. It still has at least a month's worth of work left to do there, according to the report.

Neon Line: Sands turning 20% of rooms converted to apartments

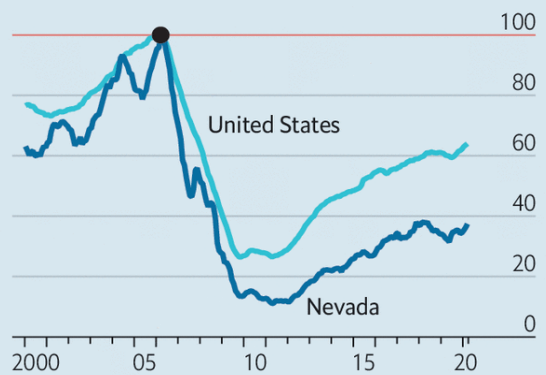
Jason Hidalgo wrote in the June 9 RGJ that Jacob's Entertainment looks to continue their work with the Neon Line District along West 4th Street by converting 173 hotel rooms, about 20% of the Sands Regency 847 room total, to apartments. They recognize there is a shortage of housing downtown, and the proposal includes both market rate and affordable units. Despite the global COVID-19 pandemic, plans are moving forward.

The house loses: America is getting worse at building new homes

An article in the 4/30 issue of [The Economist](#) shed light on why America is not building enough new homes and the consequences. The article stated, "*Nevada is an extreme example of a national trend. Housing costs are high and have been rising, especially in prosperous cities. Vacancy rates are at rock-bottom. Yet builders are oddly cautious.*" With all the talk of "The Missing Middle" in recent years, Northern Nevadans know this all too well. The article pinpoints the reasons, which boils down to rising construction costs: a labor shortage resulting in increased wages, increased cost of materials, increased NIMBY-ism making it harder to get projects approved and increased regulatory and entitlement costs. The final reason is less obvious: the homebuilding industry has been less competitive due to a handful of large firms dominating the market.

A shoddy repair

New private housing units authorised
March 2006=100



Sources: US Census Bureau; Federal Reserve Bank of St. Louis

The article states, "*Economic theory suggests that firms with market power may reduce their output if it helps them maximize their profits.*" Based on evidence by two researchers at Johns Hopkins, this resulted in 150k less housing units being built nationwide since the Great Recession.

Daybreak Survives - Again

The Daybreak project, which we have been reporting on in previous newsletters, continues to move forward with approval of a crucial vote by the Truckee Meadows Regional Planning Agency for a City of Reno master plan amendment to allow development on a floodplain. The approval was a major step for the development, since it is a prerequisite for the Reno City Council's approval of Daybreak's PUD (Planned Unit Development). Recently, the PUD went before the City Council on July 22 and received approval in a 4-3 vote. The pared down version of the original project will bring ~4,000 homes and neighborhood retail to South Reno.

Fallon NAS Expansion Plan Hit a Snag in the Senate

Benjamin Spillman reported in the June 24 RGJ that the US military has been seeking transfer of ~900,000 acres of federal land in Nevada to greatly expand the Air Force's Nevada Test and Training Range north of Las Vegas and the Fallon Naval Air Station. However, on June 11th the proposal was snubbed by the US Senate Armed Services Committee, forcing the military to revise their proposal and try again. The rejection came as a surprise to some, but not to many Nevada residents, where the proposal has faced staunch opposition for a number of reasons, ranging from taking over roughly two thirds of the Desert National Wildlife Refuge, to no longer allowing access to hunting and recreation on hundreds of thousands of acres that are currently public lands, to no longer allowing access to land with historical significant to native American tribes.

Tesla picks Austin, Texas for \$1 billion auto factory

Shonda Novak and Bob Sechler wrote in the July 23 RGJ that Tesla will build a \$1.1 billion assembly plant in Travis County, TX, outside of Austin that will employ 5,000 people. The decision comes after the Travis County Commissioners and the Del Valle Independent School District approved tax breaks valued at a minimum total of ~\$60 million over 10 years if the company invests \$1.1 billion in the factory. The County tax breaks will grow substantially if Tesla invests more over the 20-year life of the agreement. This new Gigafactory will produce the upcoming Cybertruck pickup, and a second site to build the Model Y SUV. Tesla intends to break ground by Q320. Tesla also had been considering Tulsa, OK. Middle-skill jobs, which require some post-high school training but not a four-year degree - have been eliminated from payrolls disproportionately during the pandemic but are precisely the positions Tesla will be looking to fill. [Ed: too bad we didn't even officially try]

Ryder files permit for Pine Street Townhomes

Jason Hidalgo reported in the 5/14 RGJ that Ryder Homes filed a permit to build high-end townhomes on a 1.6-acre site downtown dubbed "Little Portland" due to a number of new businesses that have expanded there. The tentative map calls for 49 units, clustered in seven structures. [Ed: might want to work on the name!]



Victory Logistic District Continues to Move Forward on Phase 1

Construction drawings have been submitted to the City of Fernley for the first building in the District, an 815 ksf multi-user spec project. The structure will feature a 40 ft clear height, which Mark IV believes is key to attracting sophisticated, modern users. At the same time, mass grading will occur for the 2nd and 3rd structures of the first phase, which will total 7.7 M sf. The class A buildings will suit a variety of users from 100 ksf to 1.3 msf, and are the tip of the iceberg according to Mark IV's Ross Pfautz. Phase 1 is only 10% of their land holdings in Fernley, and Fernley shows a lot of potential as the City and the District continue to grow together.

County Grant on Nevada Pacific Parkway

Mark IV Capital, developers of the Victory Logistics District in Fernley, have partnered with Lyon County to submit an application for a federal grant to extend Nevada Pacific Parkway from its current terminus in the District, across a marshland and the Union Pacific RR main line - to US Hwy 50. Mark IV has big plans to turn the 4,100 acres formerly known as Crossroads Commerce Center into a state-of-the-art logistics and industrial park, which will connect Nevada Pacific Parkway from I-80 to US Highway 50 is a major component.

Reno turns down proposed Mortensen Ranch settlement

Citation: <https://thisisreno.com/2020/07/reno-turns-down-proposed-mortensen-ranch-settlement/>

John Seelmeyer wrote on July 23 that Reno won't be settling a lawsuit filed by developers who plan 676 homes on 955 acres just west of Somersett in the Verdi area anytime soon. Developer Fred Altmann and property owner Stan Lucas of Long Beach have asked the Second District Court in Reno to overturn a vote by the Reno City Council in January to deny the project. The City's Planning Commission voted previously in late 2019 to also deny approval. The court ordered the developers and the City to work out a settlement. Attorneys met in early July, and the developer offered to eliminate ~40 homes planned near ridgelines from its plan. The

settlement offer also included construction of an additional emergency access road into the property. The council decided unanimously on July 22 that the City won't accept the offer, and the developers' lawsuit is expected to move forward. Residential development of the property known as Mortensen Ranch has been envisioned for ~20 years, but nearby residents don't like many of the specifics of the current proposal.

2020 Ranking of America

Resonance Consultancy released an annual ranking of cities with populations between 100,000 and 500,000 people and Reno came out on top. Our region's year-round outdoor lifestyle and recent growth of tech companies and related jobs are two major reasons it came out on top. Additionally, the proximity to national parks such as Yosemite for a weekend getaway, as well as the convention center are other desirable amenities.

Runway to recovery will be long for Reno airport; master plan work continues

Kaleb Roedel wrote in the June 23rd Northern Nevada Business Weekly that at the beginning of April, the Reno Tahoe International Airport (RNO) saw traffic fall off a cliff, going from 130 commercial flights / day to ~21. RNO went from 56 consecutive months of passenger growth to a 96% passenger drop in two weeks. The worst day was April 15, when only 200 passengers arrived – a day that typically would see ~5,000. The Airports Council International trade association projects a loss of more than 4.6 billion passengers and \$97 billion in revenue in 2020. Though airlines received \$25 billion from the federal CARES Act stimulus package, experts predict they will have to operate with fewer planes, flights and employees come Oct. 1, after restrictions related to that stimulus expire, according to the Wall Street Journal. RNO received \$30 million of CARES funds. Also, many of our region's special events are canceled, especially Burning Man, which brings in ~\$11 million from passengers for the event. Despite the financial hit, the pandemic is not sidetracking the RNO's 20-year master plan, which contains new concourses, relocation of cargo facilities, building a consolidated rental car facility, and a runway improvement project. In a strange twist, now the best time to do a runway project - which started its \$16 million 1st phase in August 2019 - by not interfering with much plane traffic. Last year, as passenger counts reached record levels, RNO ran out of parking spaces for the first time ever with no major construction occurring, on Oct. 11. The consolidated rental car facility will free up parking spaces now used by rental cars on the first floor of the parking garage. RNO officials are in the planning phase of that undertaking to assess the "trigger point" for breaking ground on the rental car project.

OnTrac Reno's \$35 million automation warehouse project 'a game-changer'

Kaleb Roedel wrote in the June 23rd NNBW that OnTrac's new \$35M automated facility on North Virginia Street can sort up to 26,000 parcels / hour, which is a 50% increase to non-automated facilities. It is "reinventing" the network compared to traditional employee handled facilities. OnTrac's Rob Abel stated, "Reno is our sweet spot because it sits right in the middle of our coverage area. We're delivering up to 850 miles next day."

Apartment Statistical Review (Rowley proprietary analysis)

The Johnson Perkins Griffin's (JPG) Q220 survey inventory increased by 2 properties and 290 units (The Bridges and Silverado) to 97 properties and 23,984 units. As always, JPG's data is representative of our region's multifamily market. Their survey is available at:

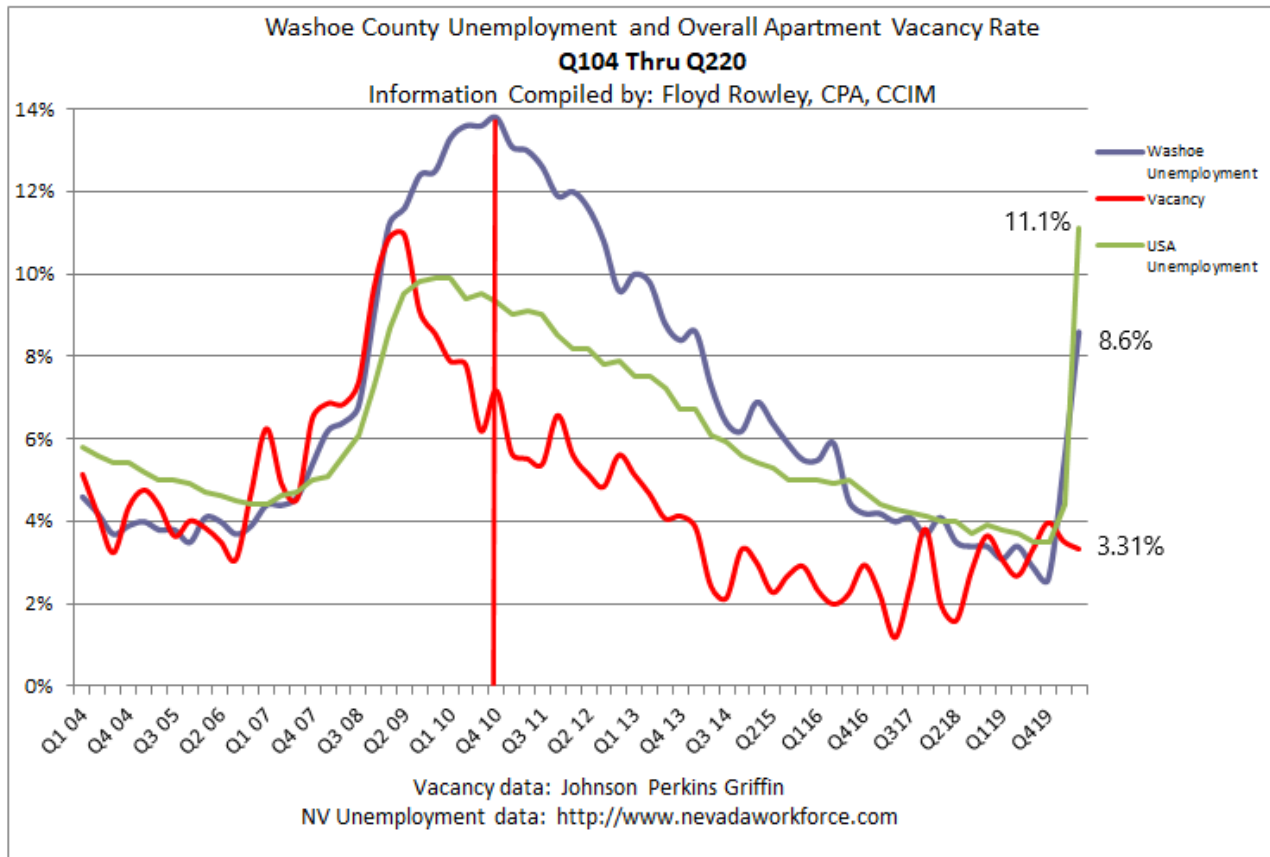
<http://jpgnv.com/wp-content/uploads/2020/07/Apartment-Survey-2nd-Quarter-2020-FINAL.pdf>

The pandemic has been in full swing this entire quarter. Here is my analysis of their survey:

- **Overall rents** rose by a hard-to-believe \$28, or 2.1%, to \$1,369.
- A few years ago, I started discussing the \$1,000 Club, when certain submarkets began hitting that rent threshold. Well, this quarter I am kicking off the **\$1,500 Club. Two submarkets: East Sparks and Downtown Urban** have now crossed that threshold in average rent / unit / month. We only have one submarket left under \$1,000/ month: the blue collar Brinkby / Grove submarket.
- **Rents have languished since Q219**, rising a total of only \$25, or 1.86% in a year. This is because our market has added over 1,500 units since then, with another ~800 coming soon.
- **There was not much rent movement within the 11 submarket rents**, although W Reno scored an impressive \$55 gain. Lakeridge stayed in 3rd place with a \$17 increase, while East Sparks retained 1st place with a \$25 increase. Downtown Urban stayed in 2nd Place, with a \$29 increase.

- **Overall vacancy dropped again:** from 3.51% in Q1 to 3.32% in Q2. I find this amazing, given the local unemployment rate. This could be attributed to tenants not wanting to lose their homes as a safe space to quarantine, combined with the continued influx of new residents moving to the regions for jobs or a variety of other reasons. However, expect this to rise noticeably in Q3 due to evictions starting 9/1.
- **Downtown Urban still has a huge vacancy:** going from 7.25% to 6.095% - still the highest in the region. Seems like Millennials are breaking their leases and moving back in with mommy and daddy.
- Still, this makes **26 quarters in a row that vacancy has been UNDER 4%** - of which 17 quarters were under 3%. This statistic is losing its newsworthiness. We had 10 quarters in a row between Q215 and Q317 where the vacancy was <3% - only once in the last 7 quarters due to all the new product.

BAD NEWS: When the Governor’s March 16 “no eviction” order is scheduled to be lifted on September 1st Landlords will immediately begin filing 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. One wonders where all these evicted tenants will end up....



About the Authors

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, spreadsheets – AND THIS REPORT.