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## Q320 Northern Nevada Commercial Investment Real Estate Report “We’re Still in the Pandemic Recession” Issue

As we are now going through the 8<sup>th</sup> month of the COVID pandemic there is increasing optimism that a vaccination is getting nearer – even as more cases are reported daily. The \$600 / week unemployment supplement ran out on July 31<sup>st</sup> and has not been replaced, with both parties arguing over how many Trillions this bill will be. Apartment owners are very worried about collections. So far, collections this fall have been decent and the few “bad actors” in our region have now been served. Washoe County unemployment is trending down. Evictions are being approved, but many are being “stayed” until January.

Meanwhile, as commercial sales continue to languish, the Reno/Sparks residential market continues to be on fire, with most submarkets once again seeing double digit price increases compared to this time last year. Lack of inventory, combined with very low interest rates, has led to 106 more sales YTD in 2020 than 2019. Also, the median (half are above and half are below) home price has increased by \$30,000 to \$445,000. With the exception of high earners, Reno is now firmly a market that requires two incomes to purchase a home. While this may not be an issue for buyers coming from more expensive coastal markets, it can be a challenge for longtime residents looking to buy their first home, since wages have not generally kept up with home price increases. That being said, a major factor boosting demand is numerous companies moving to the region and bringing jobs with them, as well as people looking for a more affordable place to live as well as the amazing quality of life northern Nevada has to offer. Finally, with millions of American now working from home, some indefinitely, having stable comfortable housing has become a priority.

As we move into the fall flu season, with Election Day / Month (sic) less than 2 weeks away, anxiety continues to be the word that describes 2020. Somehow, we will all survive. This too shall pass.

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

Rowley Research Totals		Plan	Under Const.	Total
<b>Units:</b>	This Quarter	7,626	3,484	11,110
	Last Quarter	8,339	4,256	12,595
	<b>Net Change</b>	<b>(713)</b>	<b>(772)</b>	<b>(1,485)</b>
	% Change	-8.6%	-18.1%	-11.8%
<b>Projects:</b>	This Quarter	29	15	44
	Last Quarter	35	15	50
	<b>Net Change</b>	<b>(6)</b>	<b>0</b>	<b>(6)</b>
	% Change	-17.1%	0.0%	-12.0%

Planned units decreased for four reasons: (1) several large projects were put on hold, (2) one eliminated their multifamily component, (3) we culled a few projects that were planned but we now deem not likely to move forward any time soon, and finally, (4) three small projects moving to Under Construction, namely Print Shop Lofts, OneR and Ridge Street Apartments. Under Construction saw a decrease in units due to construction being completed at Steamboat by Vintage, as well as Silverado, and one project previously under construction being put on hold, for a net zero change in projects under construction.

## **The Local News Bag**

The Nevada Today on 9/17 reported that **the Nevada System of Higher Education Board of Regents voted to appoint former Gov. Brian Sandoval as UNR's 17<sup>th</sup> president.** As the first alumnus to hold the position, Sandoval graduated from UNR with a BA in English in 1986. He was the 29<sup>th</sup> governor of Nevada, serving 2 terms from 2011-19. Previously he served as a Nevada district judge. He also served as Nevada's attorney general, was a member / chairman of the Nevada Gaming Commission and served 2 terms as a state assemblyman. He is currently a Distinguished Fellow at UNLV's William S. Boyd School of Law. He was named a Distinguished Nevadan in 2019. On Oct. 5, Sandoval took office and will serve a four-year term.

An Northern Nevada Business Weekly (NNBW) staff report on 9/25 reported that the Nevada **DMV plans to open its 42 ksf S. Meadows office at 9155 Double Diamond Parkway on Nov. 2.** The office has three kiosks outside to expedite customers' experience, and the 1<sup>st</sup> drive-through kiosk in the nation. The facility will have 550 parking spots, compared to 120 at the Galletti Way facility, and 53 customer service windows, compared to 36. The building took 15 months to build on a construction budget of ~\$50 million. Planning and design began in 2011 and was re-visited in 2018, with construction beginning that fall. The DMV Galletti office will be closed permanently on Oct. 24.



The RTC e News for September reported that the **RTC received a \$23 million grant from the U.S. DOT to widen ~2.4 miles of Pyramid Highway.** It includes installing smart traffic signals, widening the median, shoulders, bike lanes, sidewalks, and enhanced drainage and storm water infrastructure. This "BUILD" award was highly competitive at the national level and reflects years of hard work that have gone into the planning, environmental analysis, community engagement, and design. Construction is anticipated to begin in 2022-24.

Jason Hidalgo wrote in the 9/28 Reno Gazette Journal (RGJ) that **Jacobs Entertainment purchased the Nelson Building from UNR,** according to a Washoe County Recorder's document posted on Sept. 15. The parcel consists of ~1.2 acres. Jacobs also acquired two smaller parcels along West Second St. as part of the deal. The two other parcels total 16 ksf. This acquisition expands Jacob Entertainment's reach in the downtown Reno west corridor, particularly between West Fourth and West Second Streets, west to Keystone Ave.

An NNBW staff report dated 8/31 announced that one year after its grand opening, **the Village on Sage Street reached 100% occupancy in mid-August and is now home to 216 people.** A Community Foundation of Western Nevada press release stated that many of the tenants were previously living in a shelter or on the streets. The \$8.3 million project was conceived in 2018 and is a collaborative effort among the Community Foundation, the City of Reno, Volunteers of America, and various private businesses. Tenants range in age between 18 and 82, and 16% are veterans. Most are employed, and 43% are living on Social Security, disability income or Veterans pensions. The average monthly income for the tenants is \$1,658.

John Seelmeyer wrote on the August 26<sup>th</sup> in the <https://thisisreno.com/> blog that **"everyone" is seeing a flood of residents from California,** but hard data to support this has been hard to find – until now. The price for a big U-Haul truck moving from Palo Alto to Reno as of October 3<sup>rd</sup> was \$1,276, but only \$160 for a return trip. A truck rental from San Francisco to Reno costs \$1,128, more than 7 times the \$154 to rent a truck to SF. U-Haul says the process of setting rates reflects simple supply and demand for equipment in a city as well as their need to get trucks back to cities where they are needed after they're dropped off in hot markets. U-Haul manages a fleet of ~176k trucks and 127k trailers in 22,000 rental locations across North America.

## **Construction on I-80, I-580 to last up to 2039, Phase 1 of project in works**

Andrew Mendez wrote in the 9/7 RGJ that NDOT began construction on I-580 northbound from Mill to the Spaghetti Bowl in August, with construction is expected to last until December. This is the 1<sup>st</sup> part of Phase One of the Spaghetti Bowl Xpress project: to replace aging concrete. Construction on southbound lanes is

expected to start Jan 2021 and last until 2023, where most of the lane widening will happen. NDOT will be replacing about ~7 bridges in that direction. The project is weather dependent - in the event of major snowfall, the project will be delayed. The project is broken up into 5 phases over the next 19 years. The Spaghetti Bowl was built between 1969-71, when Washoe County's population was ~121 thousand people. Over 482 K people now live in the county. The entire project will cost over \$2 billion to complete, with Phase One costing ~\$481 million. Drivers can expect construction to take place on and around the Spaghetti Bowl until 2039.

### **City of Reno receives \$180K donation in a historical effort to beautify downtown**

Tamara Snigt wrote on Sep. 17<sup>th</sup> in the [Downtownreno.org](http://Downtownreno.org) website that after more than a decade, innovative partnerships have come together to enhance the ReTRAC East Plaza concrete and dirt space between the Whitney Peak Hotel and Eldorado Resort Casino on Virginia Street. Residents and visitors will soon look to a welcoming and aesthetically pleasing space. The Downtown Reno Partnership donated \$80k from the Reno Business Improvement District Premium Plus fund, the Nevada Governor's Economic Development Office donated a \$50,000 Nevada Main Street grant and Bloomberg Philanthropies awarded the City a \$25,000 art grant for a mural that will be displayed on the concrete portion of the ReTRAC East Plaza. The Reno Arts and



Culture Commission is conducting a national search for a mural artist to produce a large-scale design that can be replicated and maintained by Public Works. The first phase of the ReTRAC Lid Enhancement Project is scheduled to start in Spring 2021 and be completed by June and will contain trees, irrigation, landscaping, mural-street-art and more than 1,600 plants and flowers. Energy conduits will be installed for use during events illuminating downtown for everyone to enjoy.

### **Park Lane changed its name (and more!) to The Reno Experience District (RED)**

Jason Hidalgo wrote in the RGJ on 9/23 that the Park Lane development at the SEC of Plumb and South Virginia has changed its name to The Reno Experience District, or RED. Lyon Living, which has partnered with Reno Land Inc. on the project, unveiled the new name and believes it perfectly encapsulates the Newport, California-based developer's goals for the project. Lyon decided on RED after working with branding experts for a name "to put the project on the map". Despite Park Lane's difficulties as a "mall", the name still evokes memories for generations of local residents, a key reason why Reno Land kept the name after purchasing the property in Q316. Lyon acknowledged the importance of the Park Lane name but believes it is time to go beyond it and build something bigger and better. The goal is to create a new epicenter of arts and culture in Reno. The development will now consist of 1,300 luxury apartments, a 170-key hotel, more than 70 ksf of retail space, a market hall with a coworking loft, a [Ed: new] 382 ksf tech campus and a 2-acre park, which will have an amphitheater and large LED displays for events. The heart of the new plan is the concept of "experience-based programming." It has been widely adopted in the retail sector's brick-and-mortar arena to combat the Amazon "juggernaut". RED is envisioned as a bustling hub to attract both residents and visitors to its amenities. Its first luxury apartment, The Emory, is expected to start pre-leasing in November with move-ins to start next January. The Welcome Pavilion, the park and other units will come online later next year.

### **UNR Innevation Center Celebrates Five years**

Jane Tors, Research Communications Director for UNR, reported in the Oct. 14 Nevada Today, that a laser-cutting, rather than a traditional ribbon-cutting, marked the opening of the Innevation Center in September 2015. Rob Roy, founder of Switch, was on hand to commemorate his company's support of the Center. Switch funded the initial interior build-out of the Center and suggested the name which took the "no" out of innovation. The Center has advanced Nevada's innovation economy by providing startups and entrepreneurs with resources and connections, - providing a catalyst for accelerating regional innovation, with the ultimate

objective of spurring economic growth, jobs and investment. The accomplishments over the past 5 years are tangible: 370 jobs created by Center companies and organizations, and \$88 million in private/venture capital funding has been raised by Center companies. Even with COVID-19 precautions in place, the Center has 68 active, member companies and organizations representing 242 individual members. also, ~20 entrepreneurial organizations, economic development organizations and businesses actively work with the Center as partners or sponsors. Several companies have offices in the Center, and it is home to the Reynolds School of Journalism Podcast Center and Nevada Industry Excellence. The InNEVator, an eight-week, fully funded business accelerator program, has supported the development of 13 technology startups through four rounds of the program. Also, UNR and the Center have taken over the Southside School from the City of Reno, and in partnership with Tesla and EDawn, is planning a new K-12 robotics academy. Designs are being finalized to launch the robotics academy in early 2021.

### **Google gets \$25 million tax break for Reno data center, expanding Henderson project**

On 9/16 Jason Hidalgo wrote in the RGJ that Google pledged to invest \$600 million in its TRIC data center and to invest an additional \$600 million for its Henderson data center, bringing their total commitment to Henderson to \$1.2 billion. In total, Google is investing over \$1.88 billion in Nevada. Gov. Steve Sisolak joined 7 members of the Governor's Office of Economic Development (GOED) board in approving over \$25 million in incentives for the data center for Google products and services in Storey County. The data center plans to be fully operational in 2021. Google will make a \$427 million impact on the economy over 20 years and generate \$94 million in tax revenue over 20 years. The incentives consist of a sales tax abatement of 2% and a personal property tax abatement of 75% for 20 years, worth \$16.8 million and \$8.25 million respectively. "It's no secret that I've had reservations over some of our abatement programs," Sisolak said. "It's also no secret that the current state of our economy has put us once again as the state most affected by this crisis." Since 2014, GOED has approved over \$2.1 billion in abatements stating that the incentives have resulted in \$5.3 billion of net new taxes. Most of the 1,500 workers that Google has hired in the state for construction are union members. More than 60% of those workers are also from Nevada.



### **CAI Investments closes on the purchase of Harrah's Reno property**



Jason Hidalgo wrote in the RGJ that the sale of the former Harrah's Reno property to CAI Investments, a Las Vegas-based developer, closed on 9/30 for \$31,125,000. The sale consisted of 22 parcels spanning Virginia Street east to Lake and Commercial Row south to Second Street. CAI announced its plans to purchase the property from Caesars Entertainment in January. The COVID-19 pandemic pushed back the \$17.3 billion merger between previous property owner Caesars and Eldorado Resorts for several months. CAI is in the midst of an ambitious remodel into a mixed-use development known as Reno City Center. The hotel rooms will be redeveloped into 530 market-rate apartments and adding 78.5 ksf of retail and 150 ksf of office space. The 900

unit parking garage will be retained. CAI is also building Reno's first Kimpton Hotel, to be located on the Truckee River between Court Street and Island Avenue. The San Francisco-based boutique hotel franchise has properties around the USA and worldwide, including Paris, Tokyo, Bali and the Cayman Islands. Both Reno City Center and the new Kimpton will be helpful when it comes to business recruitment.

## **Panasonic confirms Gigafactory expansion**

Jason Hidalgo wrote in the 9/13 RGJ that Panasonic is adding a 14<sup>th</sup> production line to significantly boost capacity at the site to increase battery production by ~10% from 35 gigawatt hours / year currently. Panasonic plans to hire ~100 new employees. The expansion will also upgrade the facility to accommodate Panasonic's new battery technology to increase battery capacity and to lower cost. They will use less cobalt, improve energy density by 5% and be 1.4 X denser than competing iron phosphate batteries – all to improve range and affordability. The expansion represents a doubling down by Panasonic on the Gigafactory following uncertainty about its future plans for the site. A little over a year ago, the Nikkei Asian Review reported that Tesla and Panasonic were looking to freeze expansion at the battery factory due to potential risk. Fast-forward to the present and the relationship looks to be on much firmer ground. Increased electric vehicle adoption drove Panasonic's decision to move forward with the expansion. The world EV market continues to explode as the demand is there. The Nikkei Asian Review pegs the expansion investment at more than \$100 million.

## **California Assembly Introduces Wealth Tax**

<https://www.eisneramper.com/california-wealth-tax-blog-0920/>

Paul Bleeg, a tax Partner with EisnerAmper in San Francisco, wrote on 9/20 that California state assembly member Rob Bonta introduced AB-2088 in the 2019/20 legislative session, which would impose a first-in-the-nation state wealth tax on individuals. The tax would be 0.4% on any net worth exceeding \$30 million for California residents *and former residents*. The tax would require individuals to prepare an annual statement of net worth, which would require valuations of assets like collectibles, real estate, jewelry, art, foreign real estate; ownership in closely held companies, etc. The most unique element of the proposed tax is that it would impose the tax on Californians who leave the state after the tax is enacted. The proposed law would tax them for 10 years after departure on a sliding scale. For example, in the sixth year after departing, a former resident would be taxed at 10-6= 4/10 of the full tax. The tax is expected to raise \$7.5 billion annually, based on the assumption that those subject to the tax do not leave the state [ED: yeah, right!]. It is also possible that people considering moving to California may take this tax into consideration. For example, if Jeff Bezos were to grow weary of the Seattle rain and move to Beverly Hills, he would not only be paying the highest state income tax in the country at 13.8% versus zero in Washington, but he would also be subject to a wealth tax of \$752 million per year should this bill become law. [Click here](#) to see the full text of the bill.

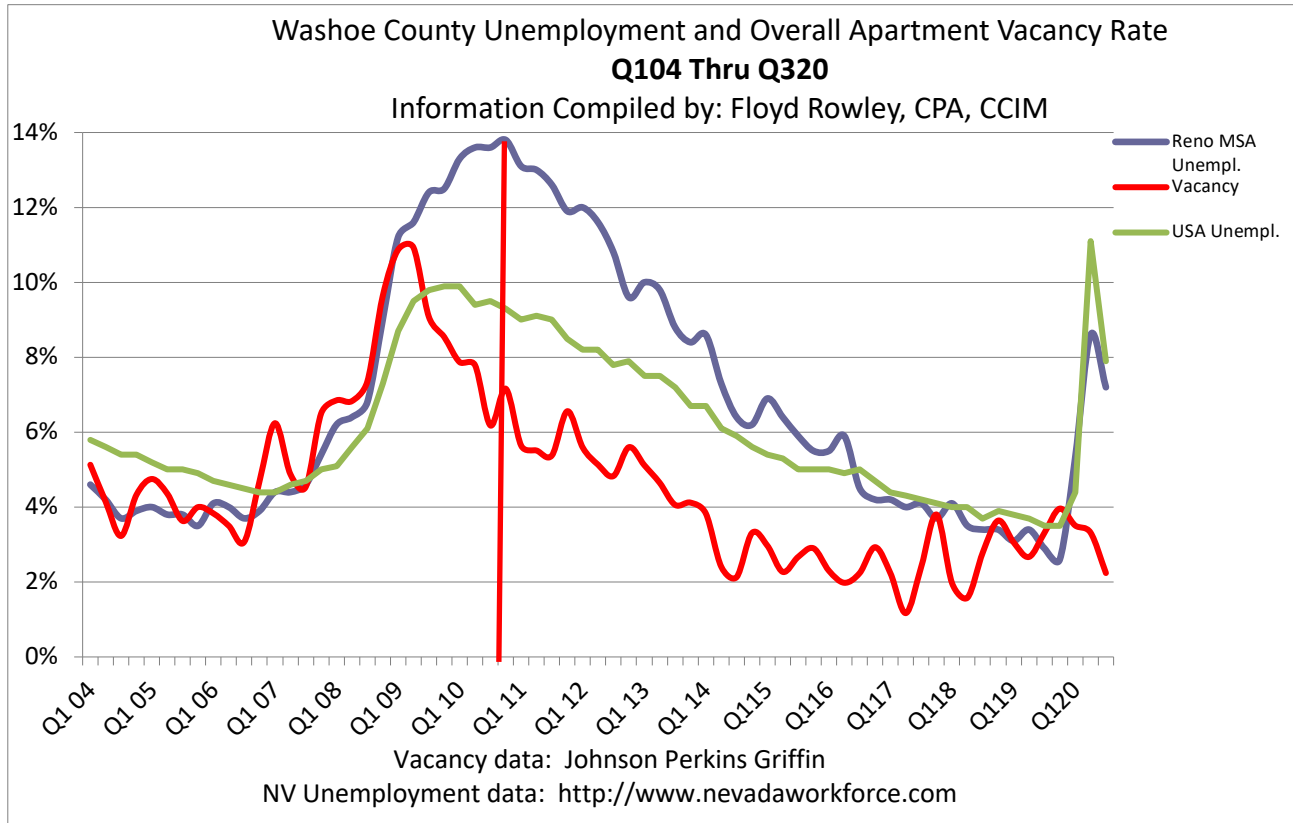
## **Apartment Statistical Review (Rowley proprietary analysis)**

The Johnson Perkins Griffin's (JPG) Q320 survey inventory increased by 2 properties and 591 units (Lumina and Harvest at Damonte Ranch Phase III) to 99 properties and 24,575 units, for a total of 1,370 units added this year. Keep this increase in mind as you read the vacancy numbers below. As always, JPG's data is representative of our region's multifamily market. Their survey is available at: <http://jpgnv.com/> The pandemic has again been in full swing this entire quarter. Here is my analysis of their survey:

- **Overall rents** rose again by a hard-to-believe \$52, or 3.8%, to \$1,421.
- **There was significant rent movement within the 11 submarket rents.** 10 of 11 submarkets reported rent increases of \$29 to \$99, with Lakeridge scoring the highest gain, moving it up to 2<sup>nd</sup> place. East Sparks once again retained 1<sup>st</sup> place with an impressive \$89 increase, and SE Reno moved up to 3<sup>rd</sup> place with a 49 increase.
- **Downtown Urban's woes continued**, dropping to 4<sup>th</sup> place in rents with a \$72 rent **DEcrease**. Their vacancy is now the highest in the region at 5.59%, 2.5 times higher than the regional average.
- In Q116, I started discussing the \$1,000 Club, when 4 submarkets hit that average rent threshold / month. **This quarter EVERY one of the 11 JPG submarkets' average rents exceeded \$1,000.** Brinkby Grove finally hit \$1,016 in average rent this quarter.
- Rents languished from Q318 through Q120, rising a total of only \$23, or 1.75% over seven quarters! **In the midst of the pandemic, average rents have risen 6% in the last 2 quarters!**
- **Overall vacancy dropped again from 3.32% in Q2 to an astounding 2.24%** - even with the addition of 1,370 new units this year in JPG's denominator. I find this amazing, given the local

unemployment rate is still 7.2%. This could be attributed to tenants not wanting to lose their residences 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. This could rise in Q4 as UNR students go home for a virtual Spring 2021 semester and evicted tenants leave the area.

**BAD NEWS:** The Governor’s March 16 “no eviction” order was extended - but finally expired – on October 15<sup>th</sup>. As I predicted last quarter, landlords immediately began filing eviction notices to tenants, some who have not paid rent since as far back as February. These filings are intended to ferret out the bad actors from the meek, non-responders – who most landlords are willing to work with. It is too early to tell if this will have any meaningful impact on regional vacancy by the end of Q420 causing a vacancy spike - but I doubt it. Anecdotal evidence suggests companies are “massing at the border” to relocate here from Kalifornia.



**IN MEMORIAM** Former Sparks Mayor Ron Smith, 71 died early in the morning of August 19 after losing a nearly two-year battle with cancer. He died in his home surrounded by his family. He never stopped working, even while he was battling pancreatic cancer. He would have chemotherapy and the next day, he would get up, get dressed and go to work. He only recently missed one Sparks City Council meeting.

**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 \$276 million in 96 transactions, of which ~\$110 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 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.