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Q420 Northern Nevada Commercial Investment Real Estate Report

The “Brighter Days are Coming” Issue

I was going to title my Q4 report, “Let’s Move on from Miserabilism” but decided that was too gloomy a headline as we are finally starting to get vaccinated and Covid cases are on the decline in our region. I am hearing that “companies are massing at the border”, waiting for the pandemic to subside physically and politically before they descend into our region. While both the CDC and the governor have extended bans on apartment evictions until April 1st, Q4 apartment vacancy is lower than normal. While apartment rents were flat in Q4, our region reported a robust \$100 / unit / month for the year 2020.

Major Planned / Under Construction Apartments (Rowley proprietary research)

Rowley Research Totals		Plan	Under Const.	Total
Units:	This Quarter	6,722	3,539	10,261
	Last Quarter	7,626	3,484	11,110
	Net Change	(904)	55	(849)
	% Change	-11.9%	1.6%	-7.6%
Projects:	This Quarter	26	15	41
	Last Quarter	29	15	44
	Net Change	(3)	0	(3)
	% Change	-10.3%	0.0%	-6.8%

Both planned projects and planned units decreased as a result of removing a predominantly student housing project from our inventory, a planned 396-unit project being put on hold and moving LandCap’s 283 apartment units on 4th Street from Planned to Under Construction. Under Construction saw a small increase in units – and no net change in projects due mainly to construction being completed at Sky Mountain, offset by construction starting at Integra Peaks on Damonte Ranch Parkway and LandCap’s 4th Street apartments.

The Local News Bag

Jason Hidalgo wrote in the 1/13 Reno Gazette Journal (RGJ) that **Caesars Entertainment is kicking off a \$47 million renovation of the Silver Legacy** to redesign rooms from the 5th through the 25th floors. The project will involve 1,199 rooms and is expected to be finished by June. Improvements include new hardwood furniture, updated window treatments and draperies, new tile in the bathrooms, new carpet and flooring, etc. These improvements follow a \$100 million remodel of the Eldorado and Circus Circus in 2019.

Mike Schneider of the AP reported that **U.S. population grew by the smallest rate in at least 120 years from 2019 to 2020**, according to the Census Bureau. Demographers say this provides a glimpse of the coronavirus pandemic's toll. Nevada's population increased by 1.5%, the 3rd highest increase behind Idaho and Arizona. Sixteen states lost population, including California, which declined 0.18% to 39.3 million residents.

On 9/17/20 **the Milken Institute’s annual ranking of Top 10 Best-Performing Large Cities listed Reno in 4th place – up from 11th in 2018**. Their Best-Performing Cities series has tracked economic performance of US metros for two decades using job, wage and salary, and high-tech GDP indicators. Metros

are ranked on their performance, while indicators help identify the drivers behind their success or failure. Reno continues to develop a diverse industrial base while experiencing rapid growth in the advanced manufacturing and technology sectors. See <https://milkeninstitute.org/reports/best-performing-cities-2020>

Northern Nevada HOPES hosted the grand opening of Hope Springs on January 14th, a 30-unit bridge housing community of individual small units along with a central facility that includes showers, restrooms, a kitchen and community space, including a garden and a dog park. The community is considered a “first-of-its-kind solution” in the northern Nevada area to provide bridge housing to residents working to transition out of homelessness. The William N. Pennington Foundation provided a nearly \$900,000 donation.

Amy Alonzo, writing in the 12/15/20 RGJ, reported that **the US Forest Service has acquired 120 acres of land at the Brockway Summit in North Tahoe.** The property, located on the rim of the Tahoe Basin, had been proposed for development twice in the last six years but will now remain publicly accessible open space.



Razvan Cimpean wrote in the Jan 6th issue of <http://www.multihousingnews.com/> that **Reno ranked 5th in the nation for emerging multifamily markets under 2 million residents**, due to a combination of residents leaving California, many units under construction, a high occupancy rate and because Nevada classified construction as essential during its stay-at-home order lockdown, losing only 1,000 construction jobs during the pandemic. Also, its unemployment rate dropped to 6.7% in September to the national average.

Carla O'Day wrote in <https://thisisreno.com> on Dec 9 that the Reno City Council agreed to sell 4 acres of land for \$625k to **Greenstreet Development Inc., to build 160, 1-bedroom low-income senior housing apartments** on Washington and Winter streets. The units will be leased to persons aged 55+ who earn 60% or less of the area's annual median income, with rent restrictions in place for 30 years. The property was appraised at ~\$1.9 million. Council members said the need for affordable housing justified the land price.

Writing in the 11/11/20 Northern Nevada Business Weekly (NNBW), Kaleb Roedel reported that **UNR leased the Southside School from the city of Reno in April 2019 for \$7,268 a/ year** for 5 years. Renaming the facility Southside Studio, UNR began plans to build on the activity generated by its InNEVation Center nearby. Now UNR's vision is coming into focus. In partnership with Tesla and EDawn, UNR will launch the K-12 Robotics Center in early 2021. The project will be the culmination of revamping the old gym inside the 10.5 ksf facility into an arena for students of all ages to both build and test robots, and also compete with them.

The Four Phases of Recovery We Can Expect This Year

Les Shaver wrote in the December 29 edition of www.globest.com that John Leer, an economist for Morning Consult, says our economy will experience four distinct phases in 2021. In Q1 the 2nd coronavirus relief package's spending will create a stimulus as unemployment insurance and stimulus checks offset the virus' negative economic consequences. By late April, the effects of the 2nd relief bill will wane as unemployment benefits expire and the stimulus boost burns off, exposing weaknesses in household finances. Once the vaccine is widely distributed by the end of Q2, Leer anticipates a bounce - as a wave of spending as Americans eat out and travel, which should drive a rebound through the end of the year. Restaurants and gyms are likely to see the bounce before international travel increases later in the year. By December, the economy should return to normal. Leer thinks that if large groups of unemployed workers can't find work, then the pandemic's economic scars will likely hinder the economy heading into 2022, since not all workers will find jobs at the same pace as the economy pushes towards normalization. This year's K-shaped recovery will continue, characterized by higher-paid workers weathering the recession and lower-paid laborers, who are struggling. Less educated workers were twice as likely to be out of work as college graduates, while people without a degree were more likely employed in lower-skilled roles that were disproportionately affected by stay-at-home orders. The uneven recovery affected commercial real estate, with retail and hospitality bearing a heavy burden from Covid-19, while the apartment and industrial sectors flourished. These trends are likely to continue.

IGT to sublease all or part of its South Meadows Facility



International Game Technology's sprawling 1.2 million sf campus Photo: Colliers International

Rob Sabo wrote in the 1/25/21 NNW that IGT's Reno operations span 7 buildings, totaling 1.2 million sf of office, warehouse and distribution space over 78 acres. The pandemic allowed IGT to introduce different work environments and implement more flexible time schedules for its Reno employees. As a result, they no longer needed the massive campus to maintain productivity levels and to meet customer needs. IGT hasn't made a final decision about vacating the Reno campus altogether, but it is entertaining offers from companies that may want to sublease all or part of it. IGT plans to remain in Reno with operations fully intact and that moving all or part of its workforce out of the South Meadows facility won't result in a reduction in their workforce.

Reno denies Prado Ranch zone amendments

Carla O'Day wrote in the January 17 issue of <https://thisisreno.com> that the Reno City Council on January 13th unanimously denied a request for a master plan and zoning map amendment for the development of the Prado Ranch PUD. The property runs along the eastern and western sides of Lemmon Drive from Oregon Blvd to Patrician Drive on the east side of Swan Lake. The developer, Lansing Companies, is seeking a handbook to allow 176 single-family homes, 529 apartments, 3.6 million sf of industrial and 58 ksf of commercial. The Planning Commission had previously recommended denial. Concern involved land use compatibility and the appropriateness of introducing industrial land uses in an area that is predominantly residential and not located in proximity to the freeway, more than 3 miles away from U.S. 395. Members of the public also raised a number of issues. Council members continued this issue at a meeting in March 2019. Lansing then sought an extended continuance in May 2019 to work with the RTC and Washoe County on stormwater mitigation issues. Lansing said it's committed to preserving the character of Lemmon Valley and to complete projects that elevate the road above the floodplain, which diminishes the possibility of road closures, damage and other problems. Also, alterations to the perimeter of Swan lake will decrease the likelihood of flooding.

Community Ice Arena opens in south Reno

Writing in the RGJ, Jim Krajewski reported that Reno Ice opened on January 18. Construction on the first of two rinks broke ground last April, after 5 years of fundraising by a non-profit group headed by Joel Grace. They raised \$9.5 million for the 39 ksf building that houses the completed NHL-sized rink. The Jennifer M. O'Neal Community Ice Arena in south Reno is taking ice skating to a high-tech, state-of-the-art level. Many of its features are the same as the Vegas Golden Knights facility. The rink uses ~40k gallons of water, compared to about 25k gallons at most rinks. Since getting and keeping the ice level is paramount, surveyors measured 400 different points to help achieve the leveling of the ground beneath the rink. About 20 miles of pipe below the ice recirculates warm water from the ice plant to prevent the ice from heaving. The Zamboni is also state-of-the-art and uses a computer to read the ice to tell it how much water to put down and where the grades are off. Advertising boards surrounding entire rink were snapped up in 45 days. There are four locker rooms and a separate room for referees. Grace hopes to establish a UNR club hockey team, along with high school teams. The rink can be divided into five sections for simultaneous games. A 2nd rink is planned to be the same

size as the first and will be next to the current facility, which plans to hold hockey games, curling matches, broomball, give ice skating lessons and, its main focus, ice-skating for the public.

Reno Experience District faces first big test as leasing commences

Writing in the RGJ, Jason Hidalgo reported on 12/11/20 that four years after the sale of the former Park Lane Mall site, the rebranded Reno Experience District (RED) reached its first big milestone as its first building opened to the public on December 11th. It houses the rental office and a model of its 2-bedroom apartment. This is the first test for the RED project: an ambitious endeavor that is doubling down on its “work-live-play-stay” concept while charging top of the market rents at a time when our region is starting to emerge from the Covid pandemic. The first tenants are expected in late January, when 49 of its 282 units open. While the real estate appraisal and consulting firm Johnson Perkins Griffin reported average rents in Reno rose \$100/ unit in 2020 to \$1,424, rents for the first units at RED start at \$1,720 for studios and \$2,235 for apartments, rising to \$1,935 and \$3,110 respectively. Lyon Living, which recently partnered with the original developer, Reno Land, Inc., believes that once people experience RED’s amenities, they will see the value in living in the District. Amenities play a big role in the plans for the RED, running the gamut from a market hall and 70ksf of retail to public spaces that can hold various events. A second building (Southside?) with 340 units will see its first tenants in April. The 2nd phase will be anchored by the Atwood? which will contain 359 units. Also coming is a 170-key Marriott, based on its Element brand. Construction is scheduled to break ground in January and be completed one year later. Phase 3 will include a tech campus with 382 ksf of Class A office space.

Sales, gaming tax petitions head to 2021 Legislature

Colton Lochhead wrote in the 12/16 Las Vegas Review-Journal that the Clark County teachers union proposed a 1.5%-point increase in the Local School Support Tax, a component of the state’s sales tax, to generate more than \$1 billion / year. The second petition would raise another \$300 million by increasing taxes on the state’s largest gaming establishments. Together, the proposals aim to raise \$1.4 billion in new revenue annually. The union submitted more than 200k signatures for each petition, even though only 97,598 were required. The union unveiled the proposals in January 2020 - months before the pandemic hit. The petitions were “recalibrated” after COVID-19. Now that they have been certified, the measures will head to the 2021 Nevada Legislature. If the Legislature fails to act or rejects the measures, the tax proposals would then go on the ballot in 2022. A statement from the Nevada Resort Association said that “now is not the time” to raise taxes on gaming properties, and that it “would further damage Nevada’s recovery efforts, create permanent job losses and further jeopardize capital investment and future economic development.”

Amazon unveils large-scale Nevada expansion, including 2 Reno facilities



Exterior view of Amazon’s new delivery station at 9740 N. Virginia St. in Reno. Courtesy Photo: Amazon

The December 4th issue of the NNBW reported that Amazon has opened a 630 ksf distribution warehouse at 8000 N. Virginia St. In October Amazon opened a 140 ksf delivery station for last-mile fulfillment orders at 9740 N. Virginia St. A fulfillment center that’s part of Amazon’s “AMXL” network (short for “Amazon Extra

Large”), is planned to open in 2021 at 1316 Capital Boulevard to support fulfillment and delivery of large products, ranging from televisions to couches. Amazon now operates 11 sites in Nevada, employing more than 10,500 full- and part-time employees across the state. From 2010-19, Amazon has invested more than \$3.8 billion in Nevada, including infrastructure and compensation to thousands of employees in the state. The company estimates those investments have contributed an additional \$3 billion into the Silver State’s economy — which includes an additional 7,600+ indirect jobs on top of the company’s 10,500 direct hires.

Energos to build largest carbon-neutral industrial park in US near Reno

Writing in the 12/8 RGJ, Jason Hidalgo reported that TerraScale, a firm that specializes in clean energy design, announced plans to develop up to 3,700 AC of land in Churchill County for its Energos project. The project will start out with \$220 million of development on 10 acres near Fernley, consisting of a 20-megawatt (mw), zero-carbon footprint data center that will initially use a mix of renewables and natural gas. Construction will start in early 2021 to be completed at the end of Q122. TerraScale is partnering with AlphaStruxure, an energy-as-a-service company to design, build and finance an integrated energy solution for the project. By its second phase, TerraScale expects development costs to reach \$1 billion as it expands to 100 mw. The company is in talks with several companies interested in constructing their own facilities at the site, which could bump the total development for the Energos project past \$3 billion. The project has applied for incentives that Nevada provides to data centers, such as tax abatements on equipment, which it will likely receive. The abatement will reduce the tax on equipment to 2%, will not affect the school funding component of the tax.

Toyota Chief Says Electric Vehicles Are Overhyped

In the 12/17/20 edition of the Wall Street Journal, Peter Landers wrote that Toyota President Akio Toyoda said Japan would run out of electricity in the summer if all its cars were running on electric power. The infrastructure needed to support a fleet consisting entirely of EVs would cost Japan between \$135 to \$358 billion. He said if Japan is too hasty in banning gasoline-powered cars, “the current business model of the car industry is going to collapse,” causing the loss of millions of jobs. In a country such as Japan that gets most of its electricity from burning coal and natural gas, EVs don’t help the environment, as the more EVs we build, the worse carbon dioxide gets. He said he feared government regulations would make cars a “flower on a high summit” - out of reach for the average person. With models like the Prius, Toyota is a leader in hybrid cars, which combine a gasoline engine with an electric motor and can be refueled at traditional gas stations. It doesn’t sell pure battery EVs for the mass market, but it does have a model that runs on a hydrogen fuel cell.

Apartment Statistical Review (Rowley proprietary analysis)

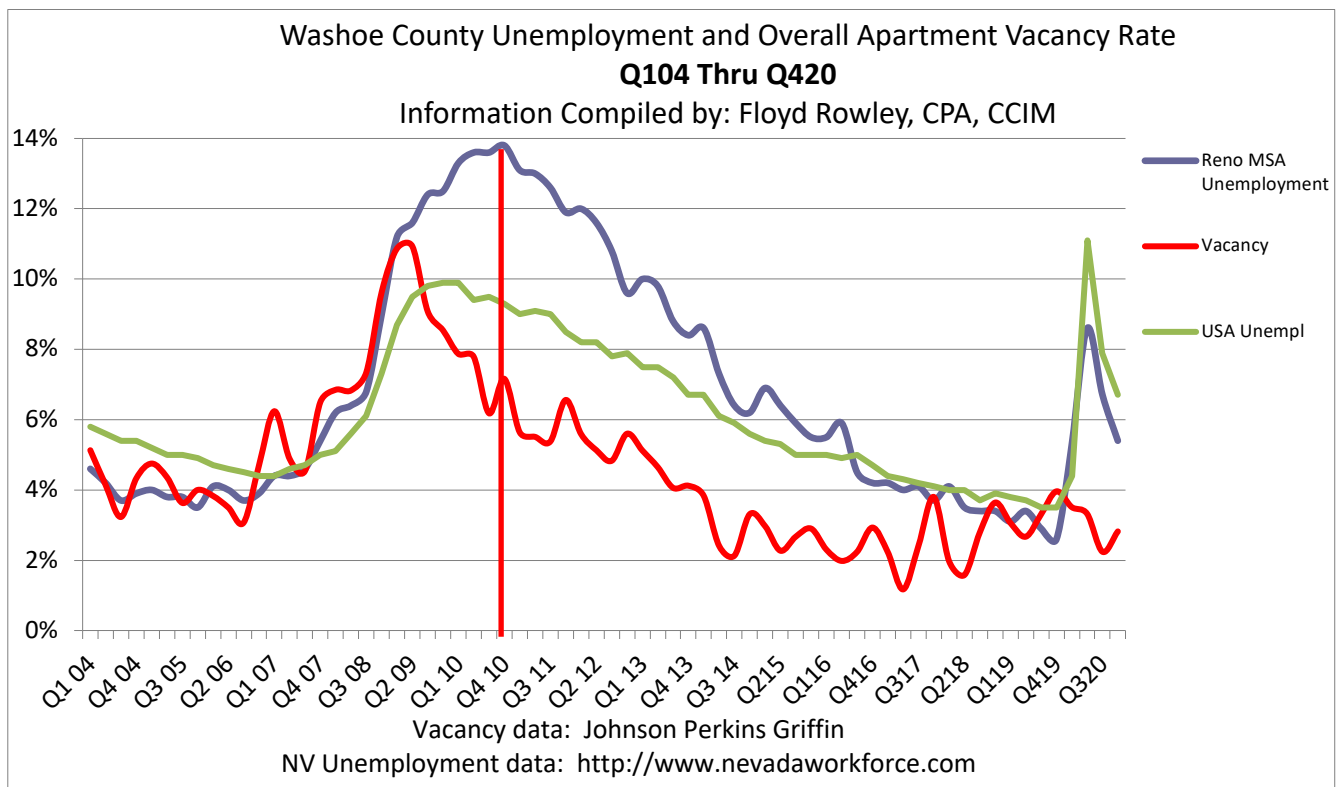
The Johnson Perkins Griffin’s (JPG) Q420 survey inventory decreased by 2 properties to 97 properties because Harvest at Damonte Ranch, which was built in 3 separate phases, is now complete and operating as one cohesive project. Thus, the total units in their survey remained unchanged at 24,575 units, for a total of 1,370 units added to their survey in 2020. As always, JPG’s data is representative of our region’s multifamily market. Their survey is available at: <http://jpgnv.com/wp-content/uploads/2021/01/Apartment-Survey-4th-Quarter-2020-FINAL.pdf> . Here is my analysis of their survey:

- **Overall rents were flat this quarter**, increasing by a trivial \$4/unit/month, or 3/10ths of 1%, to \$1,424.
- **There was significant rent movement within the 11 submarket rents once again.** 7 of 11 submarkets reported rent increases, ranging from \$5 to \$62, with Downtown Urban registering the largest increase. On the downside, Lakeridge which scored the highest gain in Q3, dropped an amazing \$90. West Reno registered a big \$71 decrease, with Brinkby/Grove dropping \$21 and NE Reno dropping \$8.
- **The highest rent was, once again, reported by East Sparks** – now a full \$125 above the rebounding Downtown Urban, which recovered strongly this quarter, moving up to 2nd place at \$1,496. Southeast Reno held on to 3rd place with a \$4 increase. There are **NO** submarkets with average rents in the \$1,500’s.
- In Q116, I started the so-called “**\$1,000 Club**”, when 4 submarkets hit that average rent /unit / month. In Q320 EVERY one of the 11 JPG submarkets’ average rents exceeded \$1,000. However, in Q4 Brinkby Grove dropped back down to \$994 in average rent this quarter, as the only submarket not in the “Club”.

- Rents languished from Q318 through Q120, rising a total of only \$23, or 1.75% over seven quarters! **In 2020, the year of the pandemic, average rents rose 7.55%, or \$100 this year!**
- **Overall vacancy rose slightly from 2.24% in Q3 to 2.82% in Q4.** New properties are continuing to lease up that do not meet the JPG criteria for inclusion, including INOVA and The Lakes at Lemmon Valley.

BAD NEWS VOLUME 2: The Governor’s March 16 “no eviction” order was extended - but finally expired – on October 15th. As I predicted last quarter landlords immediately filed eviction notices, some who had not paid rent since February. These filings ferreted out the bad actors from other past due tenants – who most landlords are willing to work with. The good news is that it did not have any meaningful impact on Q4 vacancy.

The Governor’s “no eviction” order was extended again on December 15th through March 31, 2021. Additionally, the federal CDC got into the act on September 4th halting evictions through January 31, 2021 – now 3/31/21, as part of a recent executive order. IF a tenant files a “declaration” of inability to pay rent, with absolutely no backup required, they don’t have to – what a country! As of this writing two separate “relief” bills are in the works to dole (sic) out more than \$2 trillion. Hopefully the descendants of these recipients will inherit a few of these dollars as our national debt has almost tripled from \$10 to \$27 **TRILLION** since 2008.



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 \$284 million in 98 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, flyers, tours, research, spreadsheets – AND THIS REPORT.