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Northern Nevada Commercial Investment Real Estate Report: Q414
The Jobs are Really Coming – Really - Issue

The following is condensed from EDAWN CEO Mike Kazmierski's article in the January 16th RGJ, presented with permission.

Three years ago the thought of unprecedented growth in our region was just a dream and a problem for which we could only hope. Let's promise ourselves not to forget how bad that felt. No matter how painful growth can be, we will take it, appreciate it and enjoy it. In the past two years, EDAWN has assisted 60+ companies announce their intent to add more than 6,900 new jobs to our region. The multiplier for these jobs will add another 8,700 jobs, totaling 15,600 new jobs. There are many other companies that also decide on their own to relocate to our region. Also, many existing local firms are growing and adding jobs. Based on EDAWN's active prospect list, in the next 5 years we expect to announce 15,000 more new direct jobs, plus 19,000 new indirect jobs for a total of 34,000 new jobs.

Our prospect list contains 140+ companies: several have already decided to relocate to our region - or are considering us as a finalist. Let's do the math: 15,600 recently announced direct & indirect jobs + 34,000 projected EDAWN assisted direct & indirect jobs in the next five years + this little company called Tesla which will add another 17,000 jobs, both direct & indirect, totaling over 50,000 new jobs, not counting other organic growth. [Note: I get 15.6 + 34 + 17 = 66.6 k jobs] To prepare for this growth, we must first believe that it will happen, then comprehend the magnitude and speed of it, and finally prepare for it. There is much we can do to mitigate growth's negative impacts while we celebrate the significant positives. We have convened a regional planning group, the Economic Planning Indicators Committee, with the mission to identify in detail the impacts of this growth. The goal is to get this information out to the community by March 1st. The growth we have worked for and hoped for is coming.

Is Reno ready for Tesla growth? Yes, but at a price

Anjeanette Damon, in the 12/9/14 Reno Gazette Journal (RGJ) reported that, at a joint meeting of the Washoe County Commission and Reno and Sparks city councils on 12/8/14, officials believe **our region is well positioned to provide water and housing** to new residents when Tesla opens. **Our region faces an expensive sewer treatment challenge**, which is already straining the area's largest treatment plant. The facility has already been fined for putting too much nitrogen into the Truckee River. Either the region builds a $35 million pipeline to send effluent to Storey County for industrial use, or it installs nitrogen treatment technology at a cost of $40 million. Either project will need to be fast-tracked. Officials may seek state or federal funding to build the effluent pipeline.

Tesla did not rip off Nevada in gigafactory deal

Writing in the 11/21/14 RGJ, Jason Hidalgo reported that Elon Musk stated that Tesla did not hoodwink Nevada into a bad deal for the gigafactory as he pushed back against media reports that criticized it. Since the deal was announced in September, articles in the Los Angeles Times, Wall Street Journal and Fox Business News have been critical of the $1.3 billion in incentives approved for Tesla. With a title, "The House Always Wins," Musk's blog post reiterated "Nevada is the entertainment capital of the world, home to the most sophisticated casinos on Earth. As everyone knows, the money to build those resorts arises because the casino houses generally tend not to lose." Musk pointed to a Moody's assessment of the deal that called it "credit positive" for the Reno area and the state. He also claimed that incentives from the state only account for 5% of the cost of the gigafactory. Musk added that Nevada is not giving any money. The deal largely involves abatements on taxes that the state would have collected **if** Tesla came to the Silver State without the agreement. The only thing the electric carmaker received from the state was the location of the factory itself, which Tesla acquired through a land swap between the state and the industrial center developer. Musk downplayed the land deal. "If you have been to Nevada, you will notice that there is quite a lot of extra land with nobody on it," Musk said. An analysis commissioned by the state also projected $100 billion in economic impact from the deal in the first two decades. Musk also pointed out that the incentives expire after that, providing even more benefit to the state long term.

For further Tesla news I strongly recommend the Fortune Magazine "giga" article dated 12/1/14, titled, "Inside Elon Musk's $1.4 Billion Score", at: http://fortune.com/inside-elon-musks-billion-dollar-gigafactory/

Finally, there is a site called, http://www.teslarati.com/ that deals with all sorts of Tesla-related stuff, including debunking – as I have to various individuals recently – the rumors that Tesla has bought two apartment buildings in Reno and Sparks: The Village at Arrow creek Parkway and Eastland Hills – NOT!

National Multifamily Housing Council Annual Conference, La Quinta, CA January 2015

This was my 5th NMHC conference I attended - and my 4th in a row. As usual it was great for networking, education and getting a national perspective. Here are my key takeaways from the 6-hour Strategies session:

- 25-35 year olds are moving downtown
- Workforce housing is hard to pencil and attract investor interest
- Focus on services to differentiate your product
- Trammell Crow is building 70% 1-bedrooms and smaller
- Need fast internet and great cell service or you are toast as a developer / owner
- 2 year leases provide peace of mind with a mid-term bump
- In suburbia, locate apartments near employment
- People rent in neighborhoods where they want to buy – or used to live in.
- MF building permits are still running at ½ of the pace of the 1980's
- We are in a new normal - until we aren't. We are in the 4th or 5th inning of the cycle nationally.

Clearly the national building boom – which focused 52% of all new units nationally on the "Sexy Six" cities, has not yet reached Reno – but see the next section.

Major Planned / Under Construction Apartments

Based on my developer surveys, I added 1,364 planned units in 6 new planned projects - mainly in Sparks. I eliminated 443 units under construction, mainly due to the completion of Phase I at the Bungalows at Sky Vista and due to the delivery of the last building at the Village at ArrowCreek Parkway. Apartments I am now tracking consist of:

Planned (these are more likely to be built): 18 projects totaling 4,410 units
Under Construction: 4 projects totaling 814 units – described below
Total: 22 projects totaling 5,224 units **vs 2,420 in Q214**

While this net total represents a 116% increase in planned projects in just 6 months, there are more likely to be announced in Q115. However, there **are NO signs of a glut**, given that these 5,224 units represent only about 8% of the new jobs that EDAWN is projecting for our region in the next 5 years.

- **The Villas at Keystone Canyon** continues to be in full-swing construction, with 2 out of 22 buildings now completed, with the balance to be delivered before the end of 2015. The clubhouse is mainly done and planning is underway for a 2016 delivery of a phase 2 of this luxury property.
- **Edgewater at Virginia Lake** project sitework is complete, along with the foundations. Framing is underway with leasing to start in April with planned occupancies starting in June.
- **The Bungalow's at Sky Vista** are leased at 75% of the 188-unit Phase I. Phase II construction is underway with planned occupancies starting in June.
- **The Village at Arrow Creek Parkway** has now released all 11 buildings in Phase One. They are 90% leased overall and 83.2% occupied at the end of January.

Q414 Multifamily Sales and Analysis

Multifamily (MF) sales grew 48% this quarter to $106.9 million, due to the Sterling Sierra student housing deal and the sale of the Villas at D'Andrea by its special servicer to capitalize on the Tesla frenzy. MF sales accounted for 33% of Q4's $323.5 million in total sales. Total MF volume increased $61.8 million from Q3. There were 3 MF sales over $3 million, compared to 2 in Q3, for an increase of $54.4 million in volume, reflecting the size of the Q4 deals. Interestingly there were 37 sales in Q4 and 36 in Q3. Small MF sales under $1 million dropped by 5 to only 26 deals, for a total of $7.1 million, compared to $9.7 million in Q3. This dropped the average small deal size by 13.6% - or $42.7k - to $271.8k from $314.5k.

Major Q414 Sales Transactions

Total sales in Q4 increased by $142.9 million to $323.5 million from $180.6 million in Q3. As expected every Q4, total transaction volume this year increased 20.5% to 147 deals this quarter, versus 122 in Q3. There were 3 huge deals this quarter as noted below.

Transaction	Address	Date	Price
A unit of USAA Insurance, sold a 5 building, 1.515 million sf, 85% occupied, older industrial portfolio to an affiliate of LBA, Los Angeles for $32.34 / sf.	930 Kleppe, 960 E Greg, 990, & 3 on E Glendale	11/03/14	49,000,000
Dinerstein, the largest US student housing developer, sold Sterling Sierra on completion to Horizon Realty Advisors, a major student housing owner out of Seattle.	1550 Evans Avenue	10/01/14	48,500,000
CW Capital sold the Villa at D'Andrea to Oakmont Properties of Folsom, CA at $125k / door, as part of its second annual 60+ property disposition campaign.	2200 N D'Andrea Parkway	12/18/14	32,000,000
DDR, a publicly traded retail REIT that owns 415 retail properties, bought the Whole Foods and Sierra Outfitters buildings from American Realty Capital Properties.	6139 S Virginia Street	11/10/14	18,800,000
Wells Fargo, as trustee, sold most of the line shops at the "Smiths" shopping center - including Starbucks & Peg's - to Sunstone Horizon from Las Vegas.	SEC of S Meadows & Double R Blvd.	11/12/14	12,000,000
An investor from Brooklyn bought the Walgreens at the NWC of Moana and South Virginia.	3495 S. Virginia Street	12/11/14	8,100,000
Panattoni sold the Bally Building to Tom Louderback, one of the oldest living NFL players and a Reno resident.	950 Sandhill Road	11/03/14	7,600,000

Three local investors sold the mini-storage facility behind Maestro and Double R to the William Warren Group, a self-storage company from Santa Monica.	888 Maestro Drive	10/28/14	7,450,000
Panattoni sold this 87.3 ksf industrial building occupied by Pentair, to Stag Industrial, a Boston-based REIT, which has deployed over $2.7 billion of capital.	9025 Moya Boulevard	10/01/14	6,450,000
		Totals	**189,900,000**

The REALLY HUGE Local News Bag

In a January 13th article Bill O'Driscoll reported in the RGJ that **JetBlue will begin a daily flight linking Reno to JFK** International Airport in New York starting May 28. It will be the first-ever daily nonstop service between the cities. New York has been Reno's #1 un-served market. More than a decade in the making, the JetBlue deal was a broad effort by the region's business interests and will touch all facets of the region's economy. An Airbus A320 will depart JFK at 7:40 p.m., arriving in Reno at 11:07 p.m., and then depart back to JFK at midnight. J.D. Power ranked JetBlue #1 for the 9th straight year in overall satisfaction among low-cost carriers. Southwest, Reno-Tahoe's largest carrier, ranked 2nd.

Writing in the 12/25/14 RGJ, Jeff DeLong reported that early work on a long-awaited **project to remove and rebuild the Virginia Street Bridge will begin in January**, and to have it replaced before the end of 2016. Built in 1905, the bridge is crumbling and is rated as Nevada's worst bridge. During major floods, it acts as a bottleneck for debris, causing water to rise over riverbanks and inundate parts of downtown. Reno is awaiting issuance of a federal permit to enter the river and begin major demolition of the bridge. Crews are slated to begin removing utility lines that run through the it and placing them on temporary poles to span the Truckee River as a step to clear the way for major construction likely to begin in June. At an estimated cost of $19.2 million, the project involves replacing it with a "bowstring truss" structure to allow water to pass freely beneath. Nearby floodwalls will also be replaced.

Jeff DeLong wrote in the January 3rd RGJ that the area's largest water purveyor, Truckee Meadows Water Authority **(TMWA), took over operations of the water systems** from the Washoe County Department of Water Resources and the South Truckee Meadows General Improvement District on January 1st. The merger will boost TMWA's customer base from 95,000, to 119,000 across the greater Reno-Sparks area. The merger represents a major milestone in a process that essentially began in 2001 with the creation of TMWA and the takeover by Reno, Sparks and Washoe County of the water system previously operated privately by Sierra Pacific Resources. The biggest benefit to consolidation is an improved and broadened ability to manage water resources across the region.

Jason Hidalgo, writing in the January 16th RGJ, reported that Las Vegas-based **Switch plans to build a 3 million sf data center in Northern Nevada, for $1 billion.** They will also invest an additional $1 billion to expand its existing operations in Las Vegas. Switch's "supernap" project also includes the development of a fiber optic network that will connect Reno, Las Vegas, Los Angeles and San Francisco - a "superloop", which will dramatically increase information speed among the cities. The data center campus will be built in phases on a 1,000-acre site at TRIC. Switch expects the overall project to take five to 10 years but its first facility should be open by Q216. Switch employs 400 people at its Southern Nevada data center, which will expand from its current 2 million sf to 3.5 million sf. The Las Vegas operation also has an additional 5,000 people who work on site for Switch's clients.

On January 6th EDAWN and Governor Brian Sandoval announced at a joint press conference that **Clear Capital is moving from Truckee to Park Center Tower**, across from the Aces Ballpark in downtown Reno. Clear Capital, a technology leader in real estate valuation and analytics solutions, is expected to add up to 400 jobs to Northern Nevada.

Chris Murray, writing in the 12/5/14 RGJ, reported that **the UNR Regents approved an $11.5 million renovation to Mackay Stadium**, which was built in 1967. Seating capacity will drop from 30,000 to 26,000 and is scheduled to be completed for the 2016 season opener. This is Mackay's first major renovation since 1996. They will add an 8.5 ksf club level to the west side; loge boxes near the club level; 4,062 permanent chair-backs to replace bleachers and expand east-side suites to include outdoor patio space. Renovations will be paid for by two $1 million donations and future ticket revenue. Some season tickets will increase from $295 to $550. UNR estimates a 59% sell-through rate to break even. A 75% sell-through rate would net UNR $8.3 million in net revenue over the 15-year term of the bond.

Writing in the 12/29/14 RGJ, Bill O'Driscoll reported that a state report showed that **Nevada's job growth rate of 3.7% was higher than every state except North Dakota and Colorado over the first six months of 2014.** This 6-month job growth rate stands in stark contrast to negative growth, as low as minus 10% during the bleakest period of the Great Recession in 2009-10. That followed the robust years of the first decade of the millennium when Nevada held title to the nation's highest job growth, surpassing 6% on an annual basis in the 2004-2005 period when unemployment rates dipped below 3% in our region.

Rob Sabo wrote in the 12/8/14 NNBW that **Ghost Systems is locating in Reno**. They have leased two floors at 200 S. Virginia, and expect to break ground on a 50 ksf data center at Reno Technology Center in Q115. They will invest up to $210 million to build the data center. They have nailed down financing from a joint-venture partner. The data center will be a subterranean Tier 4 data operation designed to host mission-critical servers and provide the highest level of guaranteed availability. It will consist of **two, 25 ksf modular buildings that will be completely underground** to provide better shielding and cooling. The equipment inside also will be protected by faraday cages, or metallic enclosures, to shield it from electromagnetic pulses. Our state's business-friendly climate won out over 20 locations, including Texas, the United Kingdom, Amsterdam and Curacao. Ghost Systems plans to hire 150 employees as it ramps up operations and will seek computer scientists, engineers, etc., with a $40 / hour average wage.

Yvonne Beasley, writing in the 12/1/14 RGJ, reported that **plans have edged forward for a long-delayed hotel near Reno Aces Ballpark.** A four-story, 135-room Courtyard by Marriott is planned at 340 E. Second Street, according to the City of Reno building permit website. The site is directly across from the ballpark and abuts the Truckee River. The permit lists a $9 million figure for the 76 ksf project. The owner is affiliated with Basin Street Properties, which owns the adjacent Park Center Tower.

The **sale of the abandoned, downtown King's Inn Hotel finally closed** on November 12th to Las Vegas developer Chi Chi Bengochea. After the deal was preannounced with some fanfare in the RGJ this past summer, the closing was delayed as the developer pursued - then backed away - from seeking $410k in affordable housing money from the City. The developer said he will announce his plans in Q115. At the peak of the last cycle there were plans to add additional floors to the building – we shall see. The 40-year-old King's Inn closed for good in 1986 after operating as a hotel and casino.

The RTC plans to **widen McCarran Boulevard from Mira Loma Drive to Greg Street**, a $31 million effort that will add one additional lane in each direction, and replacing deteriorating privacy screens with new sound walls. The project will also add a 10' wide, multi-use path, parallel to McCarran Boulevard, from Longley Lane to Greg Street. Work should be complete in late 2015.

Yvonne Beasley wrote in the 12/24/14 RGJ that the **101 acre Stations Casino property at the SEC of Mount Rose and So. Virginia sold** to 4 local businessmen on 12/22/14. They paid $2.05 million and are planning garden style apartments and flex commercial buildings on the land to be named Steamboat Commerce Center. The planned development will use Steamboat Creek as an open space feature. In the late 90's the property was owned by Boyd Gaming, which had planned a Sam's Town Casino. In 2004 Boyd sold the land in to Las Vegas entrepreneur Blake Sartini who sold it to Stations in 2005.

The Marvel of American Resilience

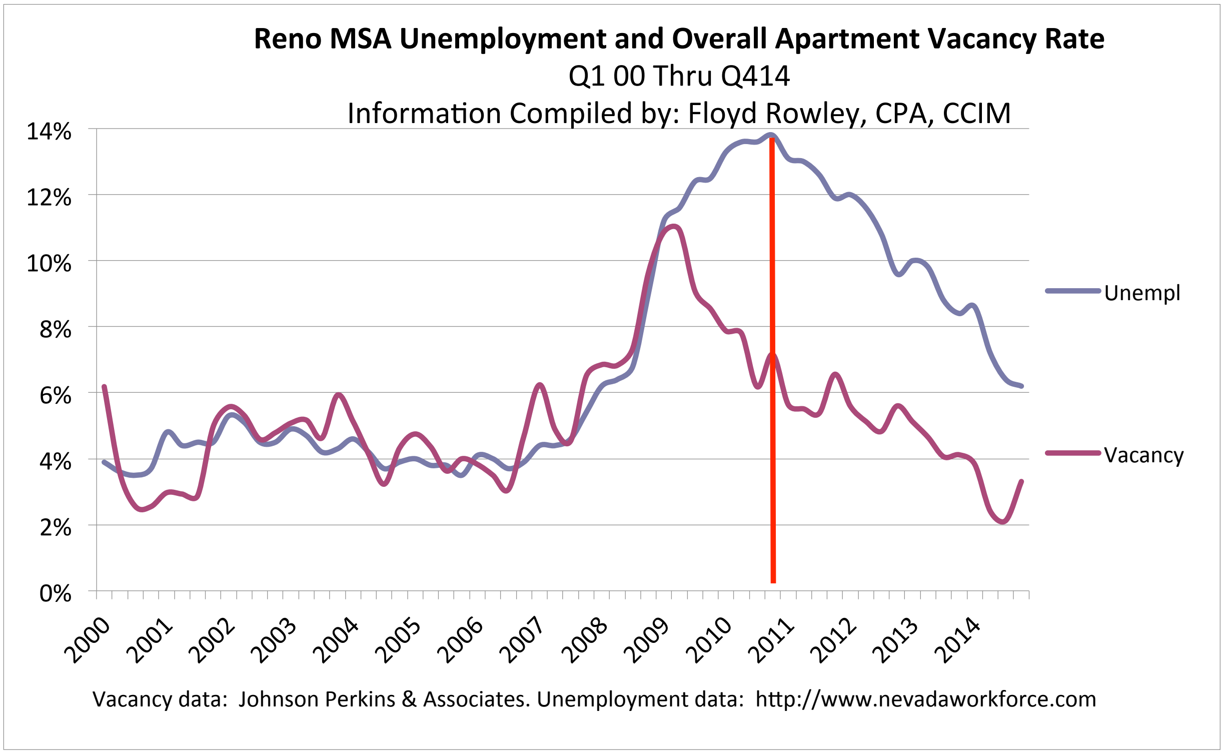
Bret Stephens, writing just before Christmas in the Wall Street Journal Global View Section, asks us to imagine an economic historian in the year 2050 talking to her students about the most consequential innovations of the early 21st century. Surely fracking, social media, mobile apps and the emerging science of cancer immunotherapy would make the list. One common theme is that each innovation had "Made in USA" stamped all over it. How strange, given that many Americans of the day spent so much time bellyaching about the state of their schools, the paralyzed nature of their politics, mounting fiscal burdens and predictions of impending decline. Perhaps because I [both Bret and me] grew up living abroad, I've always been struck by the disconnect between American achievement and self-perception. To this day I am slightly amazed that I can drink water straight from the tap, that a policeman has never asked me for a "contribution," that my luggage has never been stolen, that nobody gets kidnapped for ransom, etc. Try saying this about life in Brazil, Russia, India, China or even South Africa. But back to our future historian. Why did the U.S. dominate all the really big innovations? Fracking would make a good case study. Fracking happened in the U.S. not because of any great advantage in geology, nor because America's energy companies are uniquely skilled, smart or deep-pocketed: Exxon Mobil 's 2004 Annual Report barely mentioned fracking. Nor did it happen because a federal bureaucracy and our national labs were peering into the future. Instead, fracking happened because Americans, almost uniquely in the world, have property rights to the minerals under their yards. And because the federal government wasn't really paying attention. And because federalism allows states to do their own thing. And because against-the-grain entrepreneurs did not have to bow to the consensus of experts. And because our capital markets were willing to bet against those experts. Fracking has upended energy markets, pummeled petro dictators, confounded OPEC, forged deeper North American economic ties, slashed U.S. greenhouse-gas emissions to their lowest level since 1995, questioned the economics of most renewable-energy projects. Fracking is just one industry. In time, its advantages to the US will fade as the technology is more widely disseminated. Then it will be on to the next thing, which, safe to say, will also be of American origin and design. Here is the larger lesson our future historian will draw: Innovation depends less on developing specific ideas than it does on creating broad spaces. A free society that is willing to place millions of small bets on persons unknown and things unseen is the key. Flexibility is its true test of strength. Success is a result of experiment not design. Failure is tolerable as long as adaptation is possible. This is the American secret, which we often forget because we can't imagine it any other way. It's why we are slightly shocked to find ourselves coming out ahead. We are larger than our leaders, better than our politics, wiser than our culture and smarter than our ideas.

Apartment Statistical Review

Thanks - as usual - to Johnson Perkins & Associates for allowing me to present their quarterly data. Their Q4 survey covers 78 properties and 19,685 units. Thus the data is representative of our region's multifamily performance. Key takeaways this quarter are as follows:

- Overall vacancy, which had been dropping steadily since Q412, took a noticeable uptick from 2.1% in Q3 to 3.3% in Q4. More amazing was that **vacancy was up in every one of the 10 submarkets**.
- Almost every submarket experienced a 1% uptick in vacancy, meaning that the rise was broad-based across our region. Brinkby/Grove – the perennial weakest submarket – topped the list @ 5.1%.
- After average rental rates soared to $887 in Q3, they came back to earth in Q4 to $868, as a result of the higher market vacancy, and more in line with recent quarters.
- East Sparks continues to report the highest rents – and even registered a $7 increase - with Lakeridge in second place, and Northwest Reno pushing Southeast Reno out of the top 3.

Even with all the Tesla hoopla after the 9/4/14 announcement, it has not shown up yet in apartments, as evidenced by the Q4 numbers, although Q4 is generally the weakest quarter of the year. We ended up at 3.3% vacant compared to 3.8% in Q413, while average rents actually fell $9 / unit / mo. year over year.



Prior to Q309 the correlation between the vacancy and unemployment rates was almost perfect. Then, starting abruptly in Q309 the gap between them widened noticeably, reaching 7.5% by Q211. This divergence was caused by a combination of job losses and home foreclosures. Since then the gap began closing as companies began hiring again and people "chose" to live in apartments. A possible reason for the abrupt uptick this quarter might be that 45% of the 501 total SFR sales in December were under $250k, making a mortgage payment competitive with renting. Finally, Q3's 2.13% vacancy rate reached the lower theoretical limit of vacancy, as units routinely need to be "turned" for vacating tenants.

About the Author

Floyd joined the Johnson Group in January 2011 as the culmination of his brokerage emphasis that had been moving towards apartments throughout his 11-year brokerage career in northern Nevada, interrupted by a brief "walkabout" with a national firm for 13 months. Prior to joining Johnson Group, Reno's premier boutique commercial brokerage firm, Floyd served for 7+ years as SVP of the Colliers Investment Services Group. Floyd focuses on representing buyers or sellers in large investment property sales: apartments, office buildings, retail centers and industrial properties. Floyd also does sale / leaseback transactions and build-to suit leases. Since mid-2004, Floyd has closed $147.3 million in 51 transactions in the Reno MSA. Starting in the fall of 2008 he increased his focus on distressed assets, mainly apartments. Since then he has completed 53 broker price opinions totaling $380 million during the Great Recession - resulting in $46 million of listings, mainly apartments, since early 2010.

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