

Northern Nevada Commercial Investment Real Estate Report: Q315 The “Reno/Sparks as the new Austin” Issue

For the 4th quarter in a row, I am leading off my report with yet another excellent article from EDAWN CEO Mike Kazmierski. The article below appeared the 9/20 Reno Gazette Journal (RGJ) and is presented in an edited form using my recent “blanket reprint approval” status from Mike.

Reno-Sparks can be the next Austin and we can do it in a way that embraces and manages our growth like Austin did. Austin is recognized as a great city with a thriving economy and a vibrant downtown, driven by technology and the University of Texas (UT). But it was not always so. In 1970, its population was 250,000 - about the size as Reno today. How did Austin accommodate their success and grow - more than triple in size at 900k people – managing and nurturing “good” growth? In the 1970s, Austin's growth was propelled by its emergence as a high tech center. According to the Texas State Historical Association (TSHA), “this high-tech development was fostered by the Chamber of Commerce since the 1950’s as a way to expand the city's narrow economic base and fueled by proliferating research programs at UT”. IBM, Texas Instruments and Motorola drove this growth. The region amassed over 400 high-tech firms by the 1990s - and incentives were a factor. Reno-Sparks is in a position to replicate this tech-driven growth. Tesla, Switch, eBay, Panasonic, Apple and 50+ other advanced manufacturing and tech companies have already invested in our region, with many more expected. We have a growing university with an increasing emphasis on research and commercialization, a downtown that is turning the corner on revitalization, and a unique cultural and arts component, founded on a first-class art museum. Our region is postured for greatness if we embrace this opportunity. Yes, there were those in Austin in the 1970s that opposed growth. According to the TSHA, people were “angered by proliferating apartment complexes and restricted traffic flow and neighborhood groups mobilized and historic preservationists that fought the destruction of Austin's architectural heritage.” In the end, Austin managed to “balance the economic development it had long sought, with the kind of life it had long treasured.” The result was a world-class city that continues to generate quality jobs that will fuel its continued economic success for generations. It is now time for our region to prepare for, accommodate, and even embrace this growth. We are in a once in a lifetime opportunity now to become great. Reno-Sparks is a wonderful place to live, but let’s not forget the 14% unemployment and the migration of our youth to other job-rich areas. We are at the inflection point where Austin was 45 years ago. We need to look past the mindset that seeks to focus on the 10% of growth that is challenging, while ignoring the positive 90% growth that can fuel our path to greatness.

Major Planned / Under Construction Apartments

Based on my quarterly developer surveys, I eliminated 787 planned units and 112 under construction units this quarter – the first time since I resumed this survey in Q413 - due to refinements (e.g.: 57 units vs 186 **beds** @ Sterling Student Housing). I also added 5 small projects in and around Midtown, but one developer threw in the towel– eliminating 420 units. Apartment developments I am now tracking consist of:

Planned (these are more likely to be built): 25 projects totaling 5,659 units

Under Construction: 8 projects totaling 1,020 units – described below

Total: 33 projects totaling 6,679 units vs 4,303 ONE YEAR AGO

While this net total represents >360% increase in planned projects **since Q413, there are STILL NO signs of a glut**, given that these 6,679 units represent only 21 - 35% of the new dwelling unit demand that is based on projected population growth in the recent EDAWN / EPIC report.

- **The Villas at Keystone Canyon** continues to be in full-swing construction, with the final buildings to be delivered by late November.
- **Edgewater at Virginia Lake** continues construction with 47 of 48 condos pre-sold. Its 288 apartments are now 25% leased with the balance to be completed next fall.
- **The Bungalow's at Sky Vista Phase 2** are complete and 94% leased.
- **Vale II**, 40 units being built by ERGS, Inc., is scheduled for initial move-ins in September.
- Foundations have now started at **Fountain House @ Victorian Square** – 220 total units.
- **Sterling Summit** student housing apartments east of Valley Road are under construction for 186 bedrooms (sic) to be delivered in August of 2016.

Q315 Multifamily Sales Analysis – proprietary research

Multifamily (MF) sales surged \$48.0 million, or 61% in Q3 to \$127.2 million from \$79.2 million in Q215 as three huge MF sales closed this quarter. Thus, with no large industrial sales in the quarter, MF sales sprinted back to 41.7% of Q3's total sales – regaining a lot of ground to Q1 where MF accounted for 52.5% of total sales. There were 3 huge MF sales over \$3 million totaling \$112.1 million, compared to 4 in Q215 - for an increase of \$43.8 million in dollar volume. There were 31 total MF sales in Q3 versus 26 in Q215. In the quarter there were 3 sales in the \$1 - \$3 million range, compared to 2 in Q2 for a robust increase of \$4.9 million. While small MF sales under \$1 million increased from 20 to 25 deals in Q3, the total Q315 dollar volume was lower by \$646K over Q215. The net result was the average deal size shrank dramatically to \$285k vs \$388k in Q2. In fact the largest Q3 sale under \$1 million was only \$580k.

Switch's SuperNAP to be largest data center on Earth

Jason Hidalgo wrote in the 9/22/15 RGJ that Switch's SUPERNAP at TRIC will be the largest data center in the world. The campus will cost \$3 billion when fully built out and will house 7 buildings totaling 6.49 msf. The Campus will boast the largest data center building in the world - the 1.2-msf SUPER-NAP Tahoe Reno 1 (TR1). Switch's original facility, the Las Vegas Digital Exchange Campus is 2.4 msf and has 9 buildings - with 3 more on the way. Combined with TRIC, Switch's Nevada locations will total 8.8 msf, the largest two data center campuses in the world, which will be connected by a SUPERLOOP, looping from Reno, to Las Vegas, San Francisco, Los Angeles – and back.



Photo courtesy of Switch

It will consume 150 mw of power – enough to power up to 120k homes. TR1 requires 82,000 tons of cooling – the most data center cooling in the world. TR1 will be 40 feet off the ground – with a moat around it to handle water and to prevent flooding. Switch plans to use 100% renewable energy, with at least 100mw from solar. Construction of TR1 will employ 1,000 workers. Switch has not released the total employee count for the TRIC campus but stated that its Las Vegas campus - including client employees - has 5,000 badged workers, of which 2,300 have Nevada licenses. The first confirmed client for the SUPERNAP TR1 is eBay, which will take up the entire back end of the initial building. Switch is expected to start operations in 2016.

Major Q315 Sales Transactions

Total commercial sales in Q315 decreased by only \$16.9 million - or 5% over the very robust Q215 - to \$304.7 million – the second time this year that quarterly sales have exceeded \$300 million. Last quarter the top 2 deals were industrial. This quarter the top 3 sales were apartments – exceeding \$112 million.

Transaction	Address	Date	Price
Oakmont Properties bought The Trails at Pioneer Meadows from Fore Properties of Las Vegas, completing Fore's exit from northern Nevada.	6717 Rolling Meadows Drive, Sparks	08/20/15	44,000,000
MG Properties purchased the Vizcaya Hilltop Apartments from special servicer, CW Capital (CW), as part of a two-property package.	1350 Grand Summit Drive	09/04/15	34,350,000
MG Properties also bought the Village at Iron Blossom Apartments the same day from CW.	690 E Patriot Blvd	09/04/15	33,750,000
Toll Brothers purchased 59.2 acres of the former Bella Vista Ranch from RSF Partners, Dallas, who bought the property during the Great Recession.	E of Veterans Pkwy & N of Steamboat Creek	09/09/15	28,900,000
Altis Real Estate Strategies, Miami bot the Smith-ridge Shopping Center, excluding the CVS drug store, from Meyer Properties of Newport Beach.	5093 S McCarran Blvd	08/31/15	21,000,000
Lennar purchased 189.56 AC immediately east of Damonte Ranch High School from Village Properties of Belmont, CA.	Desert Way	09/29/15	15,500,000
US Bank, Trustee for Bear Stearns 2006-Pwr13, foreclosed on 3 APN's comprising a major portion of the Iron Horse Shopping Center.	589 E Prater Way	08/10/15	10,800,000
McKenzie Properties sold their strip center across from the Convention Center (USBank, Golf Headquarters) to the Loban family of San Jose.	4002 Kietzke Lane	08/18/15	8,500,000
An entity controlled by Fernando Leal purchased the Siena Hotel Casino with plans to close the casino and convert it into a Ramada Renaissance.	1 South Lake Street	07/01/15	7,800,000

Totals 204,600,000

The Local News Bag

Seth A. Richardson, writing in the 9/17 RGJ, reported that **the United Soccer League is coming to Reno**. The team will share the stadium with the Reno Aces and begin play in 2017. The team name will be decided by the public, similar to how the Aces name was chosen. Sod will be put over the dirt infield for soccer games. The USL is below Major League Soccer (MLS), the preeminent professional soccer league in the US, and the North American Soccer League. The league signed a player development deal with MLS in 2013. Twenty-eight teams from around the country will comprise the league after the expansion is finalized. No public money is going into luring the team to Reno.

The NNBW on 9/23 reported that the William N. **Pennington Foundation has given \$4.3 million to Truckee Meadows Community College to significantly benefit workforce training** in northern Nevada. TMCC will use the donation to complete the second phase of renovation / remodel at its Edison site, and to inaugurate a Technical Pathways option for college and high school students. Certificates to be

offered include advanced manufacturing; architecture; automotive; construction management; diesel technology; CNC machine technician; energy technologies; HVAC, logistics technician; production technician; Unmanned Aerial Vehicle; and welding.

Jason Hidalgo, writing in the 9/16 RGJ reported that Vancouver-based **Pure Energy Minerals finalized an agreement with Tesla to potentially supply the company with lithium hydroxide for use in its batteries**. The lithium will be procured from their Brine Project at Clayton Valley, just 3.5 hours away from Tesla's Gigafactory 1. It is also in the same basin as Albermarle's Silver Peak lithium brine mine. Silver Peak is the only producing lithium operation in the US today. The Tesla agreement is a key milestone for Pure Energy's lithium brine project and its business development model.

Chanelle Bessette, writing in the 9/29 RGJ, reported that the **McCarran-Pyramid intersection in Sparks is about to enter its final demolition phase**. The RTC has finished all its design plans for the project, and has been cleared to receive all the earmarked federal funds to build out the intersection. The total cost is about \$75 million, with the last \$45 million recently cleared. The RTC soon award a contract to bring down the last 38 buildings in the way. Construction will include adding one new lane in each direction on Pyramid and dedicated turning lanes on both McCarran and Pyramid. Construction is set to begin in early 2016, with completion set for mid-to-late 2017, barring weather delays.

Siobhan McAndrew, wrote in the 9/11 RGG that **there are 20,898 students at UNR this fall** - a jump of nearly 5% from last year. Other key statistics are:

- There are 3,851 incoming freshmen, a 14% increase from last fall.
- This year's freshman class is contains 1,122 students from Clark County and 1,099 from Washoe County. It is the first time Clark County freshmen outnumber students from Washoe.
- The fall 2014 to fall 2015 retention rate hit 81%, contributing to the number of students on campus.

The NNBW reported on 8/31 that E-commerce company **Jet.com has signed a 160 ksf industrial lease at USA Industrial Center**, at 2777 USA Parkway in McCarran, for its West Coast warehouse and distribution center.

Siobhan McAndrew reported that, at the September meeting of the Nevada Board of Regents meeting, **UNR received approval to start designing a College of Business building in the UNR Gateway District**. UNR plans to grow south from its current border on E Ninth Street to I-80. It currently owns 15 properties in the District on Center, E Eighth, E Ninth and Lake Streets. There are 7 properties that UNR does not have controlling interest in, or options on. The Regents approved \$700k to plan, design, develop artist renderings and start marketing materials, to allow UNR to solicit and promote donor interest.

Jason Hidalgo wrote in the 9/22 RGJ that today, **450 Sinclair Street officially opened as the "University of Nevada, Reno InNevation Center Powered By Switch"** - who is also building its huge data center campus at TRIC. It wasn't long ago when 450 Sinclair served mostly as a solemn reminder of just how hard the Great Recession hit Reno. Once the home of the city's Community Development (CD) Department, the building was vacant for years before the City moved the CD staff to City Hall to cut costs. The reimagined space will serve to bring together innovation and entrepreneurship, and will serve to bridge the gap between UNR and a once distant downtown. The placement of a physical asset in the middle of town will help identify Reno-Sparks as a university town. The 25 ksf center is a place designed to inspire and iterate on new ideas, with the center's furniture, a mix of styles and shapes that use plastic, wood and imposing metal accents that were designed and curated by Switch founder and CEO Rob Roy. He has also opened a similar center in Las Vegas.

Anjeanette Damon wrote in the 9/10 RGJ that a group of general aviation pilots lost their bid to halt the construction of a **soaring "blade" sign for a proposed movie theater at Meadowood Mall**, which they said could interfere with their ability to land at RNO. In a 5-1 vote, the Reno City Council approved the sign for the proposed Cinemark theater on the condition that it be shortened from 60 to 46' tall and be approved

by the FAA. The vote clears the way for a major expansion at Meadowood Mall, which will also include the area's first Dick's Sporting Goods store. Construction of both buildings has been delayed due to the appeal filed by the Reno-Tahoe Aviation Association.

Water deal called major milestone for Truckee River

Jeff DeLong, reported in the August 21st RGJ that on August 19th regional water officials resolved all remaining differences to the long-pursued Truckee River Operating Agreement (TROA). It could be implemented by the end of 2015 to allow the plan to be operating by 2016. Directors of the Truckee Meadows Water Authority (TMWA) agreed to sell up to 2,750 acre-feet (AF) of now "dormant" water rights to the Pyramid Lake Paiute Tribe, which will be paid for by a \$7 million federal grant through the Desert Terminal Lakes Program, enacted by Congress in 2002. The move should end the final legal challenges to TROA, which was signed by the Tribe, the feds, Nevada and California in 2008. Lawsuits have kept it in limbo ever since. TROA will provide much more flexibility to the river's management and could more than double the water stored upstream for use during droughts. The deal satisfies a provision of the TROA that requires Reno, Sparks and Washoe County to provide 6,700 AF in water rights to improve the river's water quality. Only 3,900 AF had been secured to date, so the sale of the 2,750 AF will close the gap to allow dismissal of remaining lawsuits, including the final active portion of a 1973 suit filed by the United States and the Tribe against the Truckee-Carson Irrigation District that went all the way to the U.S. Supreme Court. The water rights involved in the deal are among more than 25K AF acquired by the utility's private predecessor, Sierra Pacific Power Co., between the 1950's and 1970's. TROA is designed to permanently replace an antiquated and inflexible water management system that favors farmers, small hydroelectric plants and defunct paper mills, by creating a far more flexible system of storing and using water from Truckee River reservoirs. The agreement will also end a requirement requiring release of water into the river to meet specific flows. Over time, potential drought storage will be more than doubled, from 27k AF to 75K AF.

America for One Day

The following is a significantly edited article in the WSJ Opinion Section dated 9/22/15 where Bret Stephens wrote an open letter to China's Xi Jinping comparing America to China.

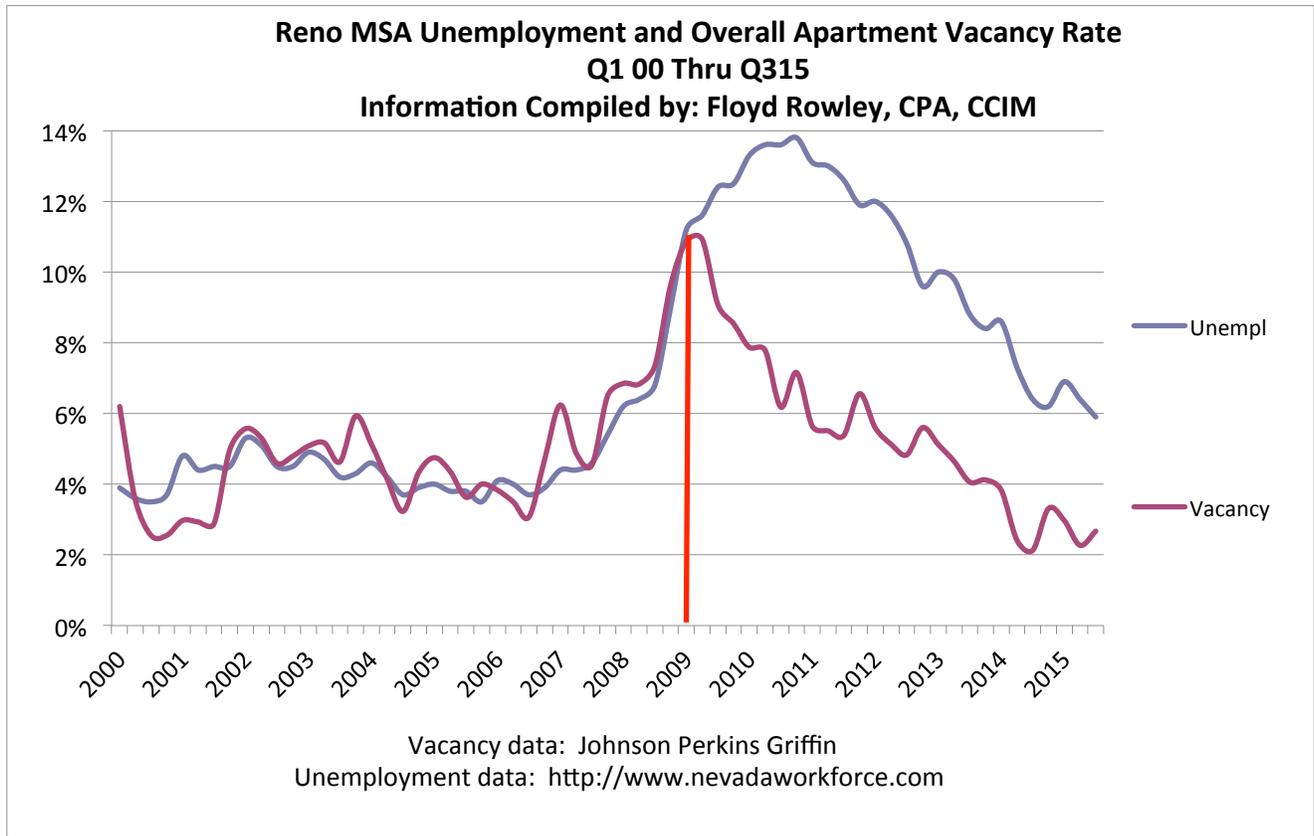
Wouldn't it be nice to be America for one day? Yes, America, perhaps the only country on earth that can be serially led by second or third-rate presidents - and somehow always manages to prosper. America, where half of the college-age population can't find New York state on a map - even as those same young Americans lead the world in innovation. America, where Cornel West is celebrated as an intellectual, Miley Cyrus as an artist, Jonathan Franzen as a novelist and Kim Kardashian as a beauty - and yet remains the cultural dynamo of the world. America, which defies every ethic of excellence is indeed the kind of country it would be good to be, at least for a while. Start with the basics. The US solved the problem of political legitimacy through its foundational acts. In other words, limited government, a check on personal power, is the best guarantee that institutions will outlast each person. Limited government has another advantage - it means limited responsibility. Even George W. Bush's or Barack Obama's angriest critics can't quite blame them for everything. U.S. presidents don't have the mandate of heaven, so they don't have the burden of it, either. Americans are failure experts. We expect it, forgive it, often celebrate it. We do this partly because we're soft, but also out of hardheadedness. Tolerance of failure is a prerequisite for success.

Apartment Statistical Review

Recurring thanks to Johnson Perkins Griffin for allowing me to present their quarterly data. Their Q315 survey covered 79 properties – 1 more than Q2 - and 20,007 units – 240 more than Q215. Thus their data continues to be representative of regional multifamily performance. My quarterly observations are as follows:

- Overall vacancy bounced up a bit to 2.67% from 2.27% in Q2 – still 1+% **less** than the last cycle.
- Only 2 of 10 submarkets registered vacancy declines - with one changed.
- West Reno continues to report the lowest vacancy at 1.33% - with Airport at 1.43% knocking Lakeridge out of the top 3 at 1.43% – with SE Reno coming in 3rd at 1.59% vacant.

- Average rental rates continue to rise: a healthy \$22 / unit – or 2.4%, with East Sparks at \$1,047 nudging Lakeridge to 2nd place at 1,031, with NW Reno still in 3rd place - now over \$1,000 / unit / mo.
- NW Reno joined East Sparks and Lakeridge in the "\$1k Club" - now 3 submarkets have topped \$1,000 / unit / month for their average rents - up from 2 submarkets in Q2.



Prior to Q309 the correlation between 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 job losses and home foreclosures. Since then the gap has held steady in the 4% range.

About the Author

Floyd joined the Johnson Group in January 2011 as the culmination of his emphasis that had been moving towards apartments throughout his 12-year brokerage career in northern Nevada, interrupted by a brief “walkabout” with a national firm for 13 months. Before joining Johnson Group, Reno’s premier boutique commercial brokerage firm, Floyd served for 7+ years as SVP of the Colliers Investment Services Group. Floyd represents buyers or sellers of large investment properties: 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 \$170 million in 55 transactions in our market. Starting in the fall of 2008 he started focusing on distressed assets, mainly apartments. He has completed 55 broker price opinions totaling \$431 million during the Great Recession - resulting in \$56 million of listings, mainly apartments, since early 2010.

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