

Northern Nevada Commercial Investment Real Estate Report: Q314 The BTAT Issue (Before Tesla - After Tesla) Issue

When Governor Sandoval officially announced the Tesla deal on Thursday September 4th at 4 PM, our region and our state changed forever: the 6,500 direct jobs, the 3.5 indirect jobs multiplier, the flow of taxes, etc. This summer "BT" there was a reasonable balance between buyers and sellers – "AT" that is now out the window. While actual demand will rise gradually, seller's expectations have soared overnight. Everyone wants to buy apartments – few are on the market. Industrial deals are going very close to the asking price and suddenly there are over 160 land listings on LoopNet – mine isn't – [click here](#) to view my listing of 28.76 +/- acres right next to The Summit, Reno's destination retail experience.

Tesla's Impacts

As the sole commercial broker member of the Fiscal Impact Roundtable, founded by City Manager Andrew Clinger, I attended the October 9th meeting where Brian Bonnenfant, from UNR's Center for Regional Studies, and Eugenia Larmore, Ekay Consultants, collaborated on a wide-ranging forecast presentation. Recall that Tesla gets 100% of sales tax abated for 20 years, 100% of real and personal property tax abated for 10 years, \$195 million in transferable tax credits and \$8 million of discounted electricity, which comes from us the taxpayers. The key take-aways from their predictions are:

- 4,500 direct & indirect construction workers will be needed annually over a 3-year construction cycle, bringing a \$1.6 billion total economic impact.
- 1,300 direct & indirect equipment installers will be needed annually over a 14-year period, causing a \$2.1 billion total economic impact with \$9 billion of equipment purchased.
- There are 30,000 approved and un-built dwellings - mainly SFR and MF units in Washoe, 15,700 along the Highway 50 corridor and 1,500 in Fernley.
- 59% of Storey County employees live in Washoe County – this is unlikely to change.
- The region's population increased 19,705 in 2000-01 and 63k in 2001-05 so we can do it again.
- School impact = 3,600 students. Bad news is that building schools is a long lead-time project.
- Government budgets may not be strained as new employees in the region will be paid an average 28% more than the current average, rippling through sales taxes, property taxes, etc.

Major Planned / Under Construction Apartments

This quarter I added 1,660 net planned units in 5 projects and added a net 223 units under construction, by adding Edgewater at Virginia Lake and removing Sterling Sierra. That student housing project was placed in service just as the fall semester began at UNR. Apartments I am now tracking consist of:

Planned (these are more likely to be built): 12 projects totaling 3,046 units

Under Construction: 6 projects totaling 1,257 units – 4 described below

Total: 18 projects totaling 4,303 units vs 2,420 in Q214

- **The Villas at Keystone Canyon** continues to be in full-swing construction. Grady Kromer out of Truckee is the developer of this 288-unit project. The three floor plans range from 1,121 to 1,328 sf.

- At Silverwing's **Edgewater at Virginia Lake** project sitework has started, with the foundations to start any day. There are 100 people on the waiting list without any advertising except one sign at the entrance. They expect to start sales in January 2015, with first closings and move-ins in mid April.
- Silverwing's **Bungalow's at Sky Vista** has leased 110 units out of the 188-unit Phase I with leasing having started at the end of May. Phase II sitework is underway with the first buildings being formed for foundations. They expect to complete Phase II by August 2015.
- **The Village at Arrow Creek Parkway** has now released 9 buildings up from 5 in Q214. Based on apartments released they are 97% leased and 93% occupied out of 144 units. Ryder is still on track for the last building to be released by December's end with move in's scheduled for January 2015.

Q314 Multifamily Sales and Analysis

Multifamily (MF) sales dropped 48% this quarter due to the huge Alexander deal closing in Q2 at \$55.3 million. MF sales accounted for 25% of Q3's \$180.6 million in total sales. Total MF volume was down \$41.1 million - from Q2. There were only 2 MF sales over \$3 million – compared to 4 in Q2, a decrease of \$38.2 million in volume, both stats due to the Q2 Alexander sale. Small MF sales under \$1 million were flat at 36 deals, for a total of \$9.7 million, compared to \$10.5 million in Q2. This dropped the average "small" deal size by 10% - or \$35.1k - to \$314.5k from \$349.5k in Q2.

Major Q314 Sales Transactions

Total sales in Q3 increased by \$25.9 million to \$180.6 million from \$154.6 million in Q2. Total transaction volume was relatively steady at 122 deals this quarter, versus 117 in Q2. There were no blockbuster deals this quarter, but the volume of smaller industrial deals picked up notably.

Transaction	Address	Date	Price
Spanos sells the 296 unit Eastland Hills Apartments to Standard Management from LA.	1855 Baring Boulevard	08/19/14	27,500,000
GE Capital sells the foreclosed Marriott Courtyard to TPG Hospitality, owner of 59 hotels in 22 states.	6855 South Virginia Street	09/17/14	16,000,000
A unit of the Indcor industrial REIT sells this 1978 vintage, 295 ksf industrial building to the Rankins.	525 Coney Island Drive	08/11/14	9,300,000
Lawson Products does a sale / leaseback with KTR Capital Partners, owners 65 msf in 25 markets.	1381 Capital Boulevard	07/01/14	8,600,000
The doctors that owned Digestive Health Investors sell their 2 locations to a TIC headed by Stephen Hall of Saratoga, CA	655 Sierra Rose Dr & 5250 Kietzke Ln	08/07/14	6,800,000
The Mallor /Oliver 1994 Trust sells its 90 ksf warehouse to two gentlemen from Incline Village.	110 Woodland Avenue	08/13/14	4,750,000
Force Financial Corp of Los Angeles buys the Los Altos Crossing shopping center from Sorenson Group Management from Salt Lake.	5358 Sparks Boulevard	08/05/14	4,700,000
Daniel Scher buys the 56.5% of this 201,600 sf warehouse that he didn't already own.	345 Parr Circle	08/28/14	4,521,500
ENT Properties sells this 8,827 sf office building to the Batavia Family Trust in Carnelian Bay, CA	9770 S McCarran Boulevard	09/08/14	4,425,000
George Rehrmann sells the Roselake Apartments to a local buyer.	3050 Lakeside Drive	07/25/14	3,900,000
Total			<u>90,496,500</u>

The HUGE Local News Bag

In a staff report dated August 16th the RGJ reported that **Amazon is moving its warehouse from Fernley to the Dermody' s LogistiCenter 395 facility** being built off of Lemmon Drive north of downtown Reno. All Fernley employees can continue working at the new Reno site. The Fernley location employs 4,000 during the holiday season and 600-900 during the rest of the year. It opened in 1999, and spans 750 ksf. The move date is unknown, When completed in the next few years, the LogistiCenter complex, a Dermody Properties development, will feature three buildings with a total of 1.2 million square feet of warehouse space on a 91-acre site overlooking U.S. 395.

Yvonne Beasley, writing in the 8/13 RGJ, reported that **Mark Estee is expanding his Reno culinary empire into the former downtown JC Penney building** at 100 N Sierra Street. The Campo chef said that the project, to be called Reno Provisions, will open in late 2014 with more than 10 ksf of combined restaurant-bar-market space. It will have a market-cafe-retail-cooking demo area on the building's first floor. In the basement, workers are constructing a butcher shop, bake shop and production area. Additional ground-floor windows will be added, as well as amenities to other parts of the building. The new business will employ 40 people and the project will cost \$1.6 million overall.

Yvonne Beasley, writing in the August 27th RGJ, reported that **Ashima Devices will move its headquarters, research and manufacturing operations from Pasadena to Stead.** 400 new jobs, with an average salary of \$70k, are expected by 2018. Ashima has committed to collaborating with UNR to prepare students for jobs in the UAV field. The drones - not yet in production - will be made for law enforcement, fire and rescue, security and industrial uses. The round drones, called "Hexpucks," provide short-range "situational awareness" up to 1/2 mile. They are smaller than a manhole cover, with smooth plastic casing that prevents them from getting stuck. Possible uses are tracking wildfire, investigating structural flaws in an oil tanker or spotting what's around the corner in a conflict. They are controlled from a tablet, which can be made wearable, so controllers can strap them on and move around.

Writing in the August 12th RGJ, Tyler Hersko reported that the former Borders bookstore in the **Redfield Promenade is being expanded for Nordstrom Rack**, which is due to open in spring 2015. They will occupy 31 ksf +/- in one of the city's highly-trafficked commercial areas on South Virginia Street.

Writing in the Sept 10th RGJ, Lenita powers reported that **UNR's fall enrollment hit a record number of 19,934 total students**, a 6.2% increase over fall 2013. Administrators are crediting the record number of students on campus due to increased retention rates and to a growing freshman class. UNR's fall-to-fall retention rate of 82% is 2% higher than the rate in 2013. This fall's jump in enrollment is the second-largest ever. The biggest jump was in 2001 when enrollment grew by 1,167 students – right after the Millennium Scholarships started. This year's enrollment missed tying that number by nine students.

In an AP story on September 5th, Ken Ritter wrote that **Fulcrum Sierra Biofuels biofuel production plant** would receive a federal loan guarantee for about 40% of its \$266 million cost. The project will be ready for construction by the end of 2104. An estimated 10 million gallons of diesel, maritime and jet fuel it is expected to be produced by 2016, mainly for military The USDA is providing a \$105 million U.S. loan guarantee. Construction on the Sierra BioFuels Plant in Storey County will take two years and be located in the Tahoe Reno Industrial Center, joining Tesla's battery plant. Cathay Pacific Airways plans to buy 375 million gallons of sustainable aviation fuel from the plant over 10 years, or 2% of its annual fuel supply.

In an October 16th press release, EDawn announced that **Petco will occupy a new distribution center near Highway 395 and Red Rock Road** north of Reno. The facility is expected to bring up to 150 jobs and contain over 770 ksf of space to support retail stores in Petco's Western Region, as well as their e-commerce customers on Petco.com. Panattoni started construction on the project in September, with completion scheduled for May 2015. The state-of-the-art facility will be LEED Silver certified.

EDAWN issued a press release on October 24th stating that **Cenntro Automotive Corporation has chosen Sparks** as its headquarters and manufacturing facility in its current 80 ksf facility. Cenntro will manufacture two styles of all-electric commercial utility vehicles here and hire up to 300 employees at full production. Based in the US, Cenntro aims to become a global leader in the production of highly efficient electric commercial vehicles that reach 200+ MPGe and offer smart choices for maintenance, delivery and light cargo transport, which can be used in parks, farms, campuses, industrial facilities, etc.

Writing in the August 11th NNBW, Rob Sabo reported that **Blake Smith purchased the former Heritage Bank building** and plans to create a southern anchor for the Midtown District. Smith paid the Bank their full asking price of \$1.1 million. Renovation work is expected to cost an additional \$2 - \$3 million. The 9ksf building with its stucco exterior looks nothing like it did when it was built in 1956. It is constructed entirely of brick. The plan is to remove the stucco and interior sheetrock to re-expose the original architecture and then split the building lengthwise into 3 - 4 to restaurant (no McDonalds) and retail spaces and brand the center The Cov. Smith plans to add up to 5 ksf of new space on the south side of the building and keep one of the drive-through lanes from the bank. The back of the building will be developed into 3 ksf +/- of office space for startups. He plans to add up to 30 lofts and one-bedroom apartments behind the building to create a live / work environment on the one acre site.

Work on remainder of Southeast Connector could start soon

Jeff DeLong wrote in the October 10th RGJ that the RTC expects the permit for the 2nd phase of the Southeast Connector to be approved by the Army Corps of Engineers in early November. The RTC believes the "mercury issue" has been resolved, regarding soil in the project area contaminated by historic mining activity. The chance that mercury pollution could be worsened by the road project is one of the main worries of opponents and was cited as a concern by the EPA last year. Last October, the EPA recommended denial of the Corps permit, which is needed because the road's second phase impacts wetlands in the area. An expert from the Corps has reviewed the RTC's plans to secure the contaminated soil dug up during construction of the connector and determined they are satisfactory. The Corps has concluded its examination of the issue in advance of its decision regarding the permit. In July the EPA wrote a letter to the Corps stating, "The Superfund Branch believes that the RTC's proposed management of mercury-impacted soil is protective of human health and the environment". The RTC plans to encase the soil in special cement and place it beneath the surface of the roadway at elevations above those of the major flood of January 1997. The EPA said those plans appear to be beneficial to the environment and are consistent with steps taken to contain mercury pollution near the Carson River. The Connector is a critical alternative to U.S. 395 / I-580 for north-south travel across our region and is needed to avoid serious traffic congestion in the decades ahead. The first phase, a mile of road south from Sparks and including a bridge over the Truckee River, was completed for \$65 million. The Corps permit is needed to complete the 4.5 miles from Clean Water Way through Rosewood Lakes to South Meadows Parkway, with the entire project costing about \$250 million. If the permit is secured as expected, work on the project's next phase could begin almost immediately, with major earth-moving possible as soon as January.

Nevada high court makes key ruling on HOA liens

An AP article in the 9/20 RGJ reported that the Nevada Supreme Court has ruled that a lien held by an HOA can override a deed of trust involving a first mortgage on the property. Real estate investors in Las Vegas, who have been buying foreclosed property at bargain prices, claimed a victory in the ruling. The state Supreme Court overturned an earlier Clark County District Court decision. HOA's can place liens on properties within their communities for unpaid fees, which become a super-priority lien that must be paid off first when a foreclosed home is sold. The justices agreed with the argument that the investors, by paying off the lien held by the Southern Highlands Community Association in 2012, wiped out a debt of \$885,000 on the property that had been held by U.S. Bank as a first deed of trust. [Can you believe this????] Attorneys for U.S. Bank argued that neither state law governing common-interest communities

nor public policy, "justifies giving SFR such a tremendous windfall." The bank also argued that if a lender cannot adequately protect its substantial residential loan investment, the lender will either cease lending in Nevada or charge higher interest rates to protect itself against greater uncertainty of the borrower's repayment. The opinion written by Justice Kristina Pickering also clarified a long-standing dispute over what can be included in a super priority lien, which centered on whether such liens can include costs and fees associated with recovering the unpaid assessments, including costs incurred by collection companies hired by HOAs. HOAs have argued that the fees are recoverable under the lien, while those who have purchased foreclosed homes argue only nine months of unpaid dues can be included. Lawyers have interpreted the ruling that the super priority lien is a cap, a formula, limited to nine months of assessments and no more. [I am sure we will see more on this!]

Why Millennials Seem to Love Suburbia

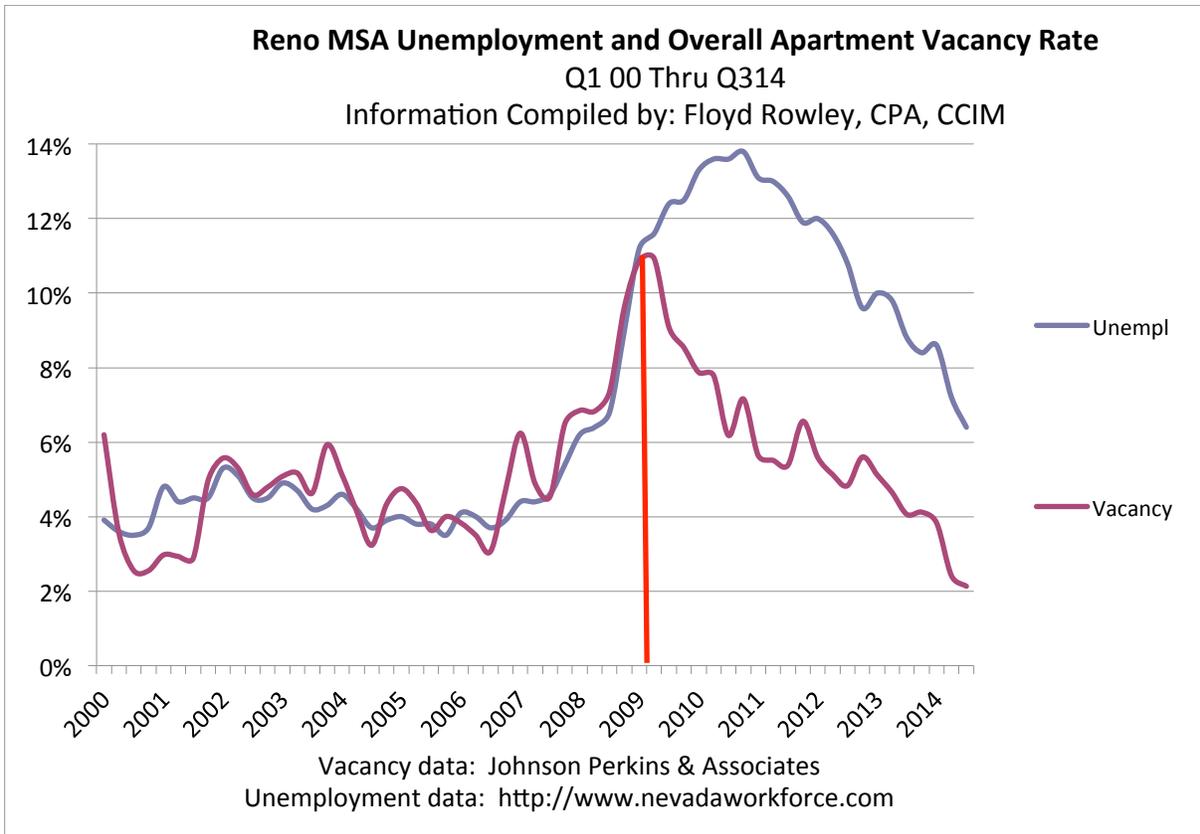
Writing on GlobeSt.com on July 16th Carrie Rossenfeld stated that reports of suburbia's demise as a draw for Millennials are extremely premature - if applicable at all. According to a recent GlobeSt.com online poll asking why Millennials are rediscovering the virtues of life outside big urban centers as they enter a different life stage, 47% of respondents said the suburbs still corner the market on better services such as schools and property, and 42% said the cost of city living has made it harder to establish a family and career. Only 1% of respondents felt that suburbs have offered better options for a significant amount of time, saying the economic opportunity shifted outside the core decades ago. This indicates the shift has been more recent. Many respondents feel better services and cheaper cost of living are drawing Millennials to the suburbs. The results are somewhat surprising given the popularity of transit-oriented development, the extreme strength of the multifamily market and many industry reports that cities are capturing the imagination of Millennials with live / work / play environments. What young people are attracted to is not so much city vs. suburbs, but what the environment has to offer. Millennials love amenities, which leads to the assumption that's what draws them to cities. The Millennial population has been slower to marry and become financially independent and they express less interest in "worldly" goods. Whether this is a result of the Great Recession, a change in values, student-loan debt or difficulties in finding well-paying jobs, it is diverse group that is very complicated. Student-loan debt is a valid factor in delaying homeownership among Millennials, who may be prevented from obtaining a mortgage due to high debt-to-income ratios. Their delayed purchasing is not necessarily a matter of **not** wanting to own a home, but being unable to finance one in their current economic situation, which impacts the environment in which they live. Millennials are starting to have kids later, and once they do, it will be interesting to see what their preferences are with their living environment as well.

Apartment Statistical Review

Thanks as always to Johnson Perkins & Associates for allowing me to present - with attribution - their quarterly data all these years. Their Q3 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 continues to drop to 2.1% at Q3 - from 2.4% in Q2, ranging from an amazing 0.4% in West Reno to 4.4% in Brinkby/Grove - the perennial weakest submarket. In Q3, 5 of 10 submarkets were at or under 2% - up from 4 in Q2, indicating that the lack of vacancy is pervasive.
- More good news (for owners): the average rental rate soared from \$852 / unit / month to \$887 in Q3. This is an increase of 4.1%, more than wiping out the unexpected decrease in Q2.
- East Sparks continues to report the highest rents, with Southeast Reno and Lakeridge right behind.

Based on being in the market - and the above statistics - it is clear to me that 2014 continues to be a great year for multi-family landlords. Based on deals I have worked on this year it is clear that both the Lakeridge and the South Meadows areas continue to be "on fire". Our region's apartment markets continue to be very stable by every measure across most of the region's submarkets and most unit types.



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, with a brief “walkabout” with a national firm in 2013. Prior to joining Johnson Group, Reno’s premier boutique commercial brokerage firm, Floyd served for 7+ years as Senior Vice President 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 \$143 million in 46 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 – most during the Great Recession - resulting in \$46 million of listings, mainly apartments, since early 2010.

Floyd Rowley, CPA, CCIM

Senior Vice President, Investments

JOHNSON GROUP

5255 Longley Lane, Suite 105, Reno, NV 89511

775.224.3183

Floyd@JohnsonGroup.net

Founder, Northern Nevada Executive Council www.nnec.biz

<http://www.johnsongroup.net/FLOYD.html>

