

RENO OFFICE

Economic Indicators

	Q1 18	Q1 19	12-Month Forecast
Reno Employment	247k	261k	▲
Reno Unemployment	4.2%	3.7%	▼
U.S. Unemployment	4.1%	3.8%	▼

February 2018/2019 used to represent Q1 for Reno.

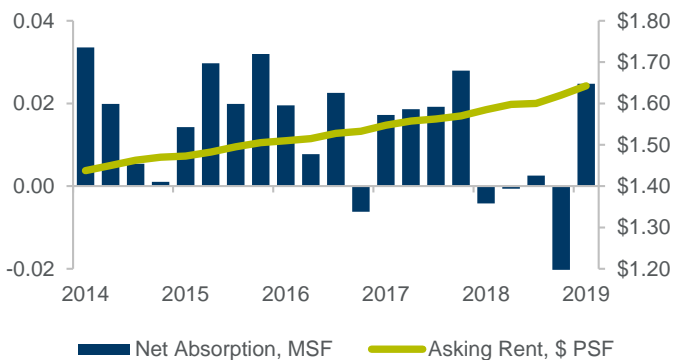
Market Indicators (All Classes)

	Q1 18	Q1 19	12-Month Forecast
Overall Vacancy	12.9%	11.9%	▼
Net Absorption (sf)	-54,952	125,146	▲
Under Construction (sf)	86,985	0	▲
Average Asking Rent*	\$1.62	\$1.71	▲

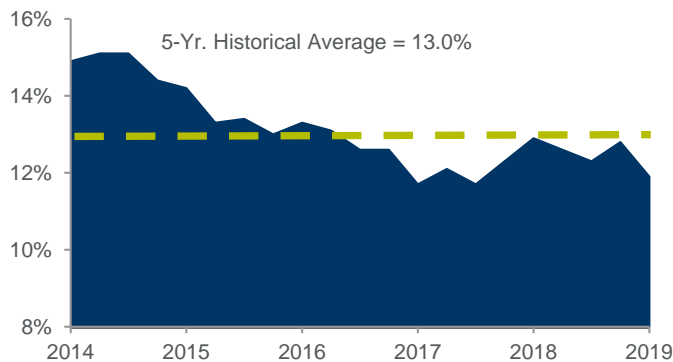
*Rental rates reflect gross rent overall \$psf/monthly.

Net Absorption/Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economic Overview

The Reno employment market continued to record job growth, adding 14,200 jobs (+5.9%) year-over-year through February 2019.¹ During the same time period, the unemployment rate decreased 50 basis points (bps), dropping to 3.7%. Also worth noting, the current rate is 220 bps below the 29-year average of 5.9%. All employment sectors are expected to grow at a combined growth rate of 3.4% in 2019. Reno's economy of \$26.6 billion² as measured by gross regional product is forecasted to grow an additional 4.8% in 2019, above its 10-year average of 2.3%.³

Market Overview

The overall office vacancy of 11.9% , including sublease, decreased 90 bps from last quarter and 100 bps from a year ago. Two of six submarkets posted single digit vacancy rates in Q1 2019: the South Meadows submarket recorded the lowest vacancy rate at 5.9%, followed by the Sparks submarket at 9.7%. The Downtown and South Meadows submarkets saw the biggest occupancy gains at 76,900 square feet (sf) and 20,500 sf, respectively. Tenants returned 13,600 sf to Sparks submarket – the only submarket with negative net absorption in Q1 - resulting in an overall positive absorption of 125,100 sf across all submarkets in Q1 2019.

Overall vacancy in Class A space was 17.6% in Q1 2019, 260 bps higher than last quarter and 210 bps higher than a year ago. Class B vacancy decreased 20 bps from last quarter yet increased 60 bps from a year ago. Class C vacancy saw the biggest change since last year dropping 690 bps to a low rate of 10.3%, a level last seen in 2008. Attractive rents and plethora of options make Class C space the hottest commodity in the Reno office market. Three office properties were delivered in Q1 2019, totaling just under 67,000 sf. All three properties delivered are located in the Meadowood submarket. No other office properties are currently under construction.

Average asking rent of \$1.71 per month for all classes increased 5.6% from a year ago. Class A properties saw a year-over-year increase of 8.1% in average rent to \$2.14 per month, while Class B properties saw a year-over-year increase of 4.9% in average rent to \$1.71 per month in Q1 2019. The average Class C asking rent of \$1.40 per month increased 3.7% from last year.

The northern Nevada office market recorded \$34.5 million in sales activity in Q1 2019 compared to \$41.4 million traded in Q1 2018 – a 16.7% decrease. Private investors continue to be the leading buyers of office properties, accounting for all activity in Q1 2019.⁴

Outlook

- Reno's unemployment rate continues to mirror the national average, and is forecasted to drop to 3.1% by end of 2019, below the pre-recession lows of 3.4% seen in 2006. The lack of office construction in this market will contribute to decreasing vacancy rates for the foreseeable future, as demand will target existing inventory.
- The economic expansion period shows no signs of slowing down, and the Reno market continues to benefit. Several factors, including proximity to nearby major markets like Silicon Valley, will attract continued interest in the market.

Sources: ¹www.bls.gov ²bea.gov ³GDP as of 2017. (f) by Moody's Analytics economy.com ⁴RCA.

SUBMARKET	TOTAL BLDGS	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT NET ABSORPTION (SF)	YTD NET ABSORPTION (SF)	UNDER CONSTRUCTION (SF)	AVERAGE ASKING RENT* (ALL Classes)	AVERAGE ASKING RENT* (CLASS A)
Central/Airport	68	1,688,350	0	263,378	15.6%	16,714	16,714	0	\$1.20	-
Downtown	59	2,660,366	5,500	283,492	10.9%	76,876	76,876	0	\$1.79	\$2.15
Meadowood	74	2,097,599	47,014	245,337	13.9%	19,862	19,862	0	\$1.89	\$2.28
South Meadows	38	1,195,028	9,324	60,926	5.9%	20,500	20,500	0	\$1.85	\$1.87
Sparks	17	369,813	0	35,795	9.7%	-13,609	-13,609	0	\$1.16	-
West Reno	5	95,406	0	16,425	17.2%	4,803	4,803	0	\$1.12	-
TOTAL	261	8,106,562	61,838	905,353	11.9%	125,146	125,146	0	\$1.71	\$2.14
Class A	19	1,505,111	49,143	215,699	17.6%	151	151	0	\$2.14	
Class B	158	4,606,570	12,695	483,266	10.8%	9,006	9,006	0	\$1.71	
Class C	84	1,994,881	0	206,388	10.3%	115,989	115,989	0	\$1.40	
TOTAL	261	8,106,562	61,838	905,353	11.9%	125,146	125,146	0	\$1.71	

*Rental rates reflect gross asking rents \$psf/monthly. Overall vacancy rate and net absorption include direct and sublease. Inventory includes properties of 10,000 sf +, excluding OU.

Key Lease Transactions Q1 2019

PROPERTY	SF	TENANT	LANDLORD	TRANSACTION TYPE	SUBMARKET
777 Vista Blvd.	10,429	DaVita Dialysis	John & Sally F Oliveira Trust	New	Sparks
50 W. Liberty St.	8,598	ITS Logistics	Basin Street Properties	New	Downtown
5190 Neil Rd.	5,751	Greater Nevada Credit Union	Lansing Companies	New	Meadowood
730 Sandhill Rd.	4,434	AXIA Home Loans	Christopher Flocchini	New	South Meadows
9790 Gateway Dr.	4,217	Bowers Wealth Management	Martin Gateway LLC	Renewal	South Meadows

Key Sale Transactions Q1 2019

PROPERTY	SF	BUYER	SELLER	PRICE / \$PSF	SUBMARKET
555 Hammill Ln.	65,000	Watch Hill Capital	National Western Life Insurance Company	\$13,600,000 / \$209	Meadowood
1350 Stardust St	30,484	Alerica Corporation	Donald Lee Family Trust	\$1,635,000 / \$54	West Reno
140 Washington St.	19,222	The Carle & Ann Conway Family Trust	Tolles Development Company	\$3,250,000 / \$169	Downtown
5580 Kietzke Ln.	14,300	DBB Holdings Inc.	5580 Kietzke Lane, LLC	\$4,450,000 / \$303	Meadowood
777 Vista Blvd.	10,429	John & Sally F Oliveira Trust	Alamo Equities	\$6,508,000 / \$624	Sparks

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