

RENO OFFICE

Economic Indicators

	Q4 17	Q4 18	12-Month Forecast
Reno Employment	245k	259k	▲
Reno Unemployment	3.7%	3.3%	▼
U.S. Unemployment	4.1%	3.7%	▼

November 2017/2018 used to represent Q4 for Reno.

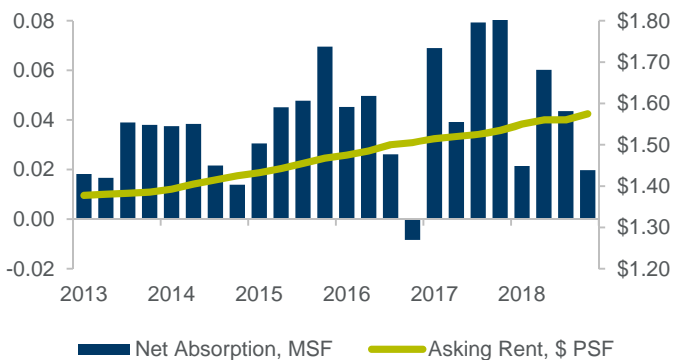
Market Indicators (All Classes)

	Q4 17	Q4 18	12-Month Forecast
Overall Vacancy	9.8%	8.9%	▼
Net Absorption (sf)	9,302	-38,359	▲
Under Construction (sf)	109,057	84,062	▲
Average Asking Rent*	\$1.55	\$1.61	▲

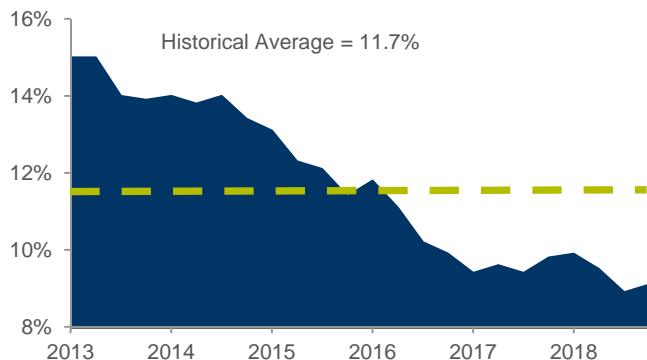
*Rental rates reflect gross rent overall \$psf/monthly.

Net Absorption/Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

The Reno employment market continued to record job growth, adding 13,300 jobs (+5.7%) year-over-year through November 2018.¹ During the same time period, the unemployment rate decreased 40 basis points (bps), dropping to 3.3%. Also worth noting, the current rate is 260 bps below the 29-year average of 5.9%.

All employment sectors are expected to grow at a combined growth rate of 3.1% in 2019. Reno's economy of \$26.6 billion² as measured by gross regional product is forecasted to grow an additional 4.6% in 2019, above its 10-year average of 2.3%.³

Market Overview

The overall office vacancy (including sublease) of 8.9% decreased 20 bps from Q3 2018 and 90 bps from a year ago. The South Meadows submarket currently boasts the lowest vacancy rate at 6.0%, followed closely by the Sparks submarket at 6.7%.

The Downtown and Meadowood submarkets saw the biggest positive absorption increases at 30,140 square feet (sf) and 25,200 sf, respectively. Tenants returned 91,800 sf to Central/Airport submarket, resulting in an overall negative absorption of 38,400 sf in Q4 2018. Overall, in 2018 occupancy grew by 107,200 sf across all submarkets, continuing to add to gains of 323,900 sf recorded in 2017.

Overall vacancy in Class A space was 10.6% at the end of Q4, unchanged from Q3 yet 60 bps higher than a year ago. Class B vacancy decreased 30 bps from a year ago. Class C vacancy saw the biggest change since last year dropping 260 bps to a record-low of 7.5%, a level last seen in Q4 2007. Attractive rents and plethora of options make Class C space the hottest commodity in the Reno office market.

No office properties were delivered in Q4 2018. The last office delivery was the 20,000 sf Class B building at 5301 Kietzke Ln. in the Meadowood submarket. Six properties, totaling 84,100 sf, are currently under construction, with an estimated completion in 2019.

Average asking rent of \$1.61 per month for all classes increased 3.9% from a year ago. Class B office properties saw the biggest year-over-year increase in rents or 3.8% to \$1.65 per month in Q4 2018. Average asking rent of \$2.03 per month for Class A and average asking rent of \$1.33 per month for Class C – each increased 1.5% from a year ago.

The northern Nevada office market recorded \$145 million in sales activity in 2018 - the best performance on record since 2008 - compared to \$137 million traded in 2017. Private investors continue to be the leading buyers of office properties, accounting for 88% of activity.⁴

Outlook

- Reno's labor force has grown at triple the national pace for more than a year, and shows no signs of slowing down. This will continue to contribute to lower unemployment through 2019, positively affecting demand for office space.
- Economic expansion, including migration of skilled workers from nearby states, no personal income tax and low business costs 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	152	2,454,927	1,117	337,582	13.8%	-91,801	-51,991	0	\$1.23	-
Downtown	150	4,492,997	7,475	331,535	7.5%	30,140	28,278	0	\$1.67	\$2.10
Meadowood	157	3,280,474	34,319	257,850	8.9%	25,167	45,301	73,044	\$1.83	\$2.14
South Meadows	121	2,121,372	16,647	111,067	6.0%	-8,133	56,619	0	\$1.73	\$1.88
Sparks	83	1,047,857	10,000	59,907	6.7%	3,633	18,780	11,018	\$1.34	-
West Reno	32	310,155	0	58,748	18.9%	2,635	10,225	0	\$1.11	-
TOTAL	695	13,707,782	69,558	1,156,689	8.9%	-38,359	107,212	84,062	\$1.61	\$1.61
Class A	23	1,868,253	49,143	148,295	10.6%	3,276	-13,602	40,826	\$2.03	
Class B	403	7,596,932	10,415	699,288	9.3%	-100,913	32,762	43,236	\$1.65	
Class C	269	4,242,597	10,000	309,106	7.5%	59,278	88,052	0	\$1.33	
TOTAL	695	13,707,782	69,558	1,156,689	8.9%	-38,359	107,212	84,062	\$1.61	

*Rental rates reflect gross asking rents \$psf/monthly. Overall vacancy rate and net absorption include direct and sublease. Inventory includes properties of 5,000 sf and larger.

Key Lease Transactions Q4 2018

PROPERTY	SF	TENANT	LANDLORD	TRANSACTION TYPE	SUBMARKET
100 W Liberty St.	11,800	Dickinson Wright Pllc	R Dumke Edmund W & Carol B	Renewal	Downtown
6980 Sierra Center Pky.	7,782	PBS West	Telischak & Company	New	Meadowood
985 Damonte Ranch Pky.	6,087	Nevada State Board of Pharmacy	Ryder Homes of Nevada, Inc.	New	South Meadows
4782-4788 Caughlin Pky.	4,800	Pitt's Orthodontics	ShopOne Centers REIT, Inc.	Renewal	Southwest Reno
241 Ridge St.	4,455	The Settlement Alliance	Tolles Development Co.	New	Downtown

Key Sale Transactions Q4 2018

PROPERTY	SF	BUYER	SELLER	PRICE / \$PSF	SUBMARKET
Sharlands Square	50,542	Truckee Meadows Construction	The Sharon Corporation	\$6,476,000 / \$128.13	West Reno
5905-5975 Los Altos Pky.	30,869	James R. Demartini Trust	Cypress Hill LLC	\$9,200,000 / \$298.03	Sparks
9895 Double R Blvd., Bldg. B	25,108	DLJ Steneri, LLC	VB2, Inc.	\$3,400,000 / \$137.01	South Meadows
9785 Gateway Drive	18,964	Marie-Victoire Georges Non-Marital Deduction Trust	Armando J. Flocchini Jr.	\$3,925,000 / \$206.97	South Meadows
500 Damonte Ranch Pky., Bldg. B	12,260	James R Demartini Trust	Resource Mgmt and Development	\$3,600,000 / \$293.64	South Meadows

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