

RENO OFFICE

Economic Indicators

	Q3 17	Q3 18	12-Month Forecast
Reno Employment in Thousands	242.8	250.8	▲
Reno Unemployment	4.0%	3.7%	▼
U.S. Unemployment	4.4%	3.9%	▼

August 2017/2018 used to represent Q3 for Reno

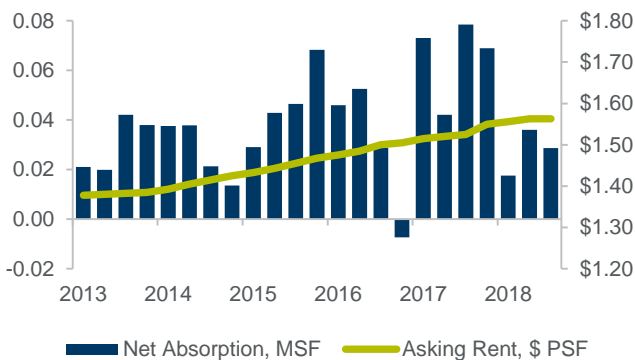
Market Indicators (All Classes)

	Q3 17	Q3 18	12-Month Forecast
Overall Vacancy	9.4%	9.4%	▼
Net Absorption (sf)	72,940	58,665	▲
Under Construction (sf)	56,844	88,880	▲
Average Asking Rent*	\$1.54	\$1.54	▲

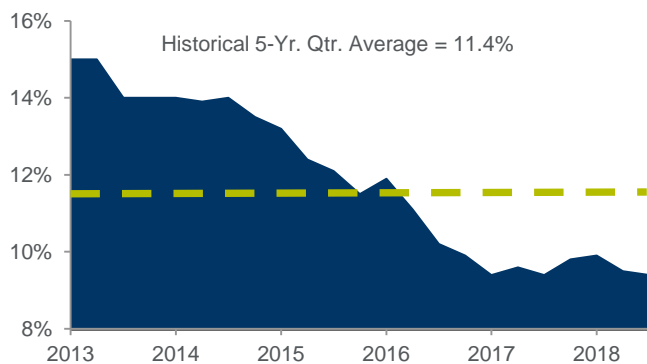
*Rental rates reflect gross rent overall \$psf/monthly

Net Absorption/Asking Rent (Gross Rent Overall, Monthly)

4-QTR TRAILING AVERAGE



Overall Vacancy – All Classes, incl. Sublease



Economy

The Reno employment market continued to record job growth, adding 9,100 jobs (+3.9%) year-over-year through August 2018.¹ During the same time period, the unemployment rate decreased 30 basis points (bps), dropping to 3.7%. Also worth noting, the current rate is 230 bps below the 28-year average of 6.0%.

All employment sectors are expected to grow at a combined growth rate of 3.9% in 2018 and 3.1% in 2019. Reno's economy of \$26.6 billion² as measured by gross regional product is forecasted to grow an additional 5.7% in 2018 and 4.6% in 2019, above its 10-year average of 2.2%.³

Market Overview

The overall office vacancy (including sublease) of 9.4% decreased 10 bps from Q2 2018 and remained unchanged from a year ago. While sublease vacancy increased 20 bps year-over-year, direct vacancy decreased 20 bps during the same time. Tenants occupied 38,747 square feet (sf) of Class A and 23,979 sf of Class B space in Q3, yet returned 4,061 sf of Class C space, resulting in a combined 58,665 sf absorbed in the third quarter. Year-to-date tenants have absorbed over 121,388 sf of Class B space, lowering Class B vacancy by 70 bps over the last nine months and 50 bps over the last 12 months. Q3 was the seventh consecutive quarter of positive occupancy gains recorded in Class B space. The South Meadows submarket recorded the highest occupancy gains in Q3, lowering its overall vacancy 170 bps to 5.9% over the last three months.

Overall vacancy in Class A space was 11.9% at the end of Q3 compared with 13.7% at the end of Q2 and 460 bps higher than a year ago as a result of 48,100 sf of Class A space returned to the market over the last four quarters combined. One Class B building, the 20,000-sf property at 5301 Kietzke Ln. in the Meadowood submarket, was the only office building completed in Q3. Seven buildings, totaling 88,880 sf, are currently under construction, of which three, totaling 53,000 sf, are estimated to be completed in 2018.

Average asking rent of \$1.54 per month for all classes remained unchanged from a year ago. Average asking rent of \$1.96 per month for Class A has grown nearly 3% since the beginning of the year or Q1 2018, reflecting a decrease in available Class A space.

The northern Nevada office market recorded \$102 million in sales activity year-to-date compared to \$136 million traded in 2017 – the best performance on record since 2008 - and above the 2016 (\$88 million) total. Private investors continue to be the leading buyers of office properties, accounting for 86% of activity.⁴

Outlook

- With an unemployment rate that is lower than the national average and employers continuing to choose to relocate to Reno, labor demand and net in-migration will remain strong through the end of 2018.
- Positive job creation, low business costs and a lack of state income tax will drive occupancy and rent growth compared to neighboring states through the end of 2018.

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	153	2,476,774	1,117	266,858	10.8%	7,161	25,549	0	\$1.19	-
Downtown	149	4,462,507	6,716	393,425	9.0%	-4,029	-9,733	0	\$1.62	\$2.03
Meadowood	154	3,253,148	34,512	323,443	11.0%	28,253	17,406	76,844	\$1.76	\$1.97
South Meadows	120	2,113,352	19,961	105,591	5.9%	32,316	64,752	0	\$1.72	\$1.88
Sparks	83	1,047,345	10,000	64,040	7.1%	-7,890	8,413	12,036	\$1.32	-
West Reno	33	322,199	0	61,383	19.1%	2,854	6,190	0	\$1.14	-
TOTAL	692	13,675,325	72,306	1,214,740	9.4%	58,665	112,577	88,880	\$1.54	\$1.96
Class A	24	188,548	49,143	175,765	11.9%	38,747	-16,878	40,826	\$1.96	
Class B	398	7,498,160	13,163	653,742	8.9%	23,979	121,388	48,054	\$1.55	
Class C	270	4,288,617	10,000	385,233	9.2%	-4,061	8,067	0	\$1.33	
TOTAL	692	13,675,325	72,306	1,214,740	9.4%	58,665	112,577	88,880	\$1.54	

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

Key Lease Transactions Q3 2018

PROPERTY	SF	TENANT	LANDLORD	TRANSACTION TYPE	SUBMARKET
5340 Kietzke Lane	12,026	Aerotek	NevDex Properties	New	Meadowood
10539 Professional Circle	10,992	EIG	Riverbank Holdings LLC	New	South Meadows
911 East 2nd St.	8,256	Salvation Army	Greater NV Financial Service	New	Carson City County
300 East 2nd St.	7,404	US Army Corps of Engineers	Basin Street Properties	New	Downtown
425 Maestro Rd.	6,470	Nature's Bakery	Daniel & Laura Durrer	New	Meadowood

Key Sale Transactions Q3 2018

PROPERTY	SF	BUYER	SELLER	PRICE / \$PSF	SUBMARKET
885 Trademark Dr.	75,600	Massie Family Trust	ProEquity Asset Mgmt.	\$20,400,000 / \$269.84	South Meadows
6225 Neil Rd.	20,295	PB IV LLC	Davis Family Trust	\$4,405,000 / \$217.05	Meadowood
5423 Reno Corporate Dr.	17,248	CCS REP, LLC	Tanamera	\$4,966,049 / \$287.92	Meadowood
5560 Longley Lane	15,316	Powell Family 2011 Trust	Tanamera	\$4,000,000 / \$261.17	Meadowood
10463 Double R Blvd.	7,900	Northern NV Medical Surgical Properties	Due Fratelli LLC	\$2,100,000 / \$265.82	South Meadows

Jolanta Campion

Director of Research, San Diego & Nevada
jolanta.campion@cushwake.com

Brian Armon, SIOR, CCIM

Managing Partner, Northern Nevada
brian.armon@cushwake.com

6121 Lakeside Dr, Suite 160
Reno, NV 89511
Tel: 775.851.9500
Fax: 775.851.9551

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