MARKETBEAT

Reno

Office Q2 2019

CUSHMAN & WAKEFIELD

RENO OFFICE

Economic Indicators

	Q2 18	Q2 19	12-Month Forecast
Reno Employment	242k	256k	▲
Reno Unemployment	3.4%	3.0%	▼
U.S. Unemployment	3.9%	3.6%	▼

May 2018/2019 used to represent Q2 for Reno, June for U.S.

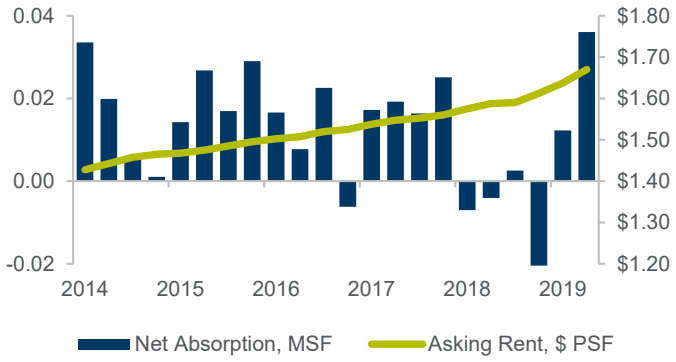
Market Indicators (All Classes)

	Q2 18	Q2 19	12-Month Forecast
Overall Vacancy	12.0%	10.8%	▼
Net Absorption (sf)	6,743	101,949	▲
Under Construction (sf)	86,985	0	▲
Average Asking Rent*	$1.61	$1.74	▲

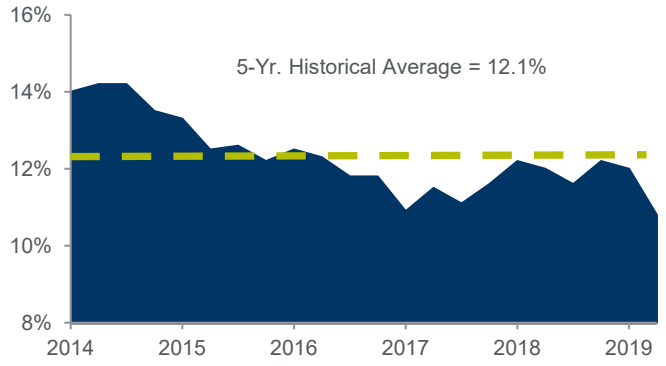
*Rental rates reflect gross rent overall $psf/monthly.

Net Absorption/Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economic Overview

The Reno employment market continued to record job growth, adding 14,600 jobs (+6.0%) year-over-year through May 2019.[1] During the same time period, the unemployment rate decreased 40 basis points (bps), dropping to 3.0%. Also worth noting, the current rate is 290 bps below the 29-year average of 5.9%. All employment sectors are expected to grow at a combined growth rate of 5.2% in 2019. Reno's economy of $26.6 billion[2] 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 of 10.8%, including sublease, decreased 120 bps from last quarter and 120 bps from a year ago. Two of Reno's six submarkets posted single digit vacancy rates in Q2 2019: the South Meadows submarket recorded the lowest vacancy rate at 3.0%, followed by the Sparks submarket at 8.9%. All submarkets recorded positive occupancy gains in Q2, resulting in an overall positive absorption of 101,950 square feet (sf) across all submarkets. Year-to-date, tenants have absorbed 179,400 sf across Reno office market. The Meadowood and Central/Airport submarkets saw the biggest occupancy gains in Q2 and year-to-date at 71,890 sf and 39,014 sf, respectively.

Overall vacancy for Class A space was 14.9% in Q2 2019, 270 bps lower than last quarter and 30 bps lower than a year ago. Class B vacancy decreased 110 bps from last quarter and decreased 60 bps from a year ago. Class C vacancy saw the biggest change since last year dropping 340 bps to a low rate of 10.5%, a level last seen in 2008. Attractive rents and lack of new office development make Class B & C space the hottest commodity in the Reno office market. Four office properties were delivered in Q1 2019, totaling just over 77,400 sf. This includes the DaVita Dialysis building at 777 Vista Blvd. in Sparks and Mountain View Corporate Center at 5520 Kietzke Lane in Meadowood. No office buildings were completed in Q2, and currently no other office properties are under construction.

The average asking rent of for all classes is now $1.74 per month per square foot (psf). This metric increased by 1.7% over the last three months and is up 8.1% from where it stood a year ago. Over the past 12 months, Class A average rent has increased by 4.9% to $2.14 psf while the Class B rate has increased by 6.9% to $1.70 psf and Class C rate increased by 4.7% to $1.34 psf.

The northern Nevada office market recorded $7.4 million in sales activity in Q2 2019 compared to $56.4 million traded in Q1 2019 and $38.3 million traded in Q2 2018. Private investors continue to be the leading buyers of office properties, accounting for 76% all activity in Q2 2019, followed by institutional (24.3%).[4] Despite a decrease in sales volume, the average price per sf increased 29% to $240 psf in Q2 compared to $186 psf a year ago.

Outlook

- There are no office properties currently under construction, which will further decrease vacancy rates across the Reno office market. With few projects in the pipeline, Reno will continue to see high demand across all product classes.
- Reno's proximity to major markets and low business costs have proven effective in the war for talent. As the greater Nevada economy continues to attract jobs, Reno remains well prepared for the influx of talent. As more people choose Reno for business, the demand for office space is expected to flourish.

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

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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	869	246,858	14.7%	22,300	39,014	0	$1.25	-
Downtown	58	2,570,366	8,466	264,309	10.6%	17,764	36,557	0	$1.88	$2.08
Meadowood	74	2,097,599	54,340	205,193	12.4%	52,028	71,890	0	$1.94	$2.32
South Meadows	38	1,219,607	9,324	27,614	3.0%	9,786	30,286	0	$1.86	$1.87
Sparks	18	380,242	0	33,666	8.9%	1,518	-1,662	0	$1.18	-
West Reno	5	95,406	0	16,516	17.3%	-1,447	3,356	0	$2.00	-
TOTAL	**261**	**8,051,570**	**72,999**	**794,156**	**10.8%**	**101,949**	**179,441**	**0**	**$1.74**	**$2.14**
Class A	19	1,505,111	51,308	172,327	14.9%	22,148	22,299	0	$2.14	
Class B	159	4,641,578	20,822	423,126	9.6%	71,615	91,050	0	$1.70	
Class C	83	1,904,881	869	198,703	10.5%	8,186	66,092	0	$1.34	
TOTAL	**261**	**8,051,570**	**72,999**	**794,156**	**10.8%**	**101,949**	**179,441**	**0**	**$1.74**	**$2.14**

*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 Q2 2019

PROPERTY	SF	TENANT	LANDLORD	TRANSACTION TYPE	SUBMARKET
985 Damonte Ranch Pkwy.	4,345	Amada Senior Care	Ryder Homes of Nevada, Inc.	New	South Meadows
10765 Double R Blvd.	3,037	Washoe Wealth Advisors	Michael E. Schuler	New	South Meadows
1301 Cordone Ave.	2,625	Anchor Behavioral Health, LLC	Tolles Development Company	New	Central/Airport
1 E. Liberty St.	2,563	MOBE, LLC	Resource Management and Development	New	Downtown
639 Isbell Rd.	2,555	Nevadaworks	Kohr-Tallman Living Trust	New	Central/Airport

Key Sale Transactions Q2 2019

PROPERTY	SF	BUYER	SELLER	PRICE / $PSF	SUBMARKET
2195 S. Virginia St.	25,517	RFG-Pinecone LLC	CIP Real Estate So. Virginia LLC	$4,050,000 / $159	Central/Airport
100 Washington St.	18,037	Cypress Investments Oregon LLC	Tolles Development Company	$3,300,000 / $183	Downtown

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