

SECOND QUARTER 2015

RENO

OFFICE

MARKET CHANGE

Compared to Previous Quarter:

Vacancy

DOWN



Net Absorption

POSITIVE



Lease Rates

UP



Transactions

UP



Deliveries

FLAT



HIGHLIGHTS

- **Market Status** - Reno's office market reflected even greater stability at the close of the second quarter of 2015, as the overall vacancy and availability rates decreased. The current vacancy rate of 13.28% is the lowest seen since 2008. Given the combination of these positive factors, this market is moving quickly toward a full recovery.
- **Construction** - There were no office buildings under construction or delivered in the Reno office market at the end of the second quarter. Nonetheless, there is currently over 550,000 square feet of proposed office development. The lack of new development will allow vacancy rates to further stabilize in future quarters.
- **Vacancy** - The market's vacancy rate decreased by 31 basis points to finish the quarter at 13.28%, which is the lowest rate since 2008. The vacancy rate is 105 basis points lower than it was one year ago. Within the major submarkets, the Meadowood and South Meadows submarkets performed best with vacancy rates of 10.45% and 11.43%, while the Sparks submarket had one of the highest vacancy rates of 14.84%.
- **Availability** - The percentage of total space being marketed at the end of the quarter was 16.08%, which is 10 basis points lower from the previous quarter. Within the major submarkets, the Meadowood and Carson City County submarkets looked best at 13.50% and 14.30%, while the South Meadows submarket lagged behind with an availability rate of 20.20%.
- **Lease Rates** - At the end of the second quarter, the average asking full-service gross lease rate across all 3 building classes and 14 submarkets came in at \$1.50 per square foot per month, which was a \$0.01 increase from the previous quarter. The region's highest average asking rate within the major submarkets, was \$1.72 in the South Meadows submarket, while the lowest was \$0.83 in the Sparks submarket. Lease rates in Class A space increased to \$1.86 per square foot per month, Class B increased to \$1.51, and Class C buildings increased to \$1.32 when compared to last quarter.
- **Absorption** - The Reno office market posted positive net absorption of 50,880 square feet for the second quarter of 2015. Within the major submarkets, the Carson City County and Central / Airport submarkets posted the highest positive net absorption numbers at 22,211 square feet and 20,713 square feet. The Downtown submarket, on the other hand, had the highest negative absorption of 11,684 square feet.
- **Transaction Activity** - Total square footage of lease and sale transaction volume increased from the previous quarter to 398,804 square feet. This statistic can have some lag time in being reported, so look for this quarter's figures to end up somewhat higher in the next report. Details of the largest transactions for the quarter can be found on the back page of this report.
- **Employment** - The unemployment rate in the Reno-Sparks MSA was 6.7% in April 2015, down from 7.4% in January 2015. This compares with an unemployment rate of 7.1% for Nevada and 5.3% for the nation during the same period.
- **Overall** - Reno's office market improved this quarter in comparison to last quarter as vacancy further decreased, net absorption was positive and lease rates increased by one cent. Reno offers a few major draws for prospective tenants: lower tax rates for businesses, in comparison to neighboring states, and numerous opportunities to move up in quality, as Class A buildings declined to 11.94% vacancy. As job growth continues to improve in Reno, further improvement in the Reno office market is expected.

FORECAST

- **Employment** - We anticipate job growth of above 2%, or 4,000 jobs, in the Reno/Sparks area in 2015. The occupational groups with the fastest growth rates are education administrators, engineering managers, business operations specialists, and wholesale and retail buyers.
- **Lease Rates** - Expect average asking lease rates to increase by 1% to 3% over the next four quarters.
- **Vacancy** - We anticipate the vacancy rate continuing to descend in coming quarters, dropping by 50 basis points, to around 12.75%, by the end of the first quarter of 2016.

OVERVIEW

	2Q15	1Q15	2Q14	% of Change vs. 2Q14
Total Vacancy Rate	13.28%	13.59%	14.33%	(7.33%)
Availability Rate	16.08%	16.18%	16.57%	(2.96%)
Average Asking Lease Rate	\$1.50	\$1.49	\$1.45	3.45%
Sale & Lease Transactions	398,804	301,541	398,888	(0.02%)
Gross Absorption	337,091	197,017	234,193	43.94%
Net Absorption	50,880	11,298	(1,463)	N/A

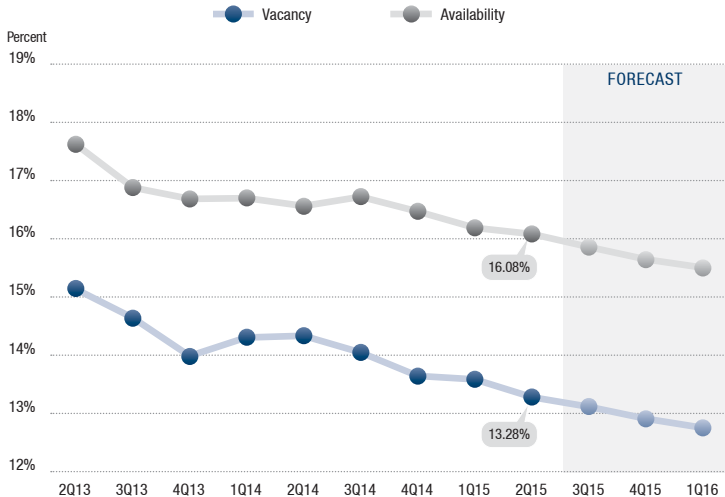
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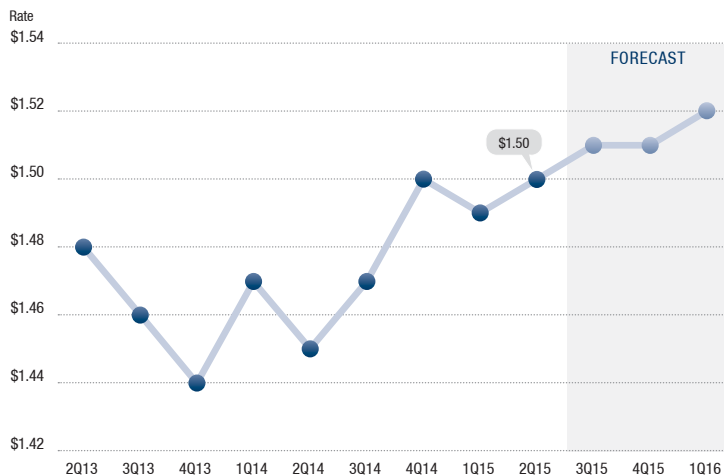
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



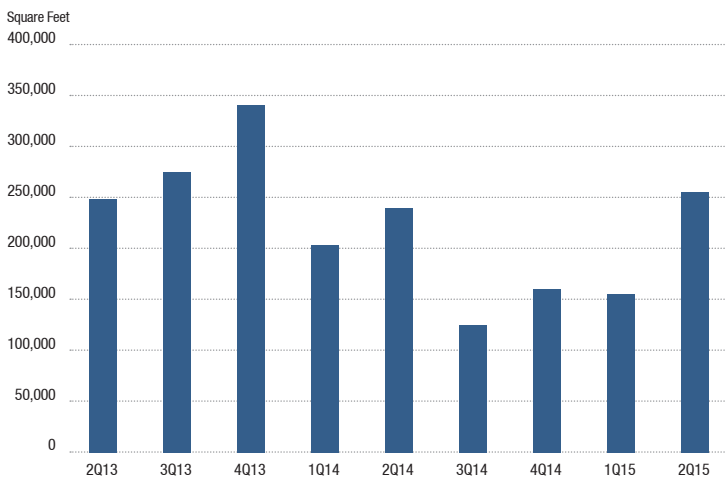
AVERAGE ASKING FULL-SERVICE GROSS LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



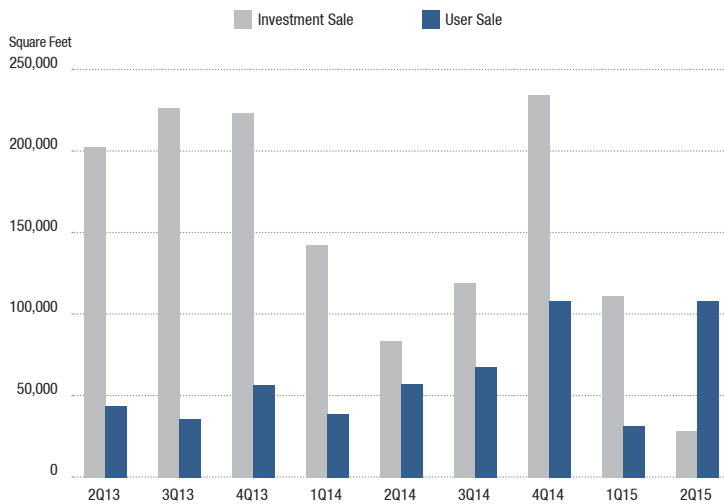
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



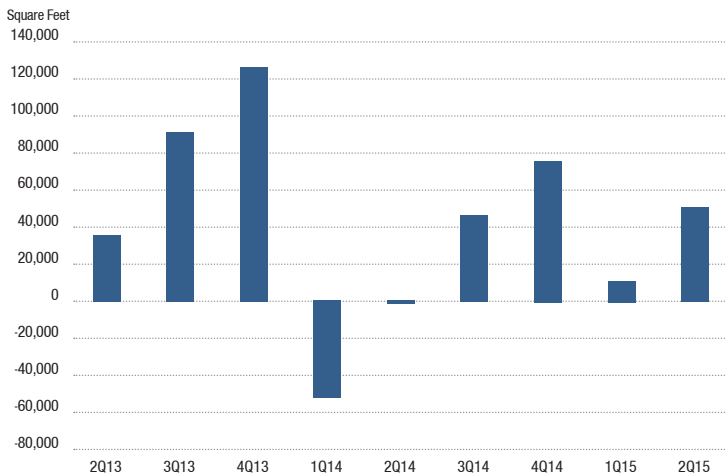
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



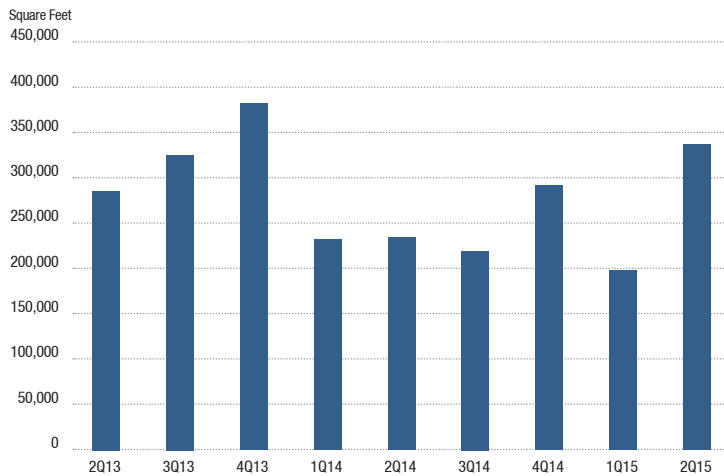
NET ABSORPTION

CHANGE IN THE AMOUNT OF OCCUPIED SPACE FROM ONE QUARTER TO THE NEXT



GROSS ABSORPTION

TOTAL AMOUNT OF SPACE THAT BECAME OCCUPIED IN A QUARTER

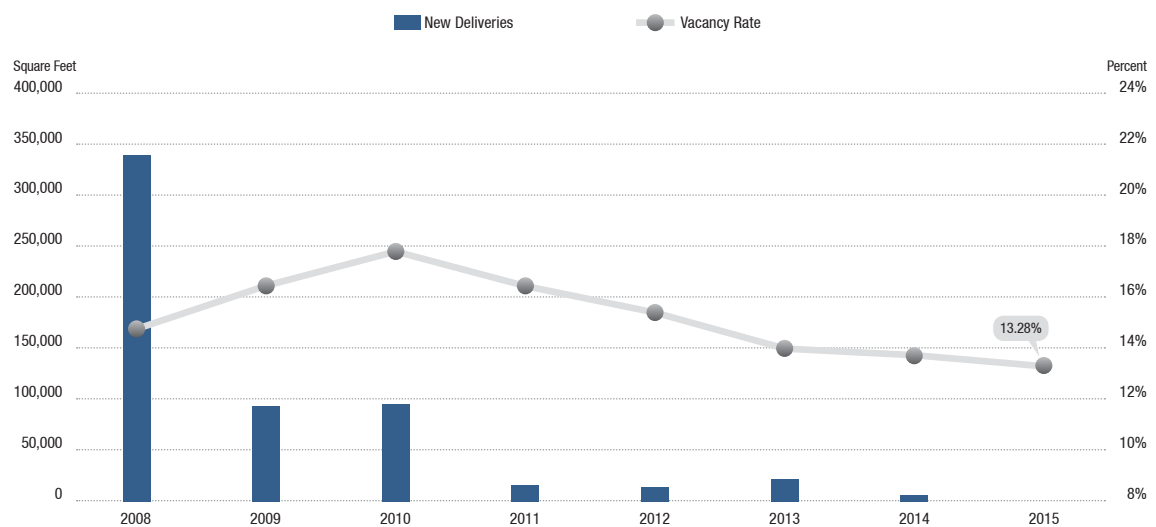


	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 2Q2015	Square Feet Available	Availability Rate 2Q2015	Average Asking Lease Rate	Net Absorption 2Q2015	Net Absorption 2015	Gross Absorption 2Q2015	Gross Absorption 2015
Reno Market Total													
Carson City County	194	2,248,782	0	16,000	299,976	13.34%	321,522	14.30%	\$1.06	22,211	26,799	49,182	71,839
Central/Airport	250	2,824,992	0	14,392	406,075	14.37%	428,323	15.16%	\$1.17	20,713	18,638	51,752	90,763
Douglas County	66	551,988	0	6,545	82,080	14.87%	88,771	16.08%	\$1.09	10,334	9,053	10,334	12,053
Downtown	339	4,281,662	0	30,553	573,409	13.39%	669,958	15.65%	\$1.68	(11,684)	(4,305)	60,029	110,566
Incline Village	34	352,039	0	0	60,583	17.21%	68,142	19.36%	\$1.61	(2,057)	(3,342)	7,003	7,003
Lyon County	44	214,724	0	12,000	42,461	19.77%	47,461	22.10%	\$0.00	(2,558)	(658)	1,000	2,900
Meadowood	191	3,219,464	0	279,036	336,487	10.45%	434,737	13.50%	\$1.58	10,854	20,819	65,900	102,375
North Outlying Washoe County	4	98,132	0	0	33,281	33.91%	29,672	30.24%	\$0.00	(565)	(1,686)	1,121	1,121
North Valleys	22	139,468	0	0	12,387	8.88%	15,152	10.86%	\$0.00	(12,387)	0	0	12,387
South Outlying Washoe County	21	198,580	0	0	8,313	4.19%	8,313	4.19%	\$1.45	(575)	(575)	615	615
South Meadows	180	2,354,446	0	170,016	269,193	11.43%	475,671	20.20%	\$1.72	4,267	(12,786)	62,070	92,132
Sparks	171	1,203,359	0	0	178,521	14.84%	216,537	17.99%	\$0.83	19,874	16,786	26,833	28,120
Storey County	3	30,408	0	24,000	0	0.00%	0	0.00%	\$0.00	0	0	0	0
West Reno	43	355,462	0	0	97,852	27.53%	102,052	28.71%	\$0.00	(7,547)	(6,565)	1,252	2,234
Reno Market Total	1,562	18,073,506	0	552,542	2,400,618	13.28%	2,906,311	16.08%	\$1.50	50,880	62,178	337,091	534,108

Class A	20	1,549,756	0	102,000	184,994	11.94%	271,394	17.51%	\$1.86	22,486	33,254	32,567	43,927
Class B	747	10,332,627	0	450,542	1,387,917	13.43%	1,629,775	15.77%	\$1.51	50,502	46,136	207,549	316,091
Class C	795	6,191,123	0	0	827,707	13.37%	1,005,142	16.24%	\$1.32	(22,108)	(17,212)	96,975	174,090
Reno Market Total	1,562	18,073,506	0	552,542	2,400,618	13.28%	2,906,311	16.08%	\$1.50	50,880	62,178	337,091	534,108

The lease rates are based on a full-service gross basis.

ANNUAL NEW DELIVERIES VS. VACANCY RATE



MAJOR TRANSACTIONS

Sales Transactions

Property Address	Submarket	Class	Square Feet	Sale Price Per SF	Buyer	Seller
Reno Tahoe Tech Center 10315 Professional Circle, Bldg 1	South Meadows	A	63,548	\$184.90	Renown Health	LNR Partners, LLC
Quail Country Estates 160 Country Estates Circle	Meadowood	B	6,716	\$160.07	RJ Gillett, LLC	Quail Country Estates, LLC
877 Tahoe Blvd.	Incline Village	C	2,680	\$296.64	Nli Property, LLC	Boulevard Investment Group, LLC
6170 Ridgeview Court, Unit C	Meadowood	B	2,856	\$156.69	Tuckahoe Ridge, LLC	R&R Investwest, LLC
515 Sinclair St.	Downtown	C	1,126	\$331.71	515 Sinclair Street Series	Midtown Rentals, LLC

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
1450 Vassar St.	Central / Airport	C	29,776	Jun-2015	Undisclosed	Gary Mollath
780 Vista Blvd.	Sparks	B	11,700	Jun-2015	Spine Nevada	Sparks Plaza, LLC
333 W. Nye Lane	Carson City	B	9,848	May-2015	Undisclosed	Mallard Investment Management, Inc.
9850 Double R Blvd.	South Meadows	A	7,379	Apr-2015	Manhard Consulting, LTD	Incline Capital Group, LLC
Pyramid Professional Center 2261-2281 Pyramid Way	Sparks	B	7,300	Apr-2015	Nevada Job Connect	Pyramid Center, LLC

PRODUCT TYPE

CLASS A

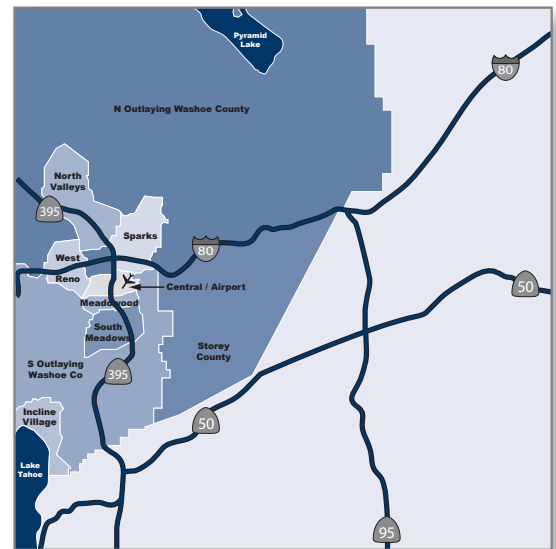
Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

CLASS B

Buildings competing for a wide range of users with rents in the average range for the area. Building finishes are fair to good for the area, and systems are adequate. However, Class B buildings cannot compete with Class A buildings of the same price.

CLASS C

Buildings competing for tenants requiring functional space at rents below the area average.



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