

MARKET CHANGE

Compared to the Previous Quarter:

Vacancy

DOWN



Net Absorption

POSITIVE



Lease Rates

UP



Transactions

DOWN



Deliveries

FLAT



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HIGHLIGHTS

- **Market Status** - Reno's office market reflected greater stability at the close of the third quarter, as the overall vacancy rate has decreased and lease rates have increased. The current vacancy rate of 14.31% is the lowest seen since 2008. Given the combination of these positive factors, this market is well on its way toward a full recovery.
- **Construction** - There were no office buildings under construction or delivered in the Reno office market at the end of the third quarter. The lack of new development will allow for vacancy rates to further stabilize in future quarters. There was still, however, 564,221 square feet of proposed office development.
- **Vacancy** - The market's vacancy rate for the third quarter decreased by 10 basis points to finish the quarter at 14.31%, which is the lowest rate since 2008. The vacancy rate is now 40 basis points lower than it was one year ago. Within the major submarkets, the Sparks submarket remained very high at 17.50%, while the South Meadows submarket looked best at 12.37%.
- **Availability** - The percentage of total space being marketed at the end of the third quarter was 16.72%, which was a slight increase from the previous quarter, but still 27 basis points less than the previous year. Within the major submarkets, the Sparks submarket remained highest at 21.64%, while the Meadowood submarket looked best at 15.33%.
- **Lease Rates** - At the end of the third quarter, the average asking full-service gross lease rate across all 3 building classes and 14 submarkets came in at \$1.47 per square foot per month, which was \$0.02 higher than the previous quarter. The region's highest average asking rate within

the major submarkets, was \$1.68 in the Downtown submarket, while the lowest was \$0.80 in the Sparks submarket. Lease rates in Class A and Class B buildings both increased by two cents while lease rates in Class C buildings rose by one cent in comparison to last quarter.

- **Absorption** - The Reno office market posted positive net absorption of 16,422 square feet for the third quarter of 2014. Within the major submarkets, South Meadows posted the highest positive net absorption at 17,932 square feet while the Sparks submarket has the highest negative absorption of 11,753 square feet.
- **Transaction Activity** - Total square footage of lease and sale transaction volume decreased from the previous quarter to 191,656 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 third quarter can be found on the back page of this report.
- **Employment** - The unemployment rate in the Reno-Sparks MSA was 7.3% in July 2014, down from 8.3% in January 2014. This compares with an unemployment rate of 7.7% for Nevada and 6.2% for the nation during the same period.
- **Overall** - Reno's office market performed much better this quarter in comparison to last quarter as vacancy decreased, net absorption was positive and lease rates improved by two cents overall. 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 remain at 16.96% vacancy. As job growth continues to improve in Reno, further stability in the Reno office market is expected.

FORECAST

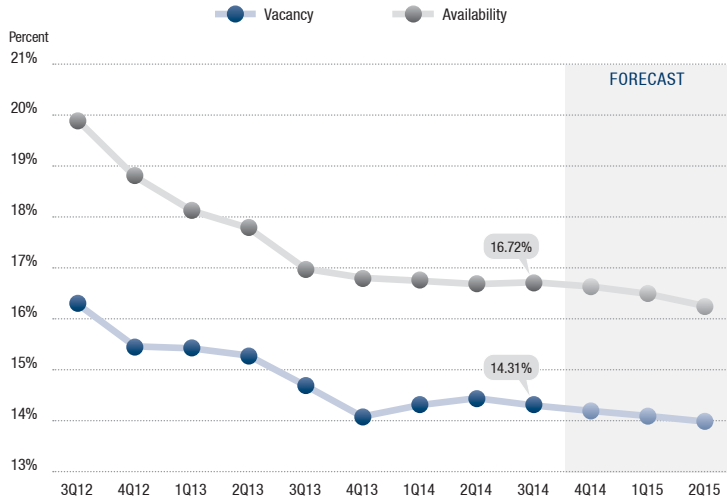
- **Employment** - We anticipate job growth of around 1.2%, or 2,100 jobs, in the Reno/Sparks area by 2015. The occupational groups with the fastest growth rate are education administrators, engineering managers, business operations specialists, and wholesale and retail buyers.
- **Lease Rates** - Expect 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 30 basis points, to around 14.0%, by the end of the second quarter of 2015.

OVERVIEW

	3Q14	2Q12	3Q13	% of Change vs. 3Q13
Vacancy Rate	14.31%	14.41%	14.71%	(2.72%)
Availability Rate	16.72%	16.70%	16.99%	(1.59%)
Average Asking Lease Rate	\$1.47	\$1.45	\$1.46	0.68%
Sale & Lease Transactions	191,656	366,551	550,485	(65.18%)
Gross Absorption	219,949	214,617	323,928	(32.10%)
Net Absorption	16,422	(13,942)	96,630	N/A

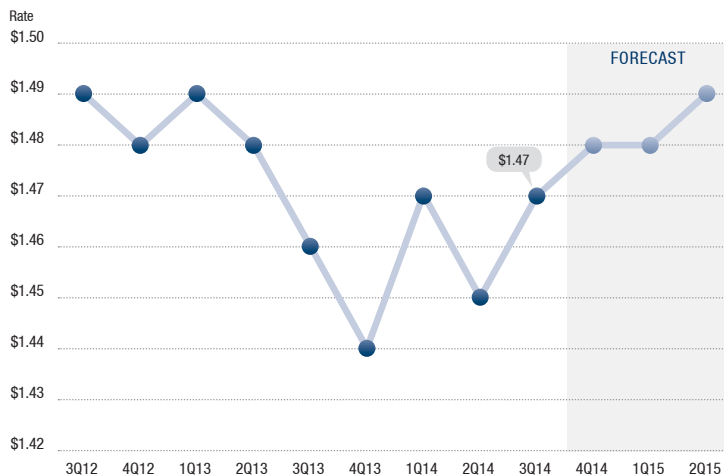
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



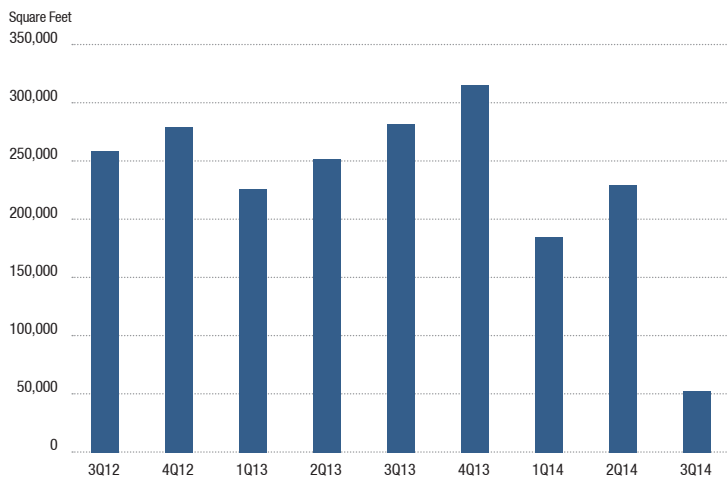
AVERAGE ASKING FULL-SERVICE GROSS LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



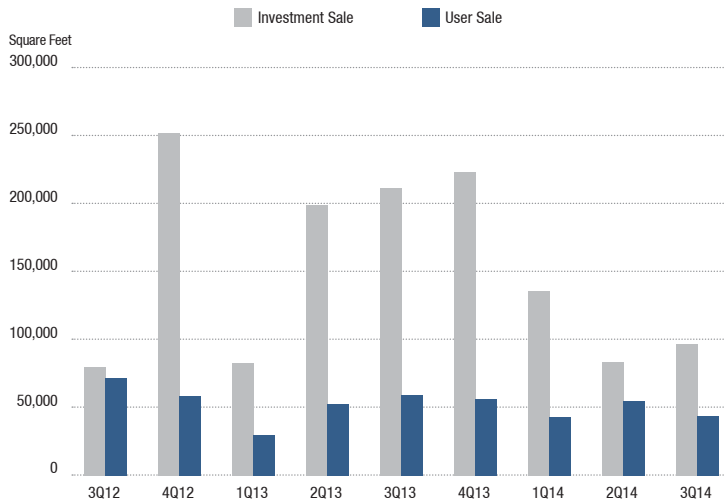
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



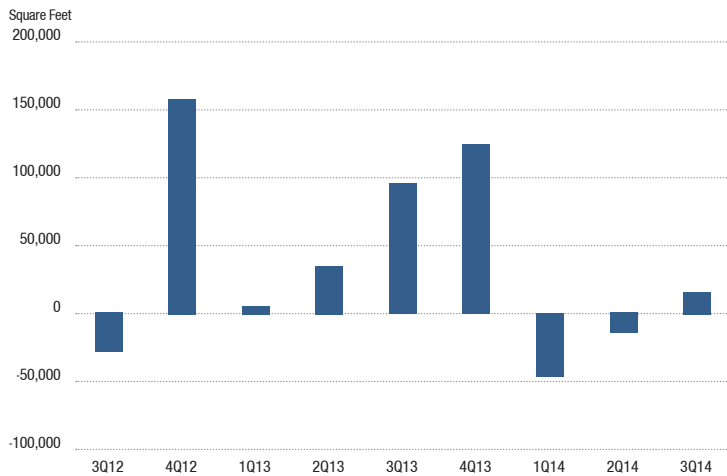
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



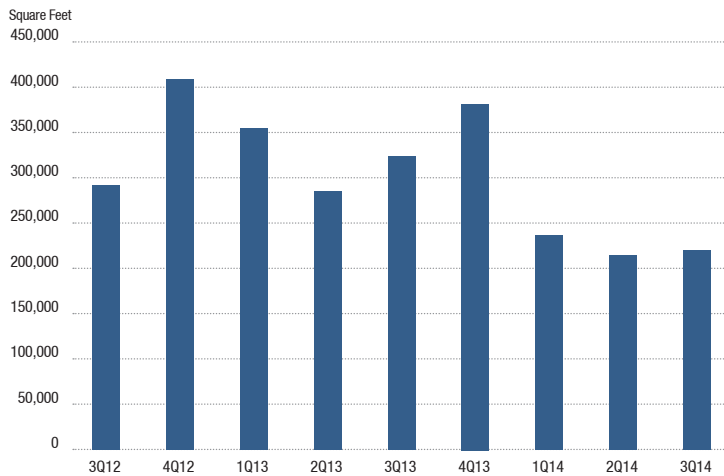
NET ABSORPTION

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

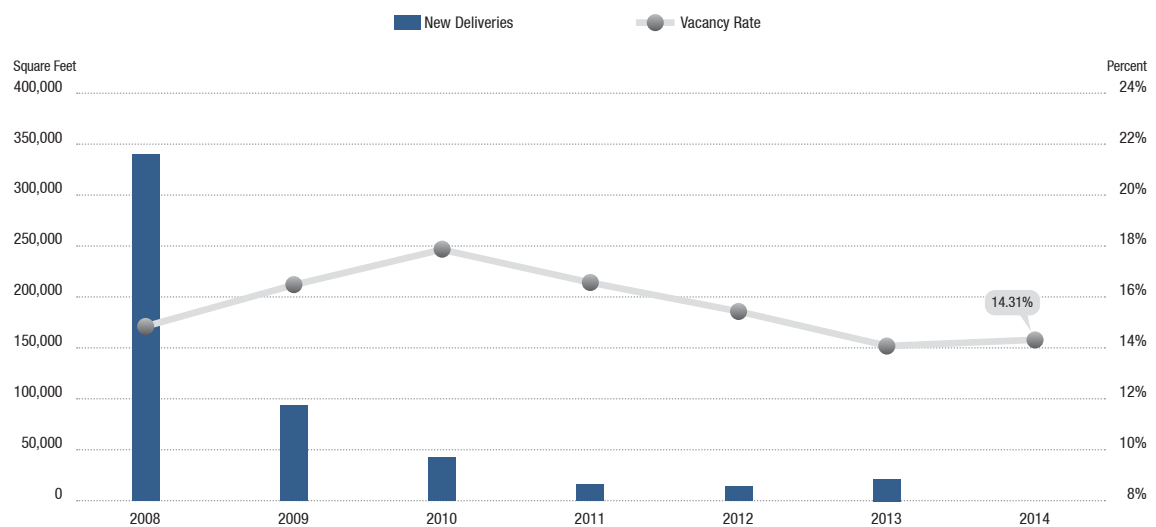


	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2014	Square Feet Available	Availability Rate 3Q2014	Average Asking Lease Rate	Net Absorption 3Q2014	Net Absorption 2014	Gross Absorption 3Q2014	Gross Absorption 2014
Reno Market Total													
Carson City County	182	2,116,790	0	16,000	335,015	15.83%	348,699	16.47%	\$1.04	14,384	(8,060)	15,554	47,024
Central/Airport	250	2,831,039	0	14,392	418,073	14.77%	454,507	16.05%	\$1.10	(7,696)	(22,323)	27,365	118,780
Douglas County	61	528,981	0	6,545	92,908	17.56%	102,539	19.38%	\$1.12	4,440	(10,320)	5,584	20,168
Downtown	333	4,241,927	0	30,553	560,079	13.20%	683,364	16.11%	\$1.68	10,310	21,816	33,682	148,943
Incline Village	32	331,473	0	0	51,796	15.63%	61,109	18.44%	\$1.42	(6,801)	(10,493)	310	14,419
Lyon County	39	192,946	0	12,000	40,558	21.02%	45,558	23.61%	\$0.00	0	5,653	0	7,153
Meadowood	189	3,213,698	0	279,036	406,804	12.66%	492,679	15.33%	\$1.60	(9,595)	(37,505)	53,802	97,243
North Outlying Washoe County	4	98,132	0	0	34,637	35.30%	34,637	35.30%	\$0.00	1,080	5,451	1,080	5,451
North Valleys	21	139,299	0	0	13,959	10.02%	13,959	10.02%	\$1.63	2,015	4,415	2,015	4,415
South Outlying Washoe County	21	198,580	0	0	7,738	3.90%	7,738	3.90%	\$1.45	5,658	6,999	8,140	14,071
South Meadows	180	2,274,036	0	181,695	281,218	12.37%	376,196	16.54%	\$1.63	17,932	13,142	60,019	144,938
Sparks	166	1,184,098	0	0	207,224	17.50%	256,231	21.64%	\$0.80	(11,753)	(7,925)	12,398	37,296
Storey County	3	30,408	0	24,000	0	0.00%	0	0.00%	\$0.00	0	0	0	0
West Reno	42	355,826	0	0	88,676	24.92%	88,676	24.92%	\$0.00	(3,552)	(5,298)	0	11,500
Reno Market Total	1,523	17,737,233	0	564,221	2,538,685	14.31%	2,965,892	16.72%	\$1.47	16,422	(44,448)	219,949	671,401

Class A	19	1,496,319	0	102000	223,466	14.93%	253,754	16.96%	\$1.86	18,269	(546)	25,593	57,099
Class B	735	10,167,763	0	462221	1,447,627	14.24%	1,651,883	16.25%	\$1.48	(21,209)	(24,259)	114,954	377,585
Class C	769	6,073,151	0	0	867,592	14.29%	1,060,255	17.46%	\$1.26	19,362	(19,643)	79,402	236,717
Reno Market Total	1,523	17,737,233	0	564,221	2,538,685	14.31%	2,965,892	16.72%	\$1.47	16,422	(44,448)	219,949	671,401

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
5250 Kietzke Ln. – 2 Properties	Meadowood	B	18,732	\$363.02	Stephen D. Hall, CPA	Digestive Health Investors
1195 Corporate Blvd.	Central/Airport	B	30,000	\$100.00	The Richard Wray Family 1981 Trust	The Blackstone Group, LP
3700 Barron Ln.	Meadowood	B	12,815	\$169.33	Network Services Solutions, LLC	Etl Investments, LLC
299 S. Arlington Ave.	Downtown	C	8,341	\$191.82	Washoe Legal Services	Mark and Carolyn Alexander Family Trust
5955 Tyrone Rd.	Meadowood	C	11,338	\$83.79	Christian Fellowship Church of Reno	Ami Partners, LLC

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
Bank of America Building 5905 S. Virginia St.	Meadowood	B	10,620	Jul-14	Undisclosed	Cypress Meadowood, LLC
5250 Neil Rd.	Meadowood	B	3,868	Aug-14	Undisclosed	University of Nevada System
36 Stewart St.	Downtown	C	3,327	Aug-14	Undisclosed	Smith James C. & Jenni-Sue
10685 Professional Cir.	South Meadows	B	3,031	Aug-14	Reno Vein Clinic	Jackson Thomas Holdings, LLC
9855 Double R. Blvd.	South Meadows	B	2,872	Sep-14	Undisclosed	Chilkur, LLC

PRODUCT TYPE

CLASS A

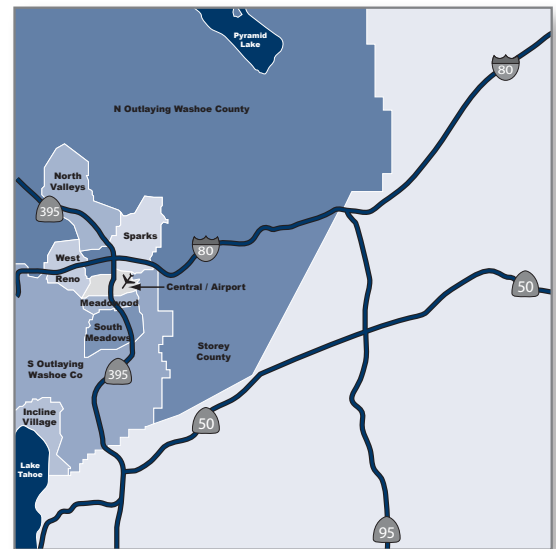
Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

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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