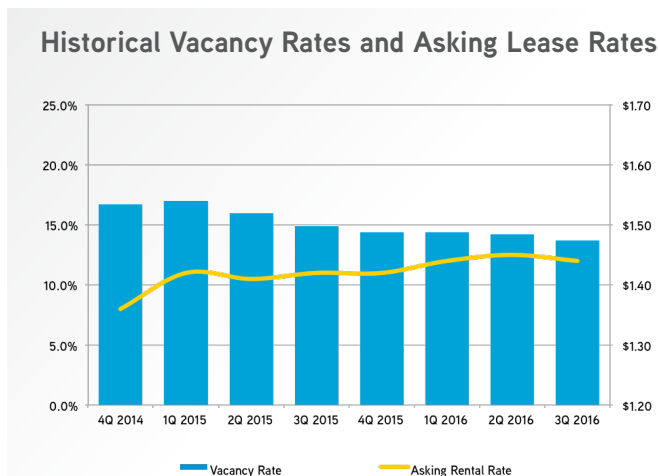


# Homestretch: Office Market Set to Finish Strong

- > Vacancy drops significantly – the largest drop quarter over quarter in 2016
- > Rental rates are not increasing as quickly as we would expect with the continued drop in vacancy
- > Many large transactions in the 3rd quarter result in positive net absorption

**Another quarter draws to a close as we enter the final leg of 2016 for the Northern Nevada Office Market.** The market experienced another positive quarter that resulted in positive net absorption as well as a number of renewals on large blocks of space and numerous significant building sales; all indications that the office market in Northern Nevada is continuing its strong yet manageable growth trend. The market posted a positive net absorption of 28,258 square feet with the majority of the absorption taking place in Class B buildings, making the year-to-date absorption 59,240 square feet. Due to the increase in absorption, the direct vacancy rate for the third quarter decreased from last quarter's 14.2 percent to 13.7 percent, the largest drop quarter over quarter for the year, continuing the trend of falling vacancy since the end of 2015.



While the rental rate decrease is nominal, it is interesting to note that despite the drop in vacancy, the rates have not increased at a quicker pace.

## Market Indicators

Unemployment Rate  
Nevada

10-Year Nominal  
Interest Rate

National Consumer  
Confidence



## Market Indicators

Relative to prior period

Q3 2016

Q4 2016\*

Vacancy



Net Absorption



Completions



Rental Rate



\*Projected

## Summary Statistics

Q3 2016 Reno Market	Previous Quarter	Current Quarter
Vacancy Rate	14.2%	13.7%
Asking Rent (PSF, FS*)	\$1.45	\$1.44
Net Absorption (SF)	8,372	28,258
New Completions (SF)	15,000	-

## Overall Asking Rents

Per Square Foot (FS*)	Previous Quarter	Current Quarter
Class A	\$1.67	\$1.62
Class B	\$1.44	\$1.45
Class C	\$1.26	\$1.27

\*Full Service (FS)

## Vacancy

As the decreasing vacancy trend continues in the market, we estimate that vacancy rates will continue to drop modestly as activity continues to remain strong. Along with the direct vacancy rate decreasing to 13.7 percent, the sublease vacancy rate also dropped this quarter from 1.0 to 0.08 percent, which is reflected in the total vacancy rate of 14.5 percent for the quarter. The addition of a speculative 40,000 square foot office building in the Meadowood Submarket, which is expected to break ground in the fourth quarter, may affect our vacancy but the building is reportedly having tremendous success in preleasing. While converting Class C buildings into residential units has not yet become a trend, the owners of 560 Mill Street plan to convert the 29,338 square foot building to residential use. The building has been 74 percent vacant for a number of years so this will also reduce our vacancy. The new owners of 10 State Street tried to convert the office to residential upon purchasing the building but the remodel expenses were too costly to make it pencil. They have since remodeled the interior and exterior and should have more success than previous owners.

## Rental Rates

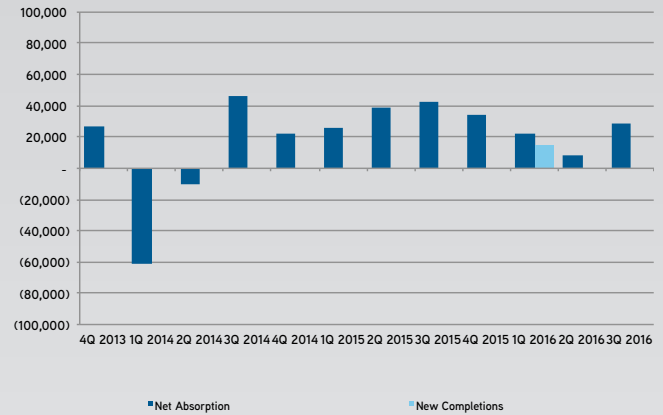
Rental rates also showed a slight decline with the average rental rate decreasing by \$0.01/sf from last quarter with the rate posting at \$1.44 per square foot per month Full Service. While the decrease is nominal, it is interesting to note that despite the drop in vacancy and continued positive absorption, the rates have not increased at a quicker pace. For the individual submarkets, the Meadowood Submarket posted the highest overall rental rate at \$1.74/sf FS with the Class A rate increasing to \$1.81/sf FS. The Downtown Submarket is slightly behind Meadowood with a \$1.71/sf FS overall asking rate, but has a higher Class A average rate at \$1.95/sf FS. The South Meadows Submarket is reporting the lowest rental rates with a \$1.52/sf FS overall rate and \$1.74/sf FS for Class A buildings.

## Leasing/Absorption Activity

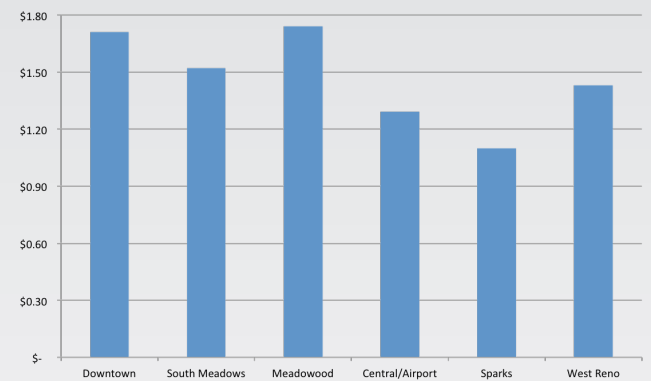
The market saw strong numbers post in the South Meadows and Downtown Submarkets while Meadowood had a few setbacks due to two large blocks of space in this submarket coming back to the market.

In the Downtown Submarket, Class A buildings registered a 10.2 percent vacancy rate, while the overall Downtown vacancy rate registered a higher 14.3 percent. The net absorption for the overall Downtown Submarket was a positive 15,242 square feet due primarily to the 10,000 square foot lease at 245 E Liberty and the 11,834 square foot lease at 100 N Arlington to CAEK, Inc. Both transactions were new deals this quarter that helped to increase the market's overall absorption. CAEK Inc. was a great victory for the Northern Nevada region as this female founded and operated software development company relocated to Reno from Arkansas. It was also a big win for Downtown as they are expected to add at least forty high paying jobs by the end of 2017.

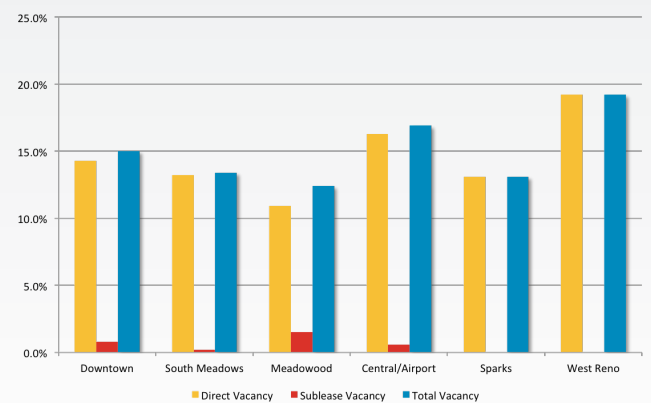
## Historical Net Absorption vs. Completions



## Leasing Rates by Submarket



## Total Vacancy vs Direct and Sublease Vacancy



Source: CoStar

The South Meadows Submarket reported the largest net absorption with a positive 30,972 square feet, as well as a decrease in vacancy to 13.2 percent, due to the relocation of Video Games Technology (VGT) from the Meadowood Submarket to 887 Trademark in South Meadows. VGT will be vacating 18,000 square feet in the Nev Dex Office Park on Kietzke but have leased 26,000 square feet, resulting in positive 8,000 square feet for the market.

This quarter took a turn for the Meadowood Submarket, which is usually the shining star, with the largest negative absorption registering at a negative 15,547 square feet. As mentioned previously, 18,000 square feet was vacated by VGT as they will relocate to 887 Trademark in South Meadows. In addition, 6160 Plumas came back onto the market as Wimmer Solutions vacated the 15,564 square foot building. While there were a number of smaller transactions completed here, it was not enough to combat the two large vacant spaces. However, the overall direct vacancy rate in Meadowood is still the lowest in Northern Nevada, at 10.9 percent with Class A vacancy at 8.3 percent.

## Sales

Probably the most noteworthy trend this quarter was the decrease of office building cap rates. The market registered two multi-tenant office building trades in the 6.0 percent cap rate range while a single tenant building sold at a 5.05 cap rate. This suggests that the confidence among buyers and sellers has increased. This quarter also posted a high number of overall sales both to investors and users. Some significant owner-user sales include 1595 Meadow Wood Lane, which was sold to an existing tenant with some investment, 5060 Meadowood Mall Circle, a REO property that sold to an owner-user, and finally 4871 Summit Ridge Drive that was sold as an investment with a leased single-tenant.

The SBA 504 rate continues to remain historically low despite the slight increase to 4.26 percent in October, although it is slightly up from the August and September rates. With rates remaining low, we are hopeful that more users start to take advantage of this program. The market continues to see a lack of inventory but there are more buildings expected to hit the market as sellers witness a rebound in pricing.

## Construction

With the dropping trend of vacancy, there is becoming a need for more office buildings, especially in certain locations and classes of buildings. McKenzie Properties is expected to break ground on a new 40,000 square foot building in the Mountain View Corporate Center next quarter; this will add much needed Class A space in the Meadowood Submarket. The building is expected to be completed by Summer/Fall 2017.

### 6121 Lakeside Drive

33,072 sf - \$6,250,000

CAP Rate: 6.7%

188.98 p/sf - Office Class A



### 1595 Meadow Wood Lane

26,740 sf - \$3,100,000

Owner - User Purchase - No CAP Rate

\$115.93 p/sf - Office Class B



### 1201 Coporate Boulevard

20,000 sf - \$2,519,000

CAP Rate: 6.6%

\$125.95 p/sf - Office Class B



## Significant Sale Activity



## Significant Lease Activity

PROPERTY ADDRESS	SIZE	TENANT	TYPE
6100 Neil Road	43,298 SF	Microsoft	Renewal
887 Trademark	26,000 SF	VGT	Relocation and Expansion
100 N Arlington	11,834 SF	CAEK Inc.	New
245 E Liberty	10,000 SF	Renown	New
745 W Moana Lane	9,887 SF	Fusion Contact Centers	New
5370 Kietzke	4,672 SF	Guild Mortgage	New

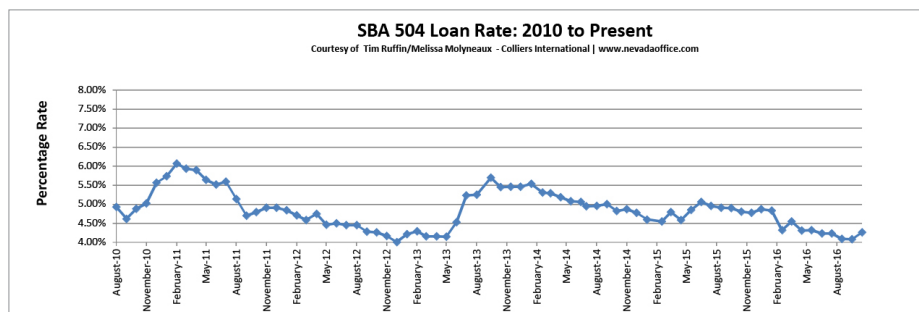
Market Comparisons - Reno

Office Market

CLASS	BLDGS	TOTAL RBA	DIRECT VACANT SF	DIRECT VACANCY RATE	SUBLEASE VACANT SF	SUBLEASE VACANCY RATE	TOTAL VACANT SF	TOTAL VACANCY RATE	TOTAL VACANCY RATE PRIOR QUARTER	NET ABSORPTION CURRENT QTR SF	NET ABSORPTION YTD SF	COMPLETIONS CURRENT QTR SF	UNDER CONSTRUCTION SF	AVG ASKING RENTAL RATE
<b>DOWNTOWN SUBMARKET</b>														
A	4	559,770	57,157	10.2%	5,000	0.9%	62,157	11.1%	10.9%	-6,484	9,500	-	-	\$1.95
B	16	515,801	119,211	23.1%	3,882	0.8%	123,093	23.9%	20.8%	16,687	(9,783)	-	-	\$1.74
C	15	302,176	20,090	6.6%	1,930	0.6%	22,020	7.3%	7.3%	5,039	7,170	-	-	\$1.45
<b>Total</b>	<b>35</b>	<b>1,377,747</b>	<b>196,458</b>	<b>14.3%</b>	<b>10,812</b>	<b>0.8%</b>	<b>207,270</b>	<b>15.0%</b>	<b>13.4%</b>	<b>15,242</b>	<b>6,887</b>	<b>-</b>	<b>-</b>	<b>\$1.71</b>
<b>SOUTH MEADOWS SUBMARKET</b>														
A	33	1,166,855	193,993	16.6%	3,128	0.3%	197,121	16.9%	19.9%	2,291	621	-	-	\$1.74
B	10	288,437	3,662	1.3%	-	0.0%	3,662	1.3%	11.6%	28,636	2,166	-	-	\$1.30
C	-	-	-	-	-	-	-	-	0.0%	0	2,131	-	-	-
<b>Total</b>	<b>43</b>	<b>1,502,986</b>	<b>197,655</b>	<b>13.2%</b>	<b>3,128</b>	<b>0.2%</b>	<b>200,783</b>	<b>13.4%</b>	<b>17.8%</b>	<b>30,927</b>	<b>4,918</b>	<b>-</b>	<b>-</b>	<b>\$1.52</b>
<b>MEADOWOOD SUBMARKET</b>														
A	36	1,794,558	148,734	8.3%	17,716	1.0%	166,450	9.3%	10.1%	-4,642	(9,517)	-	-	\$1.81
B	19	445,743	95,227	21.4%	15,564	3.5%	110,791	24.9%	19.4%	-10,905	(2,898)	-	-	\$1.67
C	-	-	-	-	-	-	-	-	0.0%	0	-	-	-	\$0.00
<b>Total</b>	<b>55</b>	<b>2,240,301</b>	<b>243,961</b>	<b>10.9%</b>	<b>33,280</b>	<b>1.5%</b>	<b>277,241</b>	<b>12.4%</b>	<b>12.0%</b>	<b>-15,547</b>	<b>(12,415)</b>	<b>-</b>	<b>-</b>	<b>\$1.74</b>
<b>CENTRAL/AIRPORT SUBMARKET</b>														
A	3	79,597	8,209	10.3%	-	0.0%	8,209	10.3%	10.1%	0	8,541	-	-	\$1.35
B	28	915,354	144,280	15.8%	8,202	0.9%	152,482	16.7%	18.9%	19,054	15,179	-	-	\$1.44
C	40	751,326	131,696	17.5%	2,200	0.3%	133,896	17.8%	15.2%	-6,038	6,788	-	-	\$1.08
<b>Total</b>	<b>70</b>	<b>1,746,277</b>	<b>284,185</b>	<b>16.3%</b>	<b>10,402</b>	<b>0.6%</b>	<b>294,587</b>	<b>16.9%</b>	<b>16.9%</b>	<b>13,016</b>	<b>30,508</b>	<b>-</b>	<b>-</b>	<b>\$1.29</b>
<b>SPARKS SUBMARKET</b>														
A	-	-	-	0.0%	-	-	-	0.0%	0.0%	0	-	-	-	\$0.00
B	2	32,919	2,965	9.0%	-	0.0%	2,965	9.0%	9.0%	0	-	-	-	\$1.35
C	1	14,432	3,239	22.4%	-	0.0%	3,239	22.4%	37.1%	0	6,532	-	-	\$0.85
<b>Total</b>	<b>3</b>	<b>47,351</b>	<b>6,204</b>	<b>13.1%</b>	<b>-</b>	<b>0.0%</b>	<b>6,204</b>	<b>13.1%</b>	<b>21.5%</b>	<b>0</b>	<b>6,532</b>	<b>-</b>	<b>-</b>	<b>\$1.10</b>
<b>WEST RENO SUBMARKET</b>														
A	1	17,728	2,000	11.3%	-	0.0%	2,000	11.3%	33.8%	4,000	5,500	-	-	\$1.50
B	3	43,102	-	0.0%	-	0.0%	-	0.0%	0.4%	190	190	-	-	-
C	6	98,364	28,609	29.1%	-	0.0%	28,609	29.1%	18.1%	-2,230	(11,010)	-	-	\$1.35
<b>Total</b>	<b>10</b>	<b>159,194</b>	<b>30,609</b>	<b>19.2%</b>	<b>-</b>	<b>0.0%</b>	<b>30,609</b>	<b>19.2%</b>	<b>16.0%</b>	<b>1,960</b>	<b>(5,320)</b>	<b>-</b>	<b>-</b>	<b>\$1.43</b>
<b>DOWNTOWN SUBMARKET</b>														
A	4	559,770	57,157	10.2%	5,000	0.9%	62,157	11.1%	10.9%	-6,484	9,500	-	-	\$1.95
B	16	515,801	119,211	23.1%	3,882	0.8%	123,093	23.9%	20.8%	16,687	(9,783)	-	-	\$1.74
C	15	302,176	20,090	6.6%	1,930	0.6%	22,020	7.3%	7.3%	5,039	7,170	-	-	\$1.45
<b>Total</b>	<b>35</b>	<b>1,377,747</b>	<b>196,458</b>	<b>14.3%</b>	<b>10,812</b>	<b>0.8%</b>	<b>207,270</b>	<b>15.0%</b>	<b>13.4%</b>	<b>15,242</b>	<b>6,887</b>	<b>-</b>	<b>-</b>	<b>\$1.71</b>
<b>SUBURBAN TOTAL</b>														
A	73	3,058,738	352,936	11.5%	20,844	0.7%	373,780	12.2%	15.4%	0	(1,502)	-	-	\$1.28
B	62	1,725,555	246,134	14.3%	23,766	1.4%	269,900	15.6%	18.9%	19,054	49,315	-	-	\$1.15
C	47	864,122	163,544	18.9%	2,200	0.3%	165,744	19.2%	17.3%	-6,038	4,540	-	-	\$1.09
<b>Total</b>	<b>182</b>	<b>5,648,415</b>	<b>762,614</b>	<b>13.5%</b>	<b>46,810</b>	<b>0.8%</b>	<b>809,424</b>	<b>14.3%</b>	<b>16.8%</b>	<b>13,016</b>	<b>52,353</b>	<b>-</b>	<b>-</b>	<b>\$1.18</b>
<b>MARKET TOTAL</b>														
A	73	3,618,508	410,093	11.3%	25,844	0.7%	435,937	12.0%	15.1%	-6,484	7,998	-	-	\$1.62
B	66	2,241,356	365,345	16.3%	27,648	1.2%	392,993	17.5%	18.7%	35,741	39,532	-	-	\$1.45
C	63	1,166,298	183,634	15.7%	4,130	0.4%	187,764	16.1%	14.4%	-999	11,710	-	-	\$1.27
<b>Total</b>	<b>197</b>	<b>7,026,162</b>	<b>959,072</b>	<b>13.7%</b>	<b>57,622</b>	<b>0.8%</b>	<b>1,016,694</b>	<b>14.5%</b>	<b>16.1%</b>	<b>28,258</b>	<b>59,240</b>	<b>-</b>	<b>-</b>	<b>\$1.45</b>

QUARTERLY COMPARISON AND TOTALS

Q3-16	197	7,026,162	959,072	13.7%	57,622	0.8%	1,016,694	14.5%	15.2%	28,258	59,240	-	-	\$1.45
Q2-16	197	6,967,994	990,192	14.2%	71,143	1.0%	1,061,335	15.2%	15.9%	8,372	30,982	-	-	\$1.44
Q1-16	197	6,932,905	998,564	14.4%	103,519	1.5%	1,102,083	15.9%	16.1%	22,610	22,610	-	-	\$1.42
Q4-15	198	7,078,032	1,021,174	14.4%	116,883	1.7%	1,138,057	16.1%	16.0%	34,442	127,682	-	-	\$1.42
Q3-15	198	7,078,032	1,055,616	14.9%	78,502	1.1%	1,134,118	16.0%	16.0%	42,876	93,240	-	-	\$1.41
Q2-15	198	7,078,032	1,096,729	15.5%	65,273	0.9%	1,135,010	16.0%	17.0%	38,779	50,364	-	-	\$1.42
Q1-15	198	7,078,032	1,120,927	15.8%	85,258	1.2%	1,206,185	17.0%	16.7%	11,585	11,585	-	-	\$1.36



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# 554 offices in 66 countries on 6 continents

United States: **153**

Canada: **34**

Latin America: **24**

Asia Pacific: **231**

EMEA: **112**

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## \$2.5

billion in  
annual revenue\*

## 2.0

billion square feet  
under management

## 16,000

professionals  
and staff

\*All statistics are for 2015 and include affiliates

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