

RENO | NEVADA RESEARCH & FORECAST REPORT



Mystery Solved!

2013 was the Northern Nevada Office Market's best year since the recession began. We were busy leasing buildings and selling buildings, but the underlying employment reports did not support our level of activity. At the end of 2013 the Department of Training and Rehabilitation indicated we lost 300 jobs in professional and business services. This is the segment that leases and buys office buildings. Just last month, the numbers were revised and we actually gained 2,200 jobs in professional and business services sector. Now we know why we were so busy in the office market. This segment actually showed the greatest gain in number of jobs created of all categories in Northern Nevada.

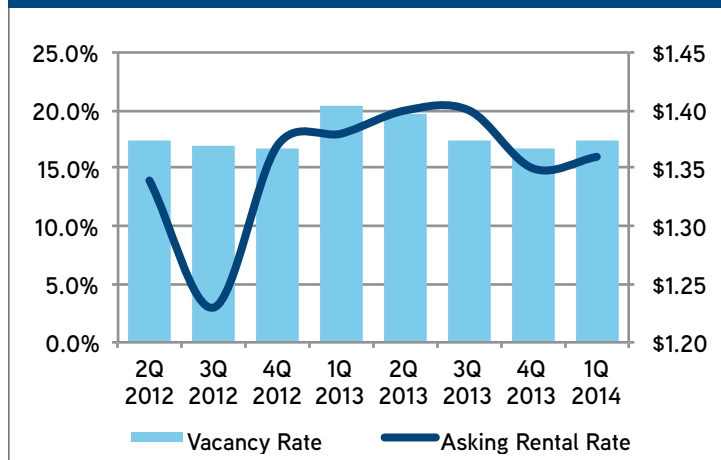
As for 2014, perhaps it was the hangover from a great 2013, but the office market in Northern Nevada is off to a slow start in. In fact, we went backwards from where we ended 2013. The net absorption for the first quarter was a negative 75,420 square feet. Some of the give back in space should have been expected by those of us that diligently track the market.

For example, we knew the Alere Medical's 25,000 square foot lease was expiring at 10615 Professional Circle, as Alere moved the office to Southern California. We also knew Kinross Gold consolidated the Reno office to Denver, vacating 15,994 square feet at the NevDex 5370 Kietzke Lane building. We knew ETL was going to vacate their 12,815 square foot office building at 3700 Barron Way as they consolidated to their distribution center. We knew LP Insurance was going to relocate to 300 E. Second Street and would be vacating 18,000 square feet at 6275 Neil Road, the Mutual of Omaha Bank Building. And lastly, we discovered that the VA Administration vacated a 12,695 square feet administration office at 6110 Plumas.

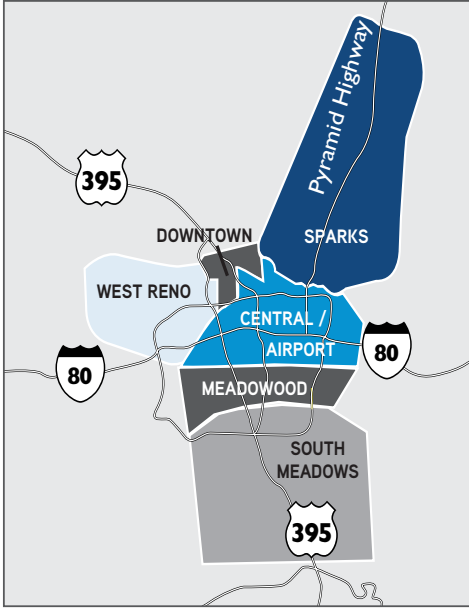
MARKET INDICATORS

	Q1-14	Projected Q2-14
VACANCY	↑	↓
NET ABSORPTION	↓	↑
CONSTRUCTION	↔	↔
RENTAL RATE	↔	↔

HISTORICAL VACANCY AND ASKING RATES



Asking Class A rates are up about \$0.10 from last year.



The total square footage vacated above represents over 84,000 square feet. On the positive side, St. Mary’s Regional Medical Center added 7,000 square feet to their office at 5070 Ion Drive in Spanish Springs. Great Call doubled their square footage to 36,000 square feet at 9390 Gateway. Anatomie doubled their square footage to over 6,000 square feet at Museum Tower, 100 W. Liberty Street. Quality HealthCare leased 15,000 square feet at 1201 Corporate Boulevard. And lastly, Nature’s Bakery leased 11,655 square feet at 9460 Double R Boulevard. Even with all of the activity it was not enough to off-set the give back in space mentioned above.

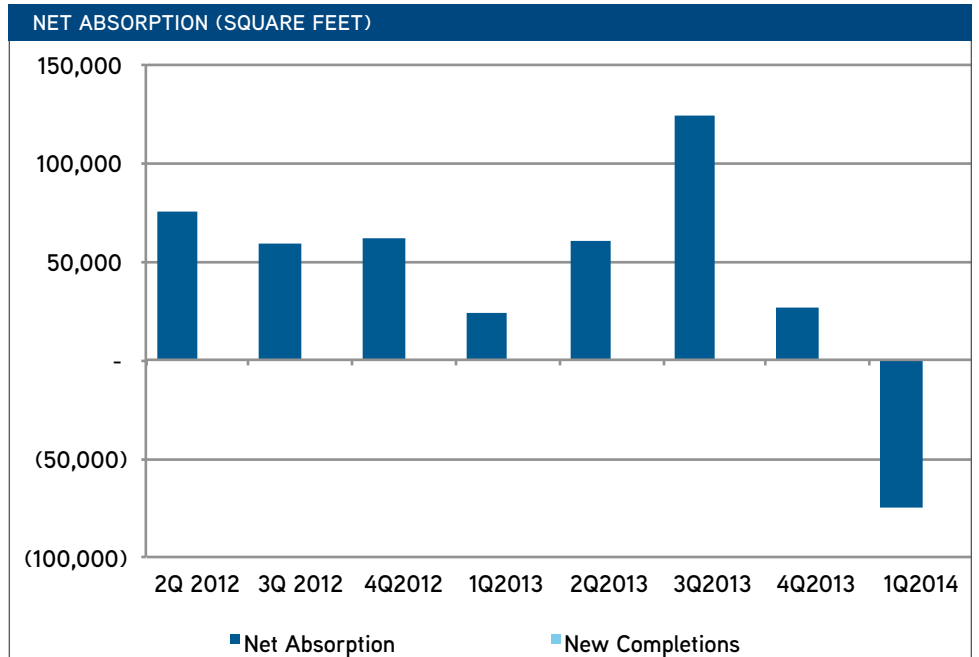
The activity level at the end of the first quarter was very high as several tenants are out looking at space. We expect there to be more leases consummated in the second quarter reversing the negative net absorption of the first quarter.

VACANCY

Based upon the negative net absorption, the direct vacancy rate jumped from 16.2 percent to 17.0 percent. Of our three largest submarkets, Downtown fared the best with a 15.6 percent vacancy rate which is actually down from the fourth quarter. South Meadows increased slightly from 16.8 percent to 17.9 percent and Meadowood fared the worst with a leap from 12.9 percent to 15.9 percent. Meadowood alone put 66,098 square feet back on the market.

LEASE RATES

Although more space was put back on the market, lease rates remained unchanged. This could change if the pick-up in activity does not result in more signed leases. We continue to see pricing power from landlords with well positioned properties.



SIGNIFICANT LEASE AND SALES ACTIVITY

LEASE ACTIVITY

PROPERTY ADDRESS	LEASE DATE	SIZE SF	TENANT	TYPE
9390 Gateway Drive, Reno, NV	March 2014	18,295	Great Call	New Lease
1201 Corporate Boulevard, Reno, NV	Feb 2014	15,000	Quality Healthcare	New Lease
9460 Double R Boulevard, Reno, NV	Feb 2014	11,655	Nature’s Bakery	New Lease
5070 Ion Drive, Sparks, NV	Jan 2014	11,137	St. Mary’s	New Lease
9480 Double Diamond Boulevard, Reno, NV	March 2014	8,818	Spectir	New Lease
100 West Liberty Street, Suite 190 & 195, Reno NV	Jan 2014	6,066	Anatomie	New Lease

MARKET COMPARISONS

OFFICE MARKET

CLASS	BLDGS	TOTAL RBA	DIRECT VACANT SF	DIRECT VACANCY RATE	SUBLEASE VACANT SF	SUBLEASE VACANCY RATE	TOTAL VACANT SF	TOTAL VACANCY RATE	VACANCY RATE PRIOR QUARTER	NET ABSORPTION CURRENT QTR SF	NET ABSORPTION YTD SF	COMPLETIONS CURRENT QTR SF	UNDER CONSTRUCTION SF	AVG ASKING RENTAL RATE
DOWNTOWN SECTION														
A	4	558,231	76,728	13.7%	-	-	76,728	13.7%	13.0%	(4,387)	(4,387)	-	-	\$1.95
B	16	508,263	95,541	18.8%	-	-	95,541	18.8%	19.3%	2,498	2,498	-	-	\$1.57
C	15	373,388	52,929	14.2%	-	-	52,929	14.2%	15.5%	4,871	4,871	-	-	\$1.27
Total	35	1,439,882	225,198	15.6%	-	-	225,198	15.6%	15.8%	2,982	2,982	-	-	\$1.60
SOUTH MEADOWS														
A	34	1,217,576	247,570	20.3%	20,589	1.7%	268,159	22.0%	19.7%	(28,176)	(28,176)	-	-	\$1.55
B	10	285,410	21,178	7.4%	-	-	-	-	11.5%	11,655	11,655	-	-	\$1.07
C	-	-	-	0.0%	-	-	-	-	-	-	-	-	-	\$-
Total	44	1,502,986	268,748	17.9%	20,589	1.4%	268,159	-	16.8%	(16,521)	(16,521)	-	-	\$1.31
MEADOWOOD														
A	36	1,713,420	227,395	13.3%	-	0.0%	227,395	13.3%	10.8%	(42,117)	(42,117)	-	-	\$1.70
B	19	437,086	115,053	26.3%	10,712	2.5%	125,765	28.8%	20.8%	(23,981)	(23,981)	-	-	\$1.11
C	-	-	-	0.0%	-	-	-	-	-	-	-	-	-	\$-
Total	55	2,150,506	342,448	15.9%	10,712	0.5%	353,160	16.4%	12.8%	(66,098)	(66,098)	-	-	\$1.41
CENTRAL/AIRPORT														
A	3	81,023	6,771	8.4%	-	-	6,771	8.4%	8.4%	-	-	-	-	\$1.25
B	28	910,921	151,212	16.6%	3,593	0.4%	154,805	17.0%	19.0%	7,879	7,879	-	-	\$1.07
C	39	775,145	175,265	22.6%	1,400	0.2%	176,665	22.8%	25.3%	4,010	4,010	-	-	\$1.11
Total	70	1,767,089	333,248	18.9%	4,993	0.9%	338,241	19.8%	21.0%	11,889	11,889	-	-	\$1.14
SPARKS														
A	-	-	-	-	-	-	-	-	-	-	-	-	-	\$-
B	2	32,919	-	-	-	-	-	-	-	-	-	-	-	\$0.75
C	2	26,360	9,771	37.1%	-	-	9,771	37.1%	37.1%	-	-	-	-	\$0.85
Total	4	59,279	9,771	16.5%	-	-	9,771	16.5%	16.5%	-	-	-	-	\$0.53
WEST RENO														
A	1	17,728	8,000	45.1%	-	-	-	45.1%	-	-	(8,000)	-	-	\$1.75
B	3	43,102	4,590	10.6%	-	-	4,590	-	-	(740)	(740)	-	-	\$1.43
C	6	97,460	13,303	13.6%	-	-	13,303	13.6%	14.7%	1,068	1,068	-	-	\$1.18
Total	10	158,290	25,893	16.4%	-	-	25,893	11.5%	11.5%	(7,672)	(7,672)	-	-	\$1.45
DOWNTOWN SECTION														
A	4	558,231	76,728	13.7%	-	-	76,728	13.7%	13.0%	(4,387)	(4,387)	-	-	\$1.95
B	16	508,263	95,541	18.8%	-	-	95,541	18.8%	19.3%	2,498	2,498	-	-	\$1.57
C	15	373,388	52,929	14.2%	-	-	52,929	14.2%	15.5%	4,871	4,871	-	-	\$1.27
Total	35	1,439,882	225,198	15.6%	-	-	225,198	15.6%	15.8%	2,982	2,982	-	-	\$1.60
SUBURBAN TOTAL														
A	74	3,029,747	489,736	16.2%	20,589	0.7%	510,325	16.8%	14.2%	(78,293)	(78,293)	-	-	\$1.25
B	62	1,709,438	292,033	17.1%	14,305	0.8%	285,160	16.7%	18.0%	(5,187)	(5,187)	-	-	\$1.09
C	47	898,965	198,339	22.1%	1,400	0.2%	199,739	22.2%	24.5%	5,078	5,078	-	-	\$1.05
Total	183	5,638,150	980,108	17.4%	36,294	0.6%	995,224	17.7%	16.9%	(78,402)	(78,402)	-	-	\$1.13
MARKET TOTAL														
A	74	3,029,747	566,464	18.7%	20,589	0.7%	510,325	16.8%	14.2%	(82,680)	(82,680)	-	-	\$1.60
B	66	2,267,669	387,574	17.1%	14,305	0.6%	361,888	16.0%	16.8%	(2,689)	(2,689)	-	-	\$1.33
C	63	1,407,228	251,268	17.9%	1,400	0.1%	295,280	21.0%	22.6%	9,949	9,949	-	-	\$1.16
Total	198	7,078,032	1,205,306	17.0%	36,294	0.5%	1,241,600	17.5%	16.8%	(75,420)	(75,420)	-	-	\$1.36
QUARTERLY COMPARISON AND TOTALS														
Q1-14	198	7,078,032	1,205,306	17.0%	36,294	0.5%	1,241,600	17.5%	16.8%	(75,420)	(75,420)	-	-	\$1.36
Q4-13	198	7,078,032	1,143,886	16.2%	48,328	0.8%	1,192,214	16.8%	16.5%	26,723	235,371	-	-	\$1.35
Q3-13	198	7,078,032	1,170,609	16.5%	59,072	0.5%	1,229,681	16.5%	19.0%	124,093	208,648	-	-	\$1.40
Q2-13	218	7,078,832	1,347,839	19.0%	44,384	0.6%	1,392,223	19.0%	19.7%	60,561	84,555	-	-	\$1.40
Q1-13	218	7,078,832	1,395,540	19.7%	43,942	0.6%	1,439,482	19.7%	20.7%	23,994	23,994	-	-	\$1.38
Q4-12	216	6,935,429	1,132,773	16.3%	24,898	0.4%	1,157,671	20.7%	17.0%	61,555	109,581	-	-	\$1.37
Q3-12	214	6,924,552	1,074,257	15.5%	103,504	1.5%	1,177,761	17.0%	17.6%	58,313	79,842	-	-	\$1.23

CONSTRUCTION:

Construction remained slow with only two 4,000 square foot office buildings completed in the first quarter. Two office buildings at Tanamera's Reno Tahoe Tech Center Town Center in South Meadows were finished. These buildings were under construction late last year. We are hopeful that one or both developers will break ground at their Rancharra sites off Kietzke Lane. One developer has developed two concept plans for a mixed-use development. Both concepts include a speculative office concept. The decision on how to proceed will hopefully be decided this summer.

SALES:

The gusto of sales seen in 2013 did not continue into the first quarter. We saw a slowdown in total number of sales as well as the price per square foot of the sales that were consummated. There was also a reduction in the bank sales. The largest sale was distressed, when 10539 Professional Circle, a 43,312 square foot office building, sold on the court house steps for one dollar over the opening bid. The property sold for \$4,900,001 which is about \$113 per square foot. The remainder of the sales were to owner-users or quasi-owner users/investors. 5605 Riggins Court was purchased by a tenant who plans to occupy about half of the 14,000 square foot building. The building sold for \$800,000 which is \$56.98 per square foot. The low price reflected the vacancy and need for improvements and upgrades. 1150 Corporate Blvd, a 7,600 square foot office, was purchased by the tenant, CFA Inc., they bought the building for \$135.10 per square foot. As mentioned last year the amount of quality product on the market is low and this may be a factor for the slow down in sales.

100 WEST LIBERTY STREET, RENO, NV LEASED 6,006 SQUARE FEET TO ANATOMIE



485 offices in 63 countries on 6 continents

United States: 146
Canada: 44
Latin America: 25
Asia Pacific: 186
EMEA: 84

- > \$2.1 billion in annual revenue
- > 1.46 billion* square feet under management
- > Over 15,800 professionals

*The combination of Colliers International and First Service results in 2.5 billion SF under management (2nd largest in the world.)

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