

FORECAST 2019 *and beyond*



OFFICE | RETAIL | INDUSTRIAL | RESIDENTIAL



Northern Nevada
CCIM Chapter

The Builders Association of Northern Nevada

FORECAST 2019

January 15, 2019

7:00am • Atlantis Casino Resort



Agenda

Welcome

Don Tatro

Executive Director, BANN

Angelica Reyes

RSAR President

The Right Choice Realty

Mark Krueger, ArchCrest Commercial Partners
Residential Land & New Homes Overview

CCIM Commercial Forecasts

Ian Cochran, CCIM

Logic CRE
RETAIL

Chris Fairchild, CCIM

Colliers International
INDUSTRIAL

Jessie Greer, CCIM

Avison Young
RESIDENTIAL

Melissa Molyneaux, CCIM

Colliers International
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Feature Presentation

Elliot Eisenberg, Graphs & Laughs

KEYNOTE SPEAKER

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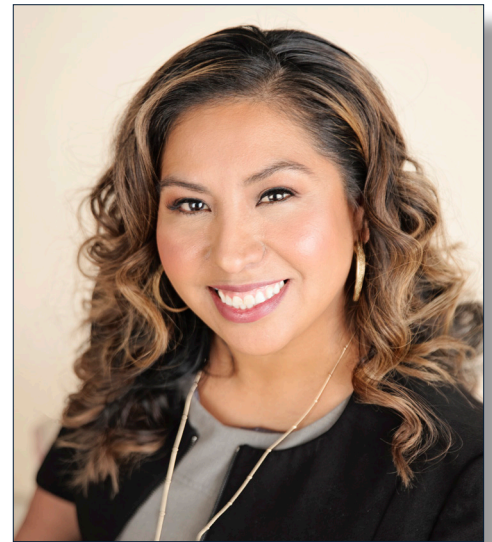


Angelica Reyes, REALTOR® RSAR President, The Right Choice Realty

Angelica is the 2019 President of the Reno/Sparks Association of REALTORS® and strives to provide education to the public and the real estate community by sharing monthly market insights through various media platforms. She has dedicated over 12 years of passion and commitment to the real estate industry in Northern Nevada and is now the managing Broker of The Right Choice Realty.

She was elected as the 2019 State Governor for the Northern Nevada Network of Women's Council of REALTORS® and is a past member of the National Steering Committee for National Association of Women's Council of REALTORS®.

Angelica is currently a member of the Hispanic Real Estate Professionals, Young Professionals Network of Real Estate and a new member of the National Association of Gay and Lesbian Real Estate Professionals in Nevada. Her involvement in these organizations has allowed Angelica to advocate for diverse communities who wish to achieve the dream of home ownership.



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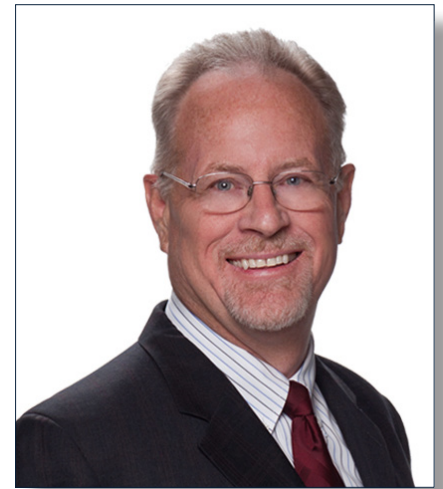
Mark Krueger

ArchCrest Commercial Partners

Email: mkrueger@archcrestnv.com

Mark's presentation will answer:

1. What happened with residential land and new home prices in 2018? Will the trend continue?
2. Did new home sales and permits increase as predicted?
3. Which builders are leading the way?
4. Where will we see new communities in the coming year?
5. Which communities are the best sellers?
6. How many lots are in the pipeline? Will this keep up with demand?
7. What are the predictions for 2019



About Mark Krueger

Mark Krueger is a Principal of ArchCrest Commercial Partners specializing in the sale of land and investment properties. Over the last 16 years, Krueger has transacted nearly 34,000 single-family and multifamily units, 700± commercial acres and over \$825 million in revenue. Krueger has almost 40 years of experience in commercial real estate.

Krueger boasts many top producer and outstanding achievement awards earned during his decades in commercial real estate and is a trusted expert in his field. He has been at the forefront of many master planned communities in the Reno/Sparks market including: Double Diamond, Damonte Ranch, Somerset, D'Andrea Ranch, Wingfield Foothills, Kiley Ranch and Stonebrook.

Krueger is a nine-time recipient of the annual Northern Nevada Summit Award for Top Land Broker. At the event in 2014 and 2016, Krueger took top honors earning the pinnacle Overall Broker of the Year award and in 2015 was awarded Land Broker the Decade. In 2013, Krueger was honored as a Captain of Industry by the Reno Gazette Journal. Krueger is an active member of the Builder Association of Northern Nevada and has been a keynote speaker at BANN's mid-year and annual forecast presentations since 2003.

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Keynote Speaker

Elliot Eisenberg, Ph.D.

GraphsandLaughs, LLC

Email: Elliot@graphsandlaughs.net

Highlights from Elliot's forecast

1. What can we expect from unemployment at year end?
2. Will inflation increase during 2019?
3. What's in store for housing prices?
4. Will the GDP continue its upward trend?
5. What will be the average job growth in 2019?
6. What will happen with the housing market in 2019?
7. Will there be another recession in our Forecast?



About Elliot Eisenberg

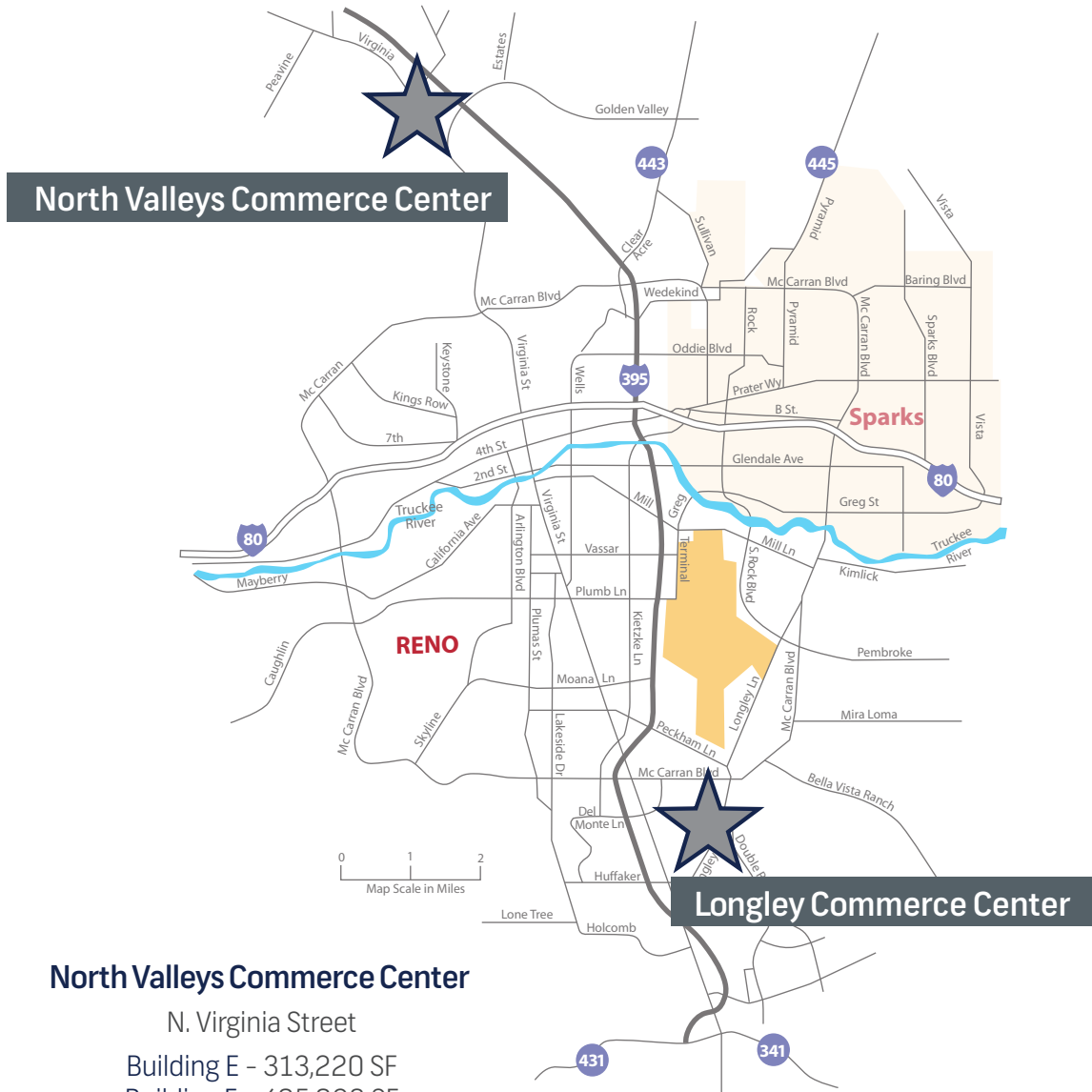
Elliot Eisenberg, Ph.D. is a nationally acclaimed economist and public speaker specializing in making economics fun, relevant and educational. Dr. Eisenberg earned a B.A. in economics from McGill University, and a Master and Ph.D. in public administration from Syracuse University. Eisenberg, formerly a Senior Economist with the National Association of Home Builders in Washington, D.C., is a frequent speaker on topics including: economic forecasts, economic impact of homebuilding, consequences of government regulation, cost-benefit analysis, strategic business development and other economic issues. He is the creator of the multifamily stock index, the author of more than 85 articles and serves on the Editorial Board of the Encyclopedia of Housing. He is regularly featured guest on several talk radio shows, is often seen on television, writes a syndicated column and authors a daily 70 word commentary on the economy that is available at www.econ70.com.

His interests include keeping the rate of restoration of his 60 year old house ahead of its rate of deterioration and doting on his daughter. He loves ice hockey and talking economics with crowds large and small!

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Longley Commerce Center

North Valleys Commerce Center

N. Virginia Street
 Building E - 313,220 SF
 Building F - 405,068 SF
 Building G - 228,540 SF
 Building H - 228,540 SF
 Building J - 138,200 SF
 Building K - 362,290 SF

Longley Commerce Center

6550 Longley Lane
 270,975 SF
 Est. Completion Q1 2019

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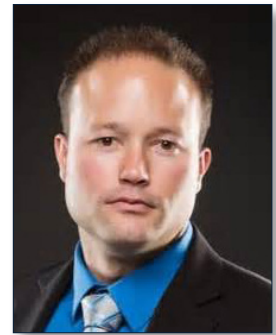


CCIM Commercial Forecasts

Ian Cochran – Retail Forecast

Logic Commercial Real Estate • icochran@logiccre.com

Ian Cochran joined Logic Commercial Real Estate as a Vice President in April 2018. Specializing in retail properties, Ian has 11 years of real estate experience in northern Nevada. Ian is the Past President of the CCIM Northern Nevada Chapter and is actively involved in northern Nevada Real Estate and community programs as an active member of the National Association of Industrial and Office Properties and the International Council of Shopping Centers.



Chris Fairchild – Industrial Forecast

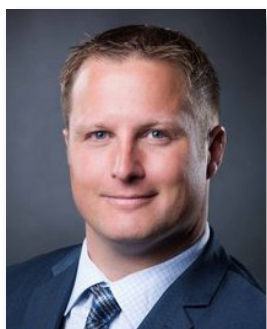
Colliers International • chris.fairchild@colliers.com

Chris Fairchild is Vice President of the Industrial Group at Colliers International in Reno. He specializes in industrial property sales, leasing, investments, and land, and has had the benefit of working with many local, regional, and national tenants and landlords. Chris actively serves on the Board of Directors at NAIOP. Chris volunteers annually with Keep Truckee Meadows Beautiful, and the Truckee River Foundation. Chris actively supports the Nevada Land Trust, Friends of Nevada Wilderness, and The Holland Project.

Melissa Molyneaux – Office Forecast

Colliers International • melissa.molyneaux@colliers.com

Melissa is a Senior Vice President with Colliers International. Her area of specialization is office properties and her focus includes landlord and tenant representation, leasing and sales. She is an active member of the community and serves on Western Industrial Nevada (WIN) as President Elect and the Renown Foundation Board. She is the past president of Commercial Real Estate Women (CREW) and the College of Business Alumni Association (COBAA) and as well as now being a lifetime Emeritus member.



Jessie Greer – Residential Forecast

Avison Young • jessie.greer@avisonyoung.com

Jessie Rich-Greer, MSRE, CCIM, CPM has extensive expertise in the commercial real estate industry with over 10 years of experience in the business. Jessie serves as a Multi-Family and Investment Associate at Avison Young. He has overseen more than \$40,000,000 in real estate assets. He has also provided advisory and brokerage services on commercial real estate transactions in Hawaii, California, Nevada and Florida consisting of self-storage, office, Retail, industrial, multifamily, and agricultural properties.

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Office Forecasts

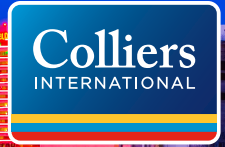


2019

BANN/CCIM 2019 FORECAST

Office Services
Northern Nevada

www.Colliers.com/Melissa.Molyneaux



**2018
FORECAST
WINNER**



The Northern Nevada market continues to post strong figures with vacancy dropping and increasing positive net absorption. As of Q3 2018, the vacancy rate was down to 11.0 percent from 11.5 percent the prior quarter with the average rent increasing to \$1.71 per square foot per month. Due to many large leases in the third quarter, there was 35,382 square feet of positive net absorption. Sales, especially on buildings over 10,000 square feet, also took place.

The only downside is that vacancy rates in certain submarkets, specifically Class A space in South Reno and Meadowood submarkets, is so low that it is hard to find available product. Typically this would result in construction but it appears land pricing and construction costs make new construction hard to pencil. Unfortunately, this is leaving tenants to make difficult decisions as to their growth in our market.

One interesting note is that rent in the Downtown submarket seem to be on the rise, increasing this quarter to \$2.01 per square foot per month on average from \$1.94 per square foot per month last quarter. Ironically, the overall vacancy in this submarket has been on the decline. The Class A office market in downtown Reno is sitting at 14.4 percent, the highest for Class A office in our top three submarkets: Downtown, South Reno and Meadowood.

My prediction for vacancy in 2019 is 8.4%.

2018 Significant Sales: Q1-Q3

Address	Size	Sale Price	PSF
10375 Professional Circle	79,552	\$25,300,000.00	\$318.03
885 Trademark Drive	77,132	\$20,400,000.00	\$264.48
5190 Neil Road	106,130	\$14,875,000.00	\$140.16
745 West Moana Lane	60,011	\$9,000,000.00	\$149.97
5590 Kietzke Lane	14,670	\$5,500,000.00	\$374.91

2018 Significant Leases: Q1-Q3

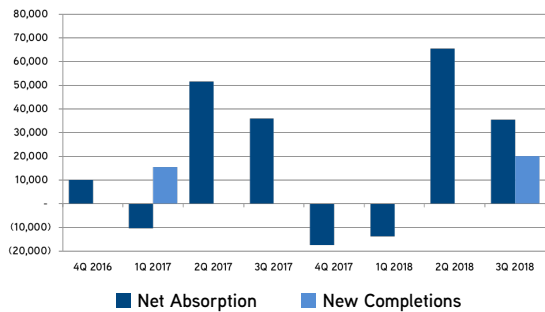
Address	Size	Tenant	Type
4930 Energy Way	38,904	Charter Communications	New
5250 South Virginia Street	16,559	AT&T Inc. (HQ)	New
9600 Gateway Dive	15,672	Nevada State Medical Examiners Board	New
5340 Kietzke Lane	12,026	Gaming Division	New
10539 Professional Circle	11,589	Carson Tahoe Hospital	New

Melissa Molyneaux, SIOR, CCIM
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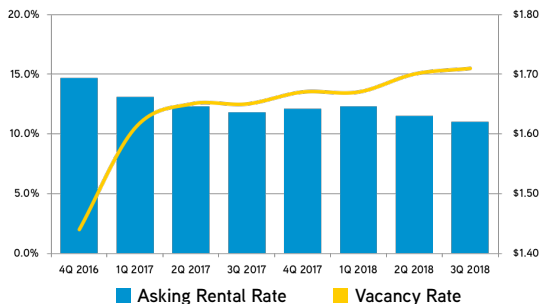
NOTE: Graphs represent Q1-Q3 and do not reflect CoStar data

Melissa.Molyneaux@colliers.com

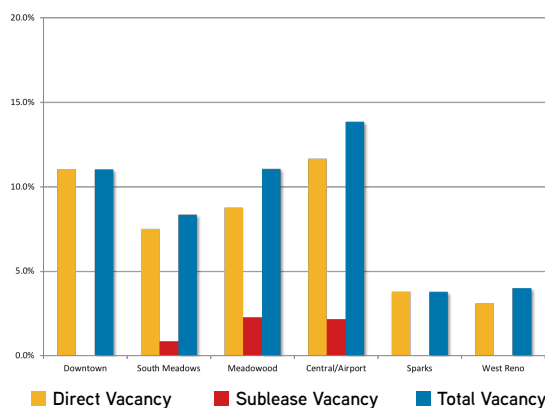
Historical Net Absorption vs Completions



Historical Vacancy Rates and Asking Lease Rates



Total Vacancy vs Direct and Sublease Vacancy



RENO | SPARKS 2019 OFFICE FORECAST



2018
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LEASING RECAP

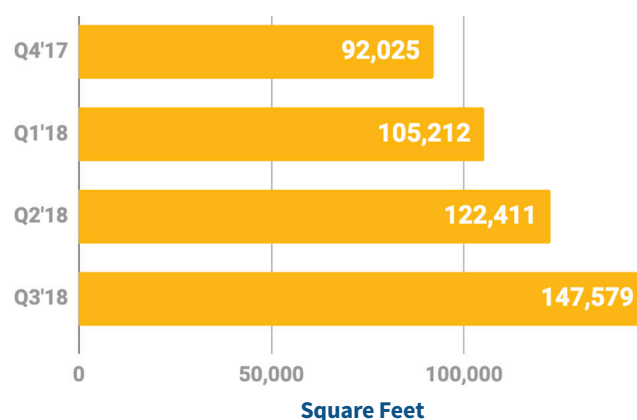
The Northern Nevada Office leasing market remains very healthy. 2018 has proven to be another consistent period of positive net absorption and declining vacancy rates. The third quarter of 2018 logged more gross absorption in the office market than any quarter since Q1 2017 at just under 150,000 square feet absorbed. New office development is in full effect primarily taking place in the Meadowood submarket. McKenzie Properties' 40,000 square foot Mountain View Corporate project is set to be occupied by early 2019, Charles Schwab's 20,000 square foot building at Rancharra is currently partially occupied and TDC's Village at Rancharra project, which has plans for two freestanding buildings is pre-leasing. We are beginning to see tenants paying record rents for new Class A space as these tenants seek layout efficiencies not found in 2nd or 3rd generation spaces, thus, Class A submarkets continue to be at the forefront of areas with the most activity.

Looking ahead to 2019, as we continue to see steady economic growth with new and existing companies expanding in our market, and we will also see added square footage from completed developments. With the added square footage increasing our supply in the market, our prediction for Q3 2019 is that our vacancy rate will remain level at 8.8%.

SALES RECAP

2018 proved to be strong in office sales volume and number of transactions. Investment product continues to be in high demand, and ongoing lack of inventory creates a seller favorable market for stabilized office product. Cap rates for quality and stabilized assets remain in the low 6% range, However interest rate increases may start to affect the pricing buyers are willing to pay. 2019 will be a telling sign for sellers in this market, and if we can continue to keep cap rates low. One of the largest office investment transactions that happened in 2018 was the sale of 10375 Professional Circle in the South Meadows submarket, the 79,552 office building traded for \$25.3 million (\$318/pf).

GROSS ABSORPTION



NOTABLE SALES

ADDRESS	PRICE & P/SF	SF
10375 Professional Circle	\$25,300,000 (\$318 p/sf)	79,552 SF
885 Trademark Drive	\$20,400,000 (\$270 p/sf)	75,600 SF
5190 Neil Road	\$14,875,000 (\$139 p/sf)	106,823 SF
745 Moana Lane	\$9,000,000 (\$149 p/sf)	60,011 SF
328 S. Wells Ave	\$4,400,000 (\$110 p/sf)	39,816 SF



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Office Forecasts

In addition to the 2018 Office Forecast Winners' (Melissa Molyneaux, Dominic Brunetti, Scott Shanks and Patrick Riggs), crystal ball submission, additional forecasts for 2019 Q3 vacancy rates are presented by the following commercial real estate brokers for the Office market segment.



Kevin Annis, SIOR, CCIM



Mike Van Blaricom



8.1%



Bram Buckley, CCIM



8.6%



Dewey Struble, CCIM



9.15%

Retail Forecasts



2019

2019 RETAIL FORECAST



LOGIC

VACANCY

2018	2019
7.00% Vacancy Rate	6.00% Projected Vacancy Rate

RENT

2018	2019
\$1.50 PSF NNN Average Asking Rate	\$1.55 PSF NNN Projected Asking Rate

2018 NOTABLE SALES

NAME	SALE DATE	PRICE PSF	CAP RATE
	8/10/18	\$1,028	N/A
	10/8/18	\$890	4.76%
	4/16/18	\$183	6.00%
	4/26/18	\$155	6.15%

2018 NOTABLE LEASES

NAME	TOTAL SF	LOCATION
	+/- 60,000 SF	(2) Reno/Sparks
	+/- 30,112 SF	Spanish Springs
	+/- 16,016 SF	Sparks
	+/- 38,326	Sparks

SUMMARY

For the fifth consecutive quarter, the retail market in Reno/Sparks has seen an overall decrease in vacancy with the current vacancy rate hovering just under 7%. Average market rent is currently \$1.50 PSF NNN and appears to be slowly climbing as we continue to experience positive net absorption.

Looking ahead, 2019 should see much of the same positive leasing and sales activity. With a decline in available inventory, rents will likely continue to climb making retail development a more viable option for investors and developers alike.

In closing, the northern Nevada retail market is very healthy and all signs point to a strong future for some time to come.

INFORMATION PROVIDED BY



IAN COCHRAN, CCIM, AMANDA LAVI & GREG RUZZINE, CCIM

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crgroup@logicCRE.com

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Gary Tremaine



Amanda Brierton



6.5%

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Dewey Struble, CCIM



8.25%



Casey Scott, CCIM



6.6%

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Ryan J. Johnson, CCIM

2018
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6.37%

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Industrial Forecasts



2019

BANN/CCIM 2019 FORECAST

Industrial Services
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2018 FORECAST WINNER

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Chris.Fairchild@colliers.com

Q4 2018 Industrial Construction

Submarket	2019*	2018	2017	2016	2015	2014	2013
North Valleys	313,220	1,238,481	740,371	1,880,172	1,596,970	624,000	-
Sparks	-	-	200,000	409,600	-	606,000	-
Airport	-	-	-	-	-	-	-
South Reno	270,975	174,000	-	389,792	-	70,240	-
West Reno	-	391,750	477,000	-	-	-	-
East Sparks/TRIC	1,039,000	630,240	1,030,000	2,203,000	866,866	907,010	525,000
Total	1,623,195	2,434,471	2,447,371	4,882,564	2,463,836	2,207,250	525,000
Spec Totals	1,148,195	1,868,721	1,143,371	2,901,564	1,693,186	624,000	-
BTS Totals	475,000	174,000	1,304,000	1,981,000	770,650	1,583,250	525,000

*Projected

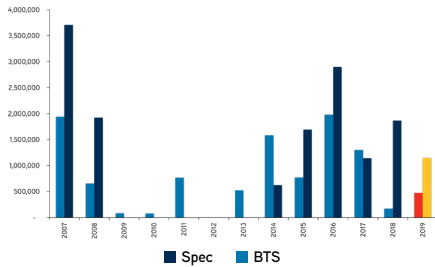
Q3 2018 YTD Significant Leases

Address	Size	Tenant	Type
385 Stanley Drive	Polyglass USA	115,200	Distribution
12055 Sage Point	UPS	132,275	Distribution
1450 E Greg Street	Tranzonic	136,025	Distribution
870 Trademark Drive	Elite Spice	174,493	Manufacturing
375 Cabela Drive	Masonite	182,000	Manufacturing
9460 N. Virginia Street #B	Supplyhouse.com	190,871	Distribution
550 Boxington Way	ITS Logistics	271,152	Distribution
9550 N. Virginia Street	S & S Activewear	802,113	Distribution

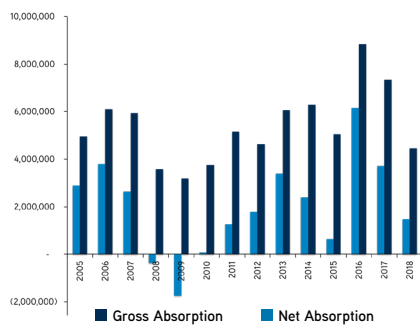
Q3 2018 Industrial Market Statistics

Submarket	Total Market Size	Total Vacant Square Feet	Total Vacancy %	Direct Vacancy %	Average Rate
North Valleys	19,458,346	675,670	3.47%	3.5%	\$0.36
Sparks	28,716,251	1,201,948	4.19%	4.1%	\$0.39
Airport	8,958,038	585,883	6.54%	5.1%	\$0.39
South Reno	9,774,617	345,181	3.53%	2.4%	\$0.42
Reno West	1,727,477	11,064	0.64%	0.6%	\$0.43
I-80 East Corridor	17,713,384	1,376,750	7.77%	2.1%	\$0.35
Total	86,348,113	4,196,496	4.86%	3.4%	\$0.40

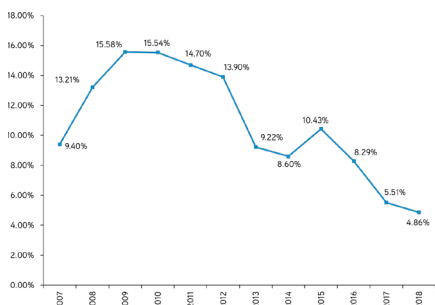
Historical BTS vs. New Spec Buildings



Historical Gross Absorption vs. Net Absorption



Historical Vacancy



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Joel Fountain



Baker Krukow



6.0%

DCG DICKSON
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Dewey Struble, CCIM



5.85%



Matt Harris



5.8%

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2019



2019 FORECAST

Reno Multifamily Real Estate

2018 National Multifamily Year End Review

The 2018 Multifamily market experienced a major bifurcation in investor sentiment and return expectations. On the one hand, market fundamentals for Multifamily are still strong. Nationally, the third quarter absorbed 87,000 units which is almost a historic record. The first three quarters of 2018 have experienced a resurgent economy averaging 3% growth and 200,000 new jobs quarter over quarter. This equates to an increase in household formations that have favored a marginal propensity to rent. This suggests that each additional household that forms will prefer to rent than buy for various reasons. This cycle has seen almost 80% of new households forming choose to rent. This unprecedented preference to rent has pushed the homeownership rate down more than 6%, equivalent to more than 10,000,000 renter households producing sustained rental growth and investor demand for this sector according to Costar. The next year and a half will provide over 500,000 new units to the market.

On the other hand, investors have been tracking ongoing concerns that have started to play a role in investment outlooks. Although interest rates are at historic lows, the biggest concerns are the ongoing interest rate hikes. The spread between interest rates and capitalization rates have become historically low. As rates continue to rise, capitalization rates will soon have to follow. The yield curve has flattened attributing to economist forecasting a 50/50 chance of a 2020 recession. New construction costs and shortage of quality labor have driven up construction costs and prolonged new product coming to market. Lastly, high income renter's preference to buy will chip away at Class A occupancy (which is the primary apartment product type being built) as new single-family home becomes available.

2018 Regional Multifamily Break Down

Local market fundamentals are trending parallel to the national scene. According to the state Department of Employment, the unemployment rate is at 3.7% in the Reno-Sparks MSA, while job growth is at 3.9%. These are levels that have not been seen since the 2007 expansion. Average rental rates coming out of the third quarter in 2018 were up a little less than 1% with studios and three-bedroom apartments leading the way. Of the eleven submarkets only six experienced rental rate increases while the remaining 5 saw a decrease according to Johnson Perkins Griffin. Overall vacancy rates are currently at 2.79%. Even though this number is still historically low, nine out of the 11 submarkets showed increases in vacancy.

Currently there are more than 3,400 units under construction with additional units under different stages in the development pipeline. The market will see an influx of new inventory become operational predominantly in 2019 and 2020. Although this inventory will be primarily class A product on the periphery of Reno Sparks marketing towards the top end of rental rates.

2019 Regional Multifamily Forecast

Continued increase of an inbound population due to new jobs will push down overall vacancy. New inventory will tighten up due to the increase in land and construction costs, bringing fewer new projects to light. Rents will continue to increase, albeit at a slower rate than the double digits gain of previous years. Investor underwriting will return back to fundamentals due to fear of interest rate increases and slowing rental rate increases.



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2018 Q3 Y-O-Y
Vacancy Rate: 2.79%
Average Rent: \$1,319



2018 5+ units Highlights
Lowest cap rate 3.2%
Highest price per units \$250,000
Highest price per foot \$371

Residential Forecasts

In addition to the 2018 Multi-Family Forecast Winner's (Todd Blonsley of Marcus & Millichap), crystal ball submission, additional forecasts for 2019 Q3 vacancy rates are presented by the following commercial real estate brokers for the Residential market segment.



Trevor Richardson



Chris Moton

3.1%

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Todd Blonsley, MBA, CCIM

2018
FORECAST
WINNER

3.08%

Marcus & Millichap



Dewey Struble, CCIM

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Floyd Rowley, CPA, CCIM

3.51%

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2019 Forecasts

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