RENO

EXECUTIVE SUMMARY

- Commercial real estate values in the northern Nevada area should continue to rise in 2020 given the lack of sales inventory and high occupancy rates.
- The Reno/Sparks economy should grow at a rapid rate as more and more companies set up shop in the area due to a favorable tax environment and high quality of life.
- Continued growth will present challenges as construction costs continue to rise, local infrastructure is pressured to expand, and housing affordability declines.

The Reno economy continued to expand throughout 2019 with a number of high profile companies setting up operations in the region. Google, Blockchain and Tesla among others either expanded or began construction on their new facilities. This new activity has helped drive unemployment in the area down to 4.5%.

2020 is expected to be a repeat of 2019. Employment growth is strong; real estate values continue to rise and in-migration continues to fuel the economy. A national or global recession could slow some of this growth, but the foundation of this growth should remain strong despite any national economic downturn. This foundation is based on several factors: construction, population growth, and employment growth.

Both new residential and commercial construction continue to outpace many other areas of the country. However, inventories remain very low as builders have been more cautious about overbuilding. The major concern going into 2020 is the rising cost of both labor and materials.

Nevada has just been recognized as the fastest growing state in 2018, according to the U.S. Census Bureau. It is highly anticipated that the state will repeat this in 2019 and again in 2020. The state's attractive tax structure along with plentiful jobs has fuelled this in-migration especially from states such as California.

The northern Nevada area continues to attract top, quality companies from around the world. Companies mentioned previously along with Polaris are a few that have recently opened or expanded their facilities.

The local commercial real estate market has seen a teady rise in the past six years. All sectors of the market are poised to continue to grow.

AVISON YOUNG

KEY MARKET METRICS – 2020 EXPECTATIONS

Annual growth rates, estimated for year-end 2020 vs year-end 2019.

	OFFICE	RETAIL	INDUSTRIAL
Rental Growth	↑↑	↑	↑
Vacant Space	↓	↓	→
Construction Levels	→	↑	↑↑
Leasing Volume	↑	↑	↑
Investment Volume	↑	→	↓↓

The current office vacancy rate at the end of 2019 stood at a healthy 12.2%. Rental rates should rise another 5% to 10% in 2020 given the lack of available space. Although there are a couple of major development proposals, none will be completed in 2020.

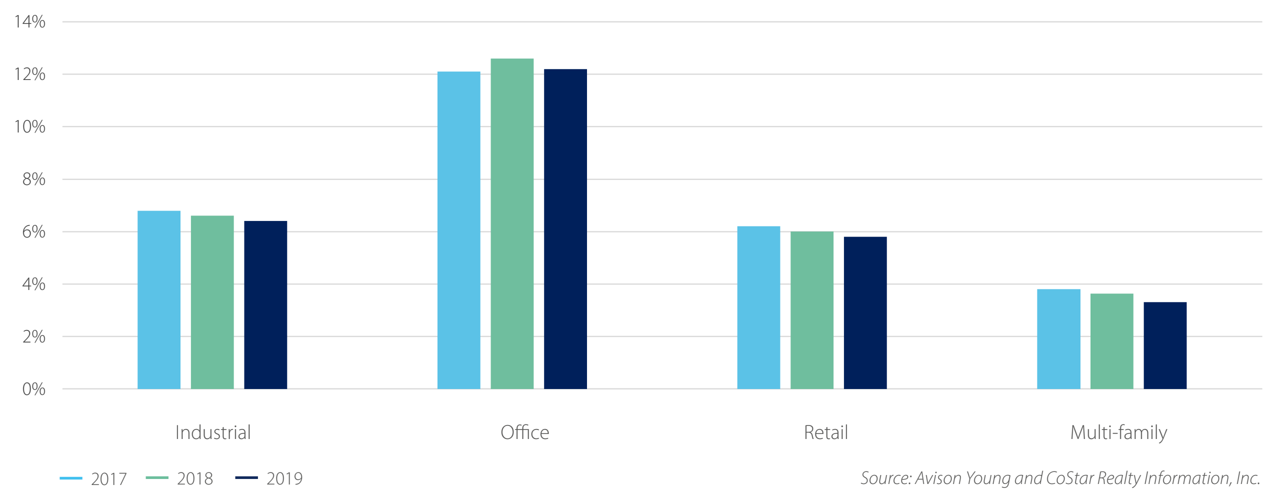
The industrial sector continues to drive this market. With over 100 million sf of space, the northern Nevada area has one of the most active industrial markets in the country. Vacancy rates are extremely low at 6.4%. Three or four major developers will continue to build new projects in the area with average building floor plates of well over 100,000 sf each.

The retail sector has seen its challenges as the industry has changed around the globe. Most activity is with the smaller retailers and the junior anchor size stores. The local retail vacancy rate remains healthy at 5.8%, and with few large, new developments slated for construction, the vacancy rate should remain around this level through 2020.

The multifamily sector has seen the highest rate of new construction in the local area. Over 5,000 new units will come online over the next three years. The vacancy rate has been at historic lows for over three years which has driven rental rates up to all-time highs. The new construction should slow rental rate growth and increase affordability. All indicators point to a steady absorption of this new product in 2020 and 2021.

Economic growth and commercial real estate development will continue to expand in the Reno market due to new job growth and population expansion.

HISTORICAL VACANCY RATES



Source: Avison Young and CoStar Realty Information, Inc.