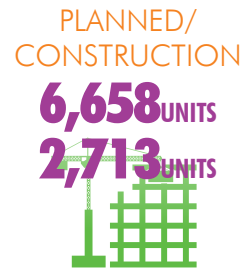


RENO SHINES AS A TOP PERFORMING WEST COAST MARKET AMID RISING RENTS AND A HOUSING SHORTAGE



NATIONAL UPDATE: RISING INTEREST RATES AND THEIR EFFECT

The market focused on digesting the Fed's interest rate increases (second time in three months) and what it means in terms of pricing. This affected the deal volume as both Buyers and Sellers paused and tried to reset expectations. As Real Capital Analytics observed in their Q1 2017 report: "the pricing expectations of buyers and sellers are further apart today with owners not motivated to cut prices to sell, while buyers, facing higher capital costs, are unwilling to change their return expectations for investments." Anecdotally, pricing has remained tight in most markets despite a relative slowdown in deal activity as it takes time to absorb changing conditions in the marketplace.

LOCAL UPDATE: CONSTRUCTION STRUGGLES TO MEET DEMAND AS NEW PROJECTS ENTER MARKET

High profile company relocations such as Google's entry into the market with its acquisition of 1,200 acres for a data center has once again placed Reno into the national spotlight. Reno's business friendly climate and proximity to Silicon Valley is helping to elevate the area as a new manufacturing technology hub with tremendous growth potential, thus attracting a record number of developers and investors into the market.

With rising demand from a growing work force, housing availability and affordability has become an issue for the market long known to be an affordable market. Long gone are the days of 2-3% annual rent growth. For Reno/Sparks, Q1 2017 brought another record rent increase as the average rental rate increased from \$1,066 in Q4 of 2016 to \$1,111. This change represents a strong quarterly increase of 4.22%, and an impressive year-over-year increase of 12.22%. As a notable result of the "Tesla effect," the East Sparks submarket (closest to the Tahoe Reno Industrial Center) even witnessed a quarterly rental rate increase of 13.02%.

Meanwhile, the vacancy rate tightened from 2.93% in Q4 of 2016 to 2.23%, which is slightly lower than 2.30% vacancy rate in Q1 of 2016. According to a March 2017 Yardi Matrix report, Reno witnessed one of the strongest performances overall on the West Coast, yet again.

As reported by the *Wall Street Journal*, "the labor market is so tight that economists say Reno needs to count on workers moving in to fill many of the new jobs." Reno's unemployment rate was 4.2% in March. The nationwide average that month was 4.5%. Consequently, the development pipeline increased by 1,983 units in one quarter alone meaning that all flat sizable pieces of infill land in the market are being considered for a multifamily development.

High demand due to strong job growth and limited availability are continuing to push the rents. We don't see this trend changing until 2018.

NEW CONSTRUCTION IN RENO & SPARKS

As of Q1 2017, there were 2,713 units under construction (not including 105 student housing units) and 6,658 units in the planning stages. Overall, the number of units both under construction and in planning has increased quarter over quarter by 27 percent. Total year-over-year activity has increased by 70 percent when only 1,458 units were under construction and 4,063 planned in Q1 of 2016.



by:
Aiman Noursultanova, CCIM
Senior Vice President
+1 775 823 6983
aiman.noursultanova@cbre.com
www.cbre.com/invreno

@AimanCRE

in/aimannoursultanova

SUMMARY

"As far as Reno is concerned, the market continues to break performance records with never before seen rent levels and job growth as high profile new company relocations are announced in the market."

AN OVERVIEW OF CONSTRUCTION ACTIVITY FOLLOWS BELOW:

Under Construction Total Units: 2,713		# Units	Notes
1.	The Bridges at Victorian Square	198	Silverwing's 2nd dense mixed-use development on Victorian Square in Sparks, adjacent to former Century Theatres, soon to be Galaxy Theaters.
2.	Fountainhouse	236	The Fountainhouse at Victorian Square is a mixed use project by Silverwing Development located at Victorian Square in Sparks. The project is west and south of the former Sparks Century Theaters (soon to be Galaxy) and across from The Nugget Casino. Construction began in September 2015 and at build out will include 236 condo-style apartments in 12 buildings, 8,400 square feet of retail space and a clubhouse with a pool.
3.	North Peak Apartments	420	Located at 8001 Military Road in North Reno, the North Peak Apartments is scheduled for Fall 2017 delivery and will feature 1, 2 and 3 bedroom unit options.
4.	Sierra Vista	336	Located at Arrowcreek Parkway, north of the Village at Arrowcreek Apartments. The project began construction in Q4 of 2016.
5.	The Harvest - Phase I	278	Lewis Operating Corp. is constructing luxury apartments in two phases, with 278 units in Phase I and 300 units in Phase II. Located in Damonte Ranch.
6.	Summit Club	574	The "Summit Club" project in South Reno will feature 584 one- and two-bedroom apartment units, 117 of which will be allocated as workforce housing for tenants who make 50 percent or less of the median income in Reno.
7.	Village at Arrow Creek Parkway - II	252	Ryder Homes is currently under construction on The Village at Arrow Creek Parkway Phase II off Arrowcreek Parkway in South Reno.
8.	Vineyard at the Galleria	210	Tanamera Construction is building this 10.9 acre site in the Sparks Galleria development adjacent to Costco.
9.	Waterfront at the Marina	209	A 209 apartment-unit project by LandCap around the partially completed parking garage at the Sparks Marina.

***Please see map on page 6 of upcoming under construction projects.**

In Planning Stages Total Units: 6,658		# Units	Notes
1.	Lumina Phase I & II at Wingfield Springs	552	Project to be built in two phases. Located in Wingfield Springs in Sparks, Nevada.
2.	Marina Gateway	280	New project located near the Sparks Marina.
3.	The Overlook at Keystone Canyon	305	Directly west of the Villas at Keystone Canyon in northwest Reno.
4.	Park Lane Mall Site	725	Reno Land Inc. is redeveloping the site of former Park Lane Mall into a large mixed use development with 725 units of various types of apartments, as well as office, medical office, retail and other residential.
5.	Silverado Development	96	Located in Wingfield Springs.
6.	Silverwing Development	200	Victorian Square planned for 2018/19.
7.	Silverwing Development	200	Victorian Square planned for 2018/19.
8.	Silverwing Development	100	Victorian Square planned for 2018/19.
9.	Spectrum-Dandini Multifamily Site	420	Site located at the NE corner of US Highway 395 and Dandini Boulevard.
10.	Steamboat Creek	468	Site located at the intersection of Geiger Grade & S. Virginia Street.
11.	The Harvest, Phase II	300	Lewis Operating Corp. is constructing luxury apartments in two phases, with 278 units in Phase I and 300 units in Phase II. Located in Damonte Ranch.
12.	The Lakes at Sky Vista	768	The Lakes at Sky Vista is a planned 768-unit multifamily development designed to hold 96 total buildings, with an average of 8 units per building. The site is planned to feature such amenities as walking paths, pools, tennis courts, and a dog park.
13.	The Point at the Marina	920	920 unit apartment condominium development on 20 acres, adjacent to the Outlets at Sparks. The development that will wrap around the parking garage adjacent to Marina Village, which broke ground in Q1 of 2017.
14.	Vida Luxury Apartments	312	Project is located in northwest Reno off of Sharlands and Mae Anne. The project is scheduled to break ground in Q2 of 2017 and will feature 312 luxury units.
15.	Villas at Keystone Phase II	96	Phase II will consist of 96 units. Class A garden style community.
16.	Vista Rafael Apartments	416	Located on a ±21 acre parcel at the southwest corner of N. Virginia and Vista Rafael Parkway will consist of 416 units. Land sold to a new Buyer/developer, timing for development to be determined.
17.	West 2nd Street District	500	Proposed \$1.2 billion development at West 2nd Street in downtown Reno to contain 2.3 million square feet of residential space (approximately 1,900 residential units, including 500 apartments, condominiums and various types of affordable housing), 450,000 square feet of office space, 250,000 square feet of retail, two non-gaming hotels and 5,000 parking spaces spread out across several parking garages.

In Planning Stages (Student Housing)		# Units	Notes
1.	Reno Student Housing - Identity Reno	105	This project is located across from the University of Nevada, Reno's Lawlor Events Center along N. Virginia Street and is slated for 105 units.

SALE TRENDS IN 80+ UNIT APARTMENT COMMUNITIES

A record number of 80+ unit properties sold in Q4 of 2016 in one of the busiest quarters in Reno's history. However, Q1 2017 was quiet in comparison as the markets digested the interest rate increases but Reno also struggled with product availability. One milestone was achieved in Q1, however, with the last REO sale in the market as the remnant of the great recession exited the books. LNR sold Lakeridge West for \$19,530,000 or \$155,000/unit. An overview of the properties that transacted in Q1 includes:

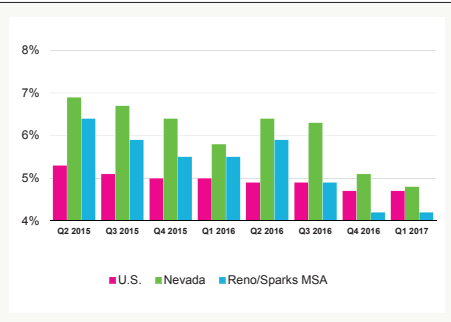
- **Woodside Village Apartments** (since renamed The Phoenix Reno) is a 250-unit garden-style property apartment property that was built in 1977. Amenities include swimming pool, spa, health club, sport courts and laundry facilities. Situated on more than 10 acres in a park-like setting at 4800 Kietzke Lane, the property underwent a recent facelift.
- **REO sale Lakeridge West** is a 126-unit, townhome-style apartment community in a desirable area of southwest Reno. Built in 1973, the property consists of 18 two-story wood-frame constructed buildings with pitched roofs. Lakeridge West offers an ideal unit mix of large one and two bedroom units as well as three-bedroom townhome style units with views of the Lakeridge Golf Course. LNR held the property for several years and added value through a remodel and lease up before selling it.
- **Verona Apartment Homes** is a 152-unit, garden-style apartment community located in Sparks, Nevada. Built in 1999, the property was an affordable community before it changed to a market rate property in 2016. Community amenities at this pet-friendly property include: a swimming pool and spa, clubhouse, recreation room, business center, gated/controlled access, and a playground.

FORECAST

Multifamily investors, owners, and developers will continue to digest fundamental changes occurring in capital markets and assessing what's to come for the rest of the year. Cautious optimism will be the focus. As far as Reno is concerned, the market continues to break performance records with never before seen rent levels and job growth as high profile new company relocations are announced in the market. We expect rent growth to remain strong but vacancy rates may inch up toward the latter part of the year with the delivery of several new projects.

Chart 1

US - Nevada - Reno/Sparks MSA



UNEMPLOYMENT

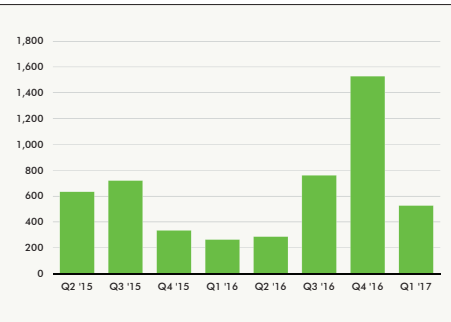
According to the Nevada Department of Employment, Training and Rehabilitation (DETR), the Reno/Sparks unemployment rate dropped to 4.2% in March, which is 1.5 percentage points lower than last March. All 17 counties in Nevada experienced a drop in unemployment rate in March, bringing the statewide unemployment rate to 4.5 percent. Per the DETR’s Nevada Labor Market Overview, Reno/Sparks lost 37,100 jobs in the recession, but after adding back 36,200 jobs since then, the area stands just 900 jobs shy of the pre-recession peak.

In Q1, the state achieved many notable rankings. Some of the Nevada rankings announced in Q1 included: “Top State for Personal Income Growth” by the Bureau of Labor Statistics; “#1 State for job growth in 2016” per Gallup’s 2016 Job Creation Index, and; “#1 State in Forbes’ American 2017 Dream Index” per Forbes Magazine. The American Dream Index is based on seven metrics: bankruptcies, building permits (the level and recent trend), goods-producing jobs, labor participation rate, layoffs, startup activity and unemployment insurance claims. The index combines the factors into a single score for each state.

- Source: Nevada Department of Employment, Training and Rehabilitation

Chart 2

Number of Units Sold



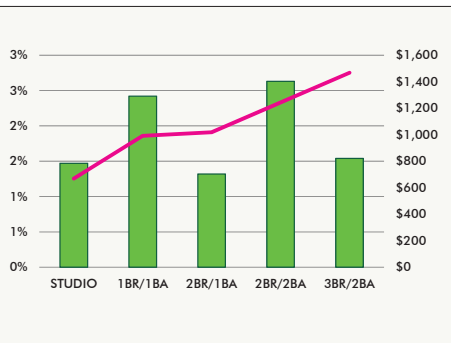
UNITS SOLD

Three 80+ unit properties sold in Q1 including the last REO sale leftover from the Great Recession period, which was Lakeridge West Apartments.

- Source: CBRE, Inc.

Chart 3

Current Vacancy Rent Per Type



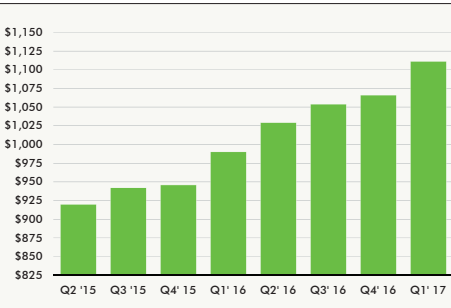
VACANCY RATE VS. RENTAL RATE

The average rental rate increased again from \$1,066 from in Q4 of 2016 to \$1,111. This change represents a quarterly increase of 4.22%, and a year over year increase of 12.22%. Meanwhile, the average vacancy decreased slightly from 2.93% in Q4 of 2016 to 2.23% in Q1 of 2017.

- Source: Johnson | Perkins | Griffin Q1 2017

Chart 3

Rental Rate



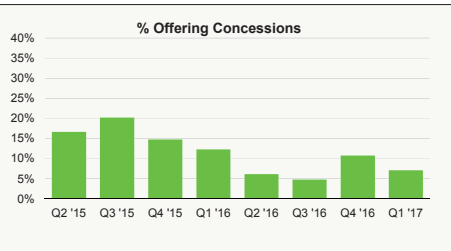
AVERAGE RENTAL RATES

The overall average rental rate for all units surveyed increased quarter-over-quarter by 4.22%. All unit types experienced an increase in average rental rate with the exception of studio units. Meanwhile, all 10 of the submarkets witnessed an increase in rental rate. The East Sparks submarket experienced the largest bump in rental rate, which increased by \$154 or 13.02%, we attribute it to the “Tesla” effect.

▪ Source: Johnson | Perkins | Griffin Q1 2017

Chart 4

% Offering Concessions






CONCESSION RATE

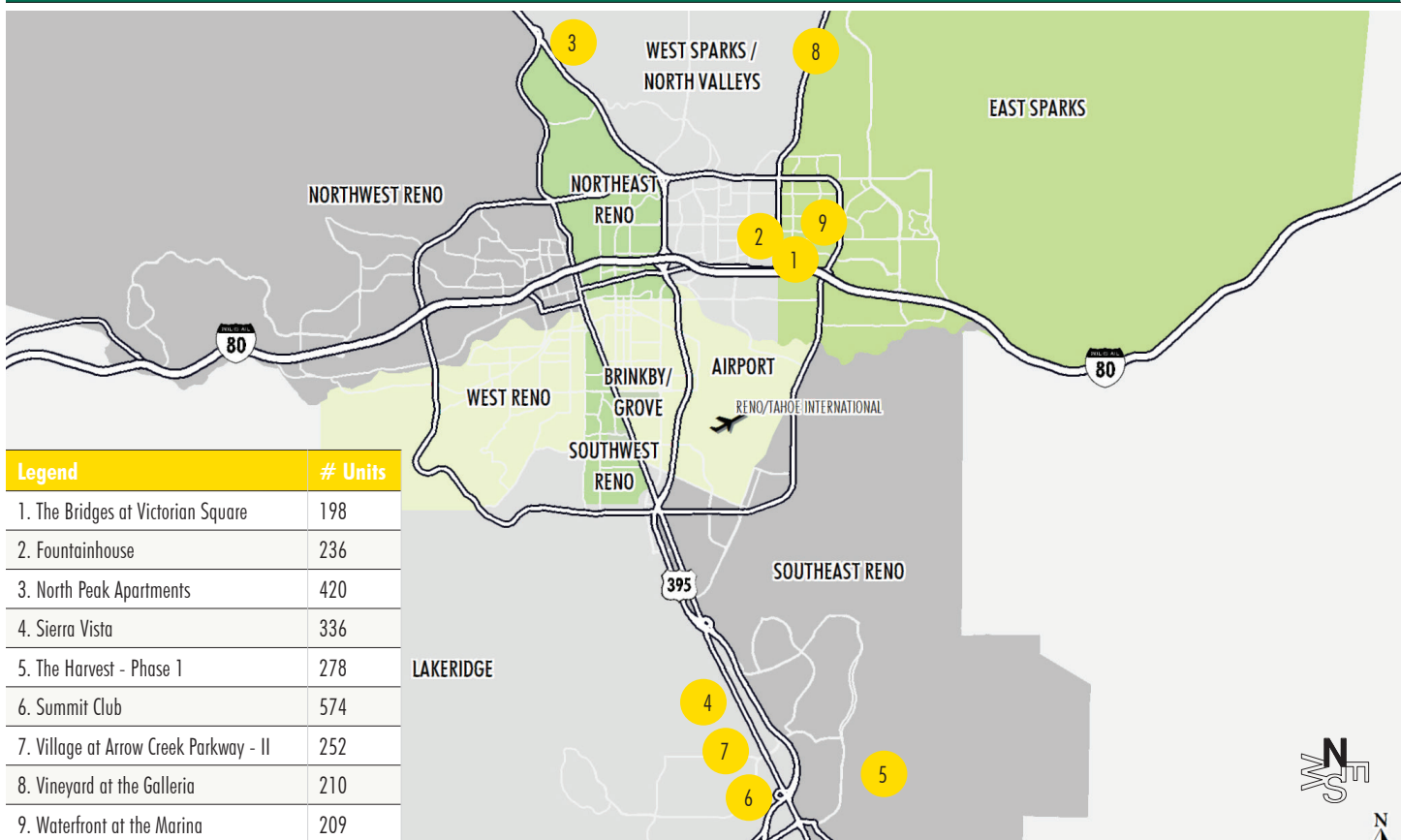
The percentage of 80+ unit properties offering concessions decreased from 10.84% in Q4 of 2016 to 7.14% in Q1 of 2017. The most commonly found rent concessions in the market consist of one-month free rent, discounted deposit, and reduced rent with a six or 12-month lease.

▪ Source: Johnson | Perkins | Griffin Q1 2017

Q1 2017 Significant Sale Transactions

	Address	# Units	Price	Price/Unit	Sq. Ft.	Price/Sq. Ft.	Year Built	Date of Sale	Seller	Buyer
	Verona Apartment Homes 1475 Vista Del Rancho Sparks, NV 89436	152	\$20,450,000	\$134,539.47	161,345	\$123.96	2001	3/31/2017	Veneto Capital Management	Standard Management Company
	Woodside Village 4800 Kietzke Lane Reno, NV 89511	250	\$27,000,000	\$108,000.00	201,160	\$134.22	1977	3/24/2017	Pacific Real Estate Partners	Horizon Realty Advisors
	Lakeridge West 6155 Plumas Street Reno, NV 89519	126	\$19,530,000	\$155,000.00	208,762	\$93.55	1971	3/1/2017	LNR Partners	Benedict Canyon Equities

Under Construction | Total Units: 2,713



***PLEASE SEE PAGE 2 FOR MORE INFORMATION FOR THESE UPCOMING UNDER CONSTRUCTION PROJECTS.**



by:
 Aiman Noursoultanova, CCIM
 Senior Vice President
 +1 775 823 6983
 aiman.noursoultanova@cbre.com
 www.cbre.com/inreno

@AimanCRE

in/aimannoursoultanova

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