

### Trends ahead

Vacancy Rate



Net Absorption



Construction



Asking Rents

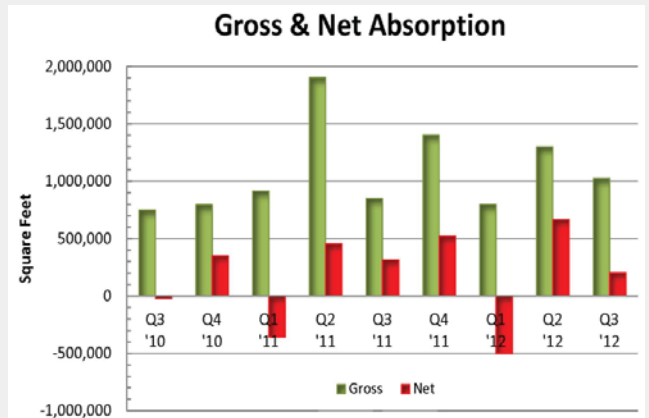


### OVERVIEW

The year's roller coaster ride stabilized in the third quarter with respectable positive absorption resulting in a slight drop in the vacancy rate. It was not a barn-burner but we continued to trudge along slowly absorbing existing product. The vacancy rate is currently 14.1% which is down from 14.4% at the beginning of the quarter and down from 14.6% one year ago. We predicted a slow and stable end to the year due to the uncertainty surrounding the election and fiscal cliff. Activity is playing out as anticipated. We foresee a continuation of the same through the remainder of the year which will result in positive overall net absorption for the year and a drop in vacancy for 2012.

### MARKET ACTIVITY

There were three deals competed in the third quarter in excess of 100,000sf. Pharmaceutical company Sanofi completed the largest transaction of the quarter leasing 160,000sf with Panattoni at 1025 Sandhill Road. Jacobsen expanded within ProLogis' portfolio leasing 120,000sf at 725 Waltham Way and Key Logistics leased 100,276sf at 4875 Aircenter Circle. These transactions contributed to gross absorption of 1,050,898sf and net absorption of 219,099sf for the quarter. The three year quarterly average for gross and net absorption is 1,085,887sf and 189,682sf while the 10 year average is 1,037,731sf and 318,125sf. In comparison, this quarter's net absorption is up from the three year average but still below the long term average. From our perspective, we are pleased to see activity levels off the bottom and headed in the right direction. In a bit of a surprise, the Sparks submarket



achieved the highest net absorption rate (137,388sf) and North Valley's market was the lowest (-90,802sf). This indicates tenants are shopping for value and taking advantage of low lease rates offered in the older Sparks market. It is also an indication the average deal size was low (19,724sf) as the newer larger buildings are located in outlying areas. Of the 36 transactions during the quarter, 19 or 53% were completed in Sparks totaling 374,757sf of space. Sparks is predominantly older product and has experienced a significant amount of closures over the past 4 years so it is encouraging for the market that this area is rebounding. All but one of the 36 transactions were completed within second generation space which is high but not unreasonable considering no new speculative development has occurred in the market since 2008.

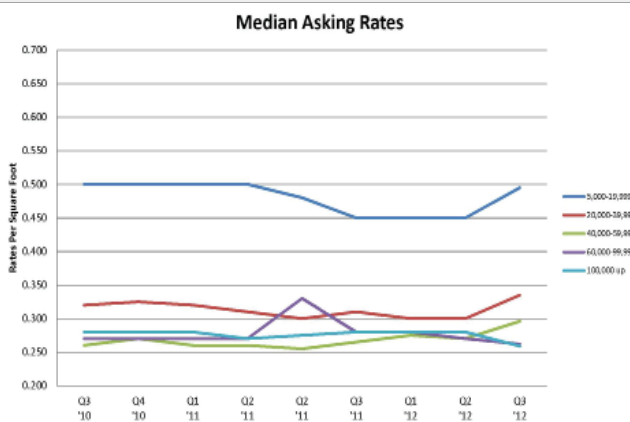
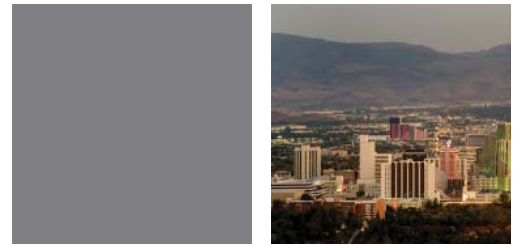


### RENTAL RATES

As indicated above, tenants are taking advantage of low rates offered and improving their bottom line. Although the market is moving in the right direction with positive absorption and falling vacancy, we are still at 14.1% which is well above a healthy 8% to 10% range and therefore tenants still have the upper hand in lease negotiations. There are a number of landlords with long term vacancy hungry to get the next deal so there is little upward pressure on rents. Lease rates achieved in the third quarter show continued weakness in rental rates. When will this turn? We see a turn soon for class A bulk distribution space as this product type is becoming scarce. It appears the time frame will be longer for class B and C product unless there is a dramatic uptick in activity.

### SALES

Panattoni's purchase of a 263,924sf building located at 1025 Sandhill which was formerly occupied by Pfizer was the largest sale transaction of the quarter. Other sales include, Laptop Aid's purchase of a 20,000sf building at 84 Coney Island for \$862,000 or \$57.47/sf, Renown's purchase of an older 18,000sf building located at 1700 E. Second Street for \$400,000 or \$23.50/sf, US Ordinance's



purchase of a 13,760sf facility in Storey county for \$455,000 or \$33.07/sf. Benton Co purchased a 9,600sf building at 14325 Mount Lola for \$392,500 or \$40.88/sf and Logan Investments purchased a 9,800sf building 506 E. Glendale for \$675,000 or \$68.88/sf in addition to one investment sale in the Turner Crossing complex. Users are justifiably out looking to purchase existing buildings. SBA financing rates are currently 4.3% while bank rates are 5.5%+/- . With offer prices low due to high vacancy, timing is good for buyers. As long as a buyer can come up with the needed 10% down payment and is comfortable locking in their size for a long term, buying is an attractive option.

### LAND AND CONSTRUCTION

This will be the first year on record of no construction. Contractors and land owners are not pleased with the lack of construction but we are hopeful the stage is set for land sales and construction in 2013. Apple's new data center, along with the recent announcement from Rubicon for a phased build-to-suit data center project will be positives for construction in 2013. We anticipate more announcements from data center users next year. In addition to data center activity, diminishing availability within class A bulk distribution buildings will likely lead to industrial build-to-suit announcements and possibly speculative development next year. For contractors and land owners, the mirage in the desert is getting closer and reality this time.

### WHERE ARE WE HEADED

We are encouraged by the recent announcements from Apple and Rubicon. Reno is well positioned to attract both data centers and retailers selling product on the internet. Warehouse requirements for E-retailers and land sales for data centers are active players in the market today. These users, along with continued activity in area warehouse, manufacturing and service companies' is a positive sign. Going into 2013, the election results will be behind us, but we still face the headwinds of troubles in Europe and ramifications of trying to balance our federal deficit. Most companies have taken measures to downsize, cut cost and become profitable, so we do not foresee significant additional closures. Those companies having hunkered down for the past few years are starting to stir and will move forward with projects in this environment giving us promise that 2013 will be a continuation of slow growth.

### OBSERVATIONS

- High tech companies view Reno favorably for financial and data storage use
- Sales prices remain low, well below replacement cost
- Increasing interest from southern California manufacturing companies looking to escape
- Older Class B & C product is seeing some activity.

### Q3 2012 MARKET AT-A-GLANCE

Area	Total Space (sq. ft.) 9/30/12	Vacant Rentable (sq. ft.) 9/30/12	Vacant percent 6930/12	Gross Absorption (sq.ft) Q3	Net Absorption (sq.ft.) Q3	NNN Median Asking Rate* (sq.ft./month)	Total Under Construction 9/30/12	BTS Construction (sq. ft.) YTD	Spec Construction (sq. ft.) YTD
1 North Valleys	15,653,157	2,254,272	14.40%	59,600	-90,802	\$0.30	0	0	0
2 Sparks	25,588,241	4,175,860	16.32%	374,757	137,388	\$0.35	0	0	0
3 Airport	8,954,456	779,882	8.71%	56,315	28,856	\$0.48	0	0	0
4 South Reno	8,892,779	1,170,694	13.16%	306,785	42,617	\$0.50	0	0	0
5 Central & West Reno	1,392,104	387,625	27.84%	44,681	44,300	\$0.30	0	0	0
6 East I-80 Corridor	12,356,103	1,488,522	12.05%	208,760	56,362	\$0.37	0	0	0
<b>TOTALS</b>	<b>72,836,840</b>	<b>10,256,855</b>	<b>14.08%</b>	<b>1,050,898</b>	<b>218,721</b>	<b>\$0.36</b>	<b>0</b>	<b>0</b>	<b>0</b>

\*Asking Rates are negotiable, typically effective rates are lower





**For Lease**  
14551 Industry Circle  
400,000±sf | \$0.15/sf NNN



**For Lease or Sale**  
550 Spice Island Drive  
187,878±sf | \$0.35/sf NNN | \$5,795,000



**For Lease**  
1025 Sandhill  
103,924±sf | Call for Pricing



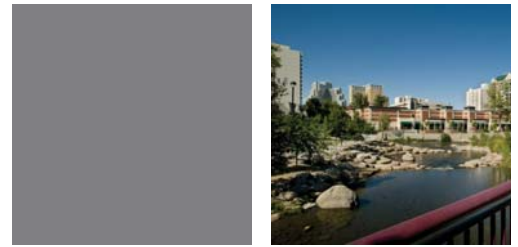
**For Lease**  
875 E Patriot Blvd Suite 201 & 208  
24,000±sf to 51,500±sf | Call for Pricing



**For Sale or Lease**  
690 Kresge  
15,740± sf | \$0.60/sf IG | \$990,000



**For Sale**  
2393 Heybourne  
52,741±sf | \$3,700,000



## Transactions Q3

### Sale 263,974sf

Panattoni  
1025 Sandhill  
NAI represented buyer

### Lease 160,000sf

Sanofi  
1025 Sandhill  
NAI represented tenant

### Lease 100,276sf

Key Logistics  
4875 Alrcenter  
NAI represented landlord

### Lease 50,000sf

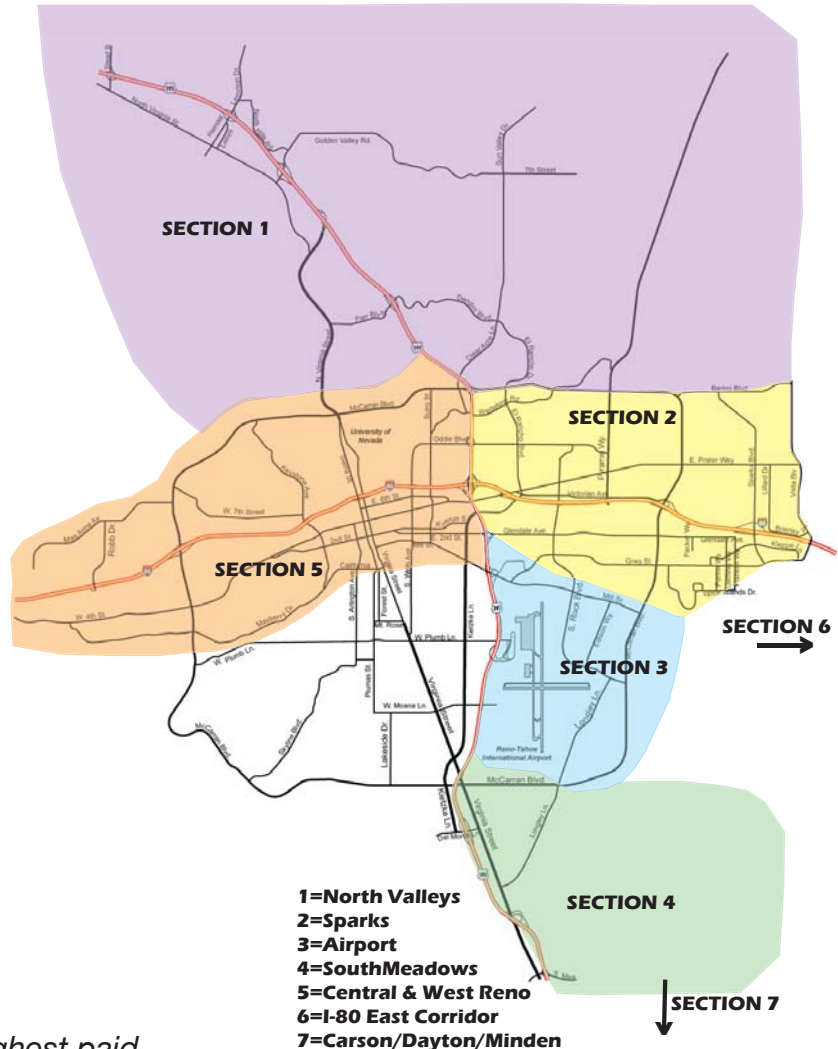
Numark Industries  
12995 Echo Court  
NAI represented landlord

### Lease 32,384sf

Amcor  
1103 East Glendale  
NAI represented landlord

### Sale 20,000sf

Laptop Aid  
84 Coney Island  
NAI represented seller



## Did You Know?

Virginia City miners were at one time, the highest paid miners in the world, earning an outstanding \$28 a week compared to \$5/week for miners elsewhere in the world. (If you compare that to today's value, Comstock miners would be earning about \$3,000/week.)

\*Fun facts taken from <http://www.nevada-landmarks.com/facts.htm>

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