

### Trends ahead

Vacancy Rate



Net Absorption



Construction

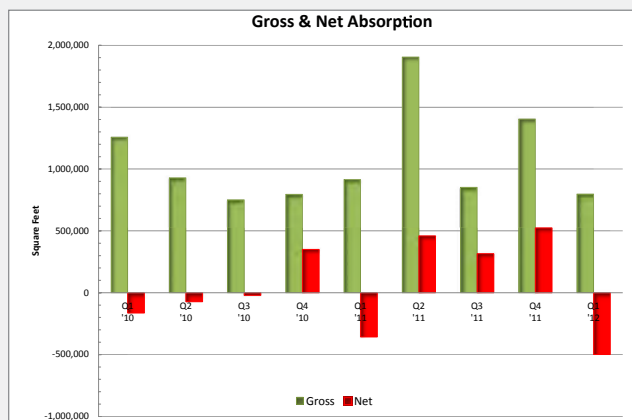


Asking Rents



### OVERVIEW - Up and down

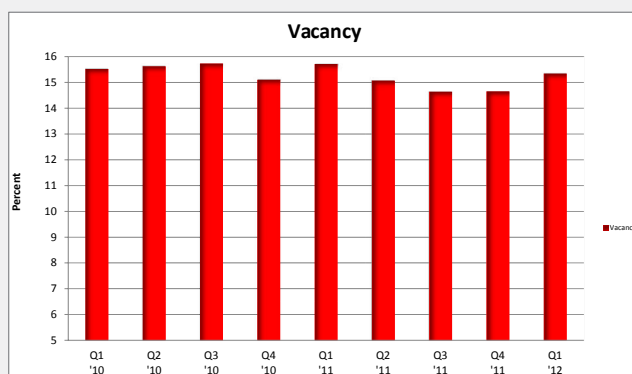
It's a yo-yo market and this quarter was another throw down. Unexpectedly, a number of large tenants announced their departure or downsizing leaving more space vacated than absorbed. Vacancy started the first quarter at 14.6% and ended at 15.3% (13.5% direct plus 1.8% for sublease). The prior three quarters showed strong activity giving the impression we were on the road to recovery. The general expectation was for a continuation of the same in 2012. We anticipated new activity outpacing closures to increase net absorption and possibly lead to upward pressure on Class A rents. Given increasing talk of national economic recovery, the first quarter proved to be a step back, but gauging from current activity, we are still confident our end of year numbers will match our prediction.



### MARKET ACTIVITY - Where are all the big deals

There were 39 deals completed 5,000sf or greater in size during the quarter which is in line with an average quarter. What lacked this quarter was large deals making an impact on absorption. We are still in search of a 100,000sf deal thus far in 2012. Gross absorption for the quarter was 797,897sf with an average deal size of 20,459sf. Average deal size over the prior three quarters was 41,205sf so you can see the smaller users were active and the large users were quiet. Gross absorption was down 43.2% from the prior quarter. The five largest deals of the quarter were Thrift Books (77,000sf), Wesco's expansion (67,936sf), National Business Furniture (48,000sf), Patterson Pacific's expansion (45,100sf) and Webgistics (40,320sf). We believed that companies had already gone through the process of downsizing or right-sizing during 2009 and 2010. Positive net absorption in 2011 was a sign that the downsizing was diminishing. We spoke too soon. To counter the new activity,

closures or downsizing announcements from Warehouse Services (224,000sf), Ryder Logistics (130,000sf added to their sublease space), Western America (100,000sf), Hopkins Distribution (100,000sf), Insite Logistics (60,000sf) as well as others showed tenants are not finished giving up space. These holes led to a negative net absorption number of 499,662sf for the quarter. This follows three quarters of positive net absorption and dropping vacancy. We'd like to say Q1 2012 was an abnormality and the market is poised to bounce back in the second quarter but there are three more possible announcements of large downsizing on the horizon. To offset any new closures, there are three large deals pending and a number of other hopeful transactions set to sign in the second quarter. Current activity is brisk so hopefully the closures don't materialize or are outpaced by new users committing to our area. The jury is still out on whether the second quarter will be the upswing of the yo-yo or look more like the walking the dog trick.

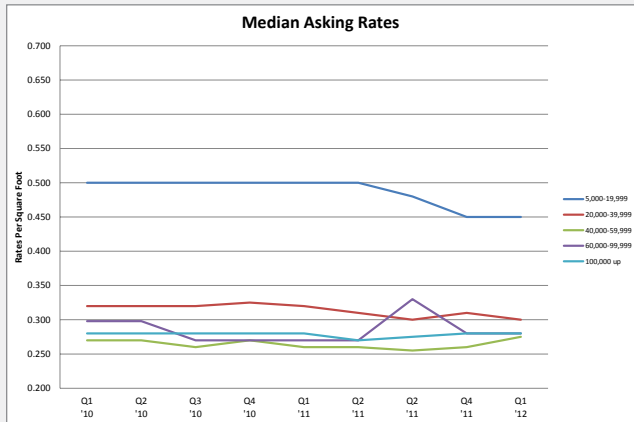
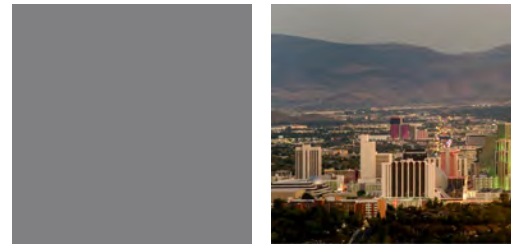


### RENTAL RATES – How low can they go?

We had hoped rents had hit bottom and were set to head upward but it appears that there is still weakness. It is difficult for rents to increase in a market where vacancy is rising. Rental rates continue to be the tale of two markets. Class A rents are stable and set to increase when a few more large transactions occur. Class B & C product still languishes with years of supply. Owners of older product have been on their knees praying for 3 years now. The reduced size of the average transaction helped their cause this quarter. The Class A buildings typically do not divide into small increments so when transaction volume is good and the average deal size is low, like this quarter, Class B & C product sees some action. Of the largest 20 transactions this quarter ranging in size from 13,800sf to 77,000sf, 15 or 75% of the deals signed within Class B & C buildings. This being said, there is plenty of competition amongst the older building owners so rents are low and many prayers remain unanswered.

### SALES – Buyers are out shopping

Sales interest this quarter was primarily from owner/user purchases as opposed to investor purchases. Interest rates and prices are low enticing



some tenants to become owners. Sale transactions for the quarter included Merl Jessop's purchase of 40,000sf at 1201 Industrial for \$1,400,000 (\$35.00), Ellaville Properties purchase of 31,908sf on 6.56 acres at 543 Overmyer for \$2,600,000 (\$81.48/sf), Fundis Trucking's purchase of 14,000sf on 9.8 acres at 2920 Waltham Way for \$2,200,000 (\$157.14/sf), Fog City Investments' purchase of 11,240sf at 903 E 4th Street for \$876,720 (\$78.00/sf) and Rice Lakes Scales purchase of 5,000sf at 310 Freemont Street for \$340,000 (\$68.00/sf).

### CONSTRUCTION – Contractors' long wait continues

Contractors were encouraged last year as sizable projects by Urban Outfitters and Now Foods were built, indicating their long dry spell was over. Although there is talk of some new project, overall construction activity has gone quiet once more. As a contractor's phones stop ringing, they start calling around to see if they are missing

any jobs. Brokers are getting calls from contractors looking for work, indicating construction jobs are sparse. They were hopeful with good reason once the largest available space in the market went from 632,000sf to 330,000sf last year. This would force any user looking at our market in excess of 330,000sf to build. Due to recent vacancies, we now have two spaces of 400,000+/-sf and the large users are absent leading to some worry amongst contractors as their patience and dollars run thin.

### WHERE ARE WE HEADED – Hoping for a rebound

I'm starting to feel like Rod Serling trying to explain the 5th dimension. Developers, contractors, architects, bankers and brokers alike all wish for the days of 2006 and 2007 but I'm sensing we have a few more years in the Twilight Zone before we get back to normalcy. Brokers are busy these days touring, drafting letters of intent and negotiating which is a positive sign. However, deals seem more difficult to get finalized. The three 100,000sf + size transactions are likely to sign in the second quarter and should outweigh any new vacancies getting the market back on the positive track we expected for the year. We are hopeful that by year end, the first quarter trip through the Twilight Zone will be forgotten with absorption up and vacancy down. Let's hope the yo-yo springs back up as the year progresses.

### OBSERVATIONS

- We are hearing grumbling from California companies and individuals about their state's tax hike which will help Nevada
- There is a continuing shift toward on-line retail sales. On-line retailers like Reno as a distribution location for the west coast
- We are experiencing an increase in requirements for manufacturing
- There is concern for the Class B & C product. There is a multi-year supply at current absorption rates
- Sales prices are low which is favored by buyers but not good for owners

### Q1 2012 MARKET AT-A-GLANCE

Area	Total Space (sq. ft.) 3/31/12	Vacant Rentable (sq. ft.) 3/31/12	Vacant percent 3/31/12	Gross Absorption (sq. ft) Q1	Net Absorption (sq. ft.) Q1	NNN Median Asking Rate* (sq. ft./yr)	Total Under Construction 3/31/12	BTS Construction (sq. ft.) YTD	Spec Construction (sq. ft.) YTD
1 North Valleys	15,653,157	2,354,071	15.04%	144,200	-190,174	\$0.30	0	0	0
2 Sparks	25,588,241	4,433,670	17.33%	505,366	38,071	\$0.32	0	0	0
3 Airport	8,954,456	879,209	9.82%	53,771	-103,585	\$0.38	0	0	0
4 South Reno	8,892,779	1,175,609	13.22%	25,000	-155,567	\$0.51	0	0	0
5 Central & West Reno	1,392,104	519,493	37.32%	20,640	13,703	\$0.30	0	0	0
6 East I-80 Corridor	12,356,103	1,810,733	14.65%	48,920	-102,110	\$0.37	0	0	0
<b>TOTALS</b>	<b>72,836,840</b>	<b>11,172,785</b>	<b>15.34%</b>	<b>797,897</b>	<b>-499,662</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**  
1280 Southern Way  
100,160±sf | \$0.10/sf NNN | \$3,250,000



**For Lease or Sale**  
84 Coney Island Dive  
5,000±sf to 20,000±sf | \$0.41/sf MG | \$1,100,000



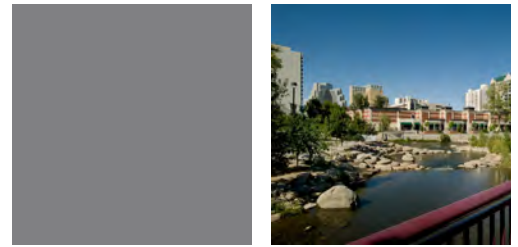
**For Lease**  
9085 Moya Boulevard  
57,600±sf | Negotiable



**For Lease**  
400 Western Road  
61,152± sf | \$0.18/sf NNN



**For Sale**  
400-450 Parr Boulevard  
169,027±sf | Call for Pricing



## Transactions *Q1*

### Lease Expansion 67,936sf

WESCO Distribution Inc  
1165 E Glendale Avenue  
NAI represented landlord

### Lease 48,000sf

National Business Furniture  
9085 Moya Boulevard  
NAI represented landlord

### Lease 38,400sf

Truckee Precision  
667 Spice Island Drive  
NAI represented tenant

### Lease 31,908sf

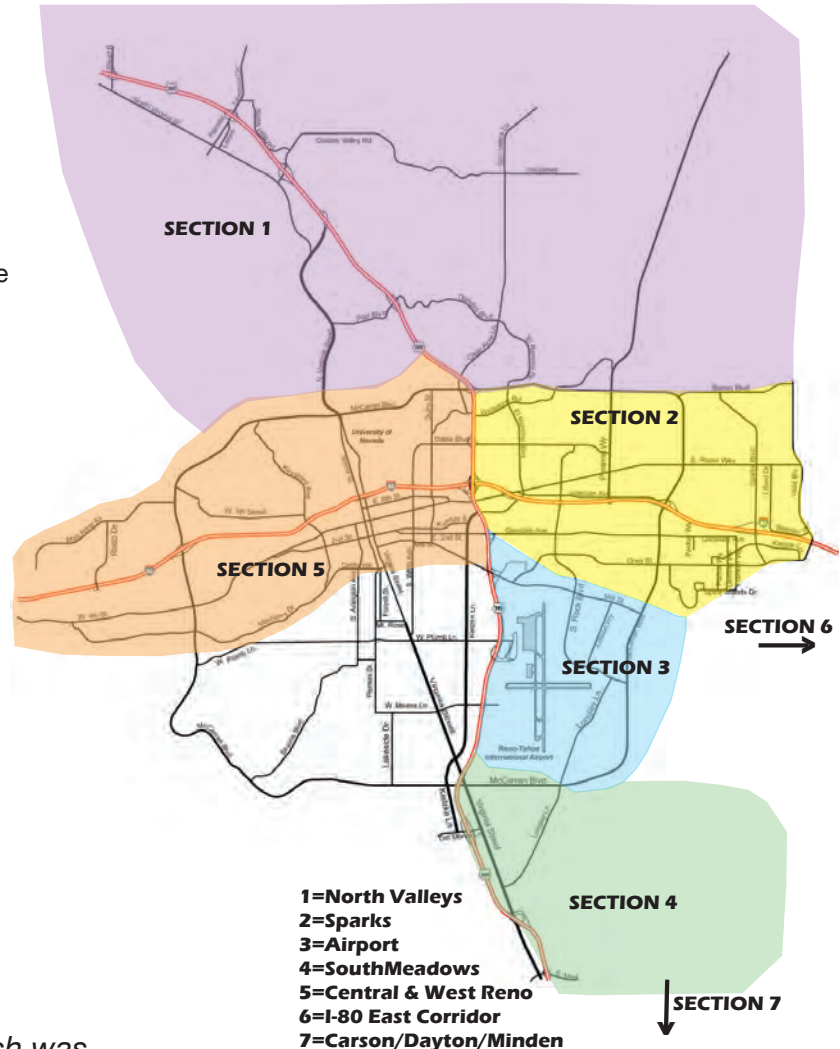
Ellaville Properties  
543 Overmyer Road  
NAI represented seller

### Lease 23,460sf

Berlin Packaging  
1385 Greg Street #104  
NAI represented tenant

### Lease 23,048sf

Teco Pneumatic  
1045 Telegraph Street  
NAI represented tenant



## Did You *Know?*

Nevada's State artifact is the Tule Duck which was created nearly 2,000 years ago. Discovered by archeologists in 1924 during an excavation at Lovelock Cave, the 11 decoys are each formed of a bundle of bullrush (tule) stems, bound together and shaped to resemble a canvasback duck.

\*Fun facts taken from <http://www.legendsofamerica.com/nv-facts.html>

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