

OVERVIEW:

The Northern Nevada economic climate is showing signs of improvement, providing further evidence that the retail vacancy rates have receded from the peak of the recession. However, the improvements in the vacancy rates stalled during the third quarter. The current overall vacancy level in Reno/Sparks increased slightly to 17.56% from the previous quarter of 17.54%. However, it was down from the previous year of 18.50%.

The anchor space vacancy is currently at 13.52%. In-Line shops have increased in vacancy to 23.46% this quarter from 23.42% last quarter. Total net absorption for this quarter was a negative 7,162 square feet, while the gross absorption was 68,391 square feet.

UNEMPLOYMENT.

SALES TAX REVENUE AND HOUSING:

Local consumer spending has been sporadic, but in general, is trending higher. Washoe County Sales Tax figures show spending in July 2013 was up 7.9% over the previous year, following a 6% increase in June. There has been marked improvement in the unemployment rate. The Reno Sparks MSA Unemployment Rate was 9.1% in August, down from 10.6% in August of 2012 and its record high of 14.2% in January of 2011.

The number of housing sales for the period of July through September of 2013 continued to increase. The number of re-sales of existing homes picked up during this period, with 244 more sales in 2013 over the same time period the previous year (2,386 for July - Sept. 2013 vs. 2,142 for 2012). New home sales increased 23% over the previous year with 58 more sales occurring in 2013 (310 for July - Sept. 2013 vs. 252 for 2012). According to the Reno/Sparks Association of Realtors, the median sales price in August was \$220,000, up 25.4% from the prior year. The significant increases in median price and steady year over year sales appear to be a result of the limited supply of homes currently available on the market. However, the increase in median home prices may be constrained in the future as more inventory is brought to the market. A recent report released by Ticor Title of Reno estimates that conservatively, there are

Trends *ahead*

Vacancy Rate



Net Absorption



Construction



Asking Rents



approximately 12,000 local homes that are in some stage of the foreclosure or pre-foreclosure process. Based on the sales volume during the third quarter, the shadow inventory alone represents 15 month's supply of homes that need to be brought through the process. This is a significantly higher supply of inventory than the 3.4 month's supply that the Reno Sparks Association of Realtors indicates is the current inventory. Refinances and equity loans decreased 36% over the previous year, with a total of 1,669 re-financings during the 3rd quarter. This pullback is a direct result of an uptick in interest rates following the Fed's comments about reeling in their monthly bond buying program. With interest rates rising nearly a full percentage point since May, it has taken a large segment of the refinance market off the table. We expect to see these numbers continue to moderate as interest rates continue to increase in the future.

RENO/SPARKS RETAIL MARKET:

There are currently 17 vacant anchor shopping center spaces over 20,000 square feet in the Reno/Sparks market. These spaces total 1,106,025 square feet, which amounts to a 13.52% vacancy rate. This is just under the highest anchor vacancy rate on record. The area has 1,313,784 square feet available of in-line shop space throughout the market. Total combined vacancy within the market now stands at 2,419,809 square feet. This is a substantial amount of vacant space that will take time to be absorbed.

NEW DEVELOPMENT:

The Legends at Sparks Marina has had many tenants open during the last few years, and continues to add stores. Buffalo Wild Wings is the newest tenant, opening in the 3rd quarter with 5,460 sf. In 2013, a Galaxy IMAX Theater is planned to open as well and is under construction. Wal-Mart is also in the planning stages to open a store in the Legends center. Most other large retail developments within the market have either been completed or put on hold. However, there are a few smaller developments occurring including 18,630 sf of line shops at the Sky Vista Wal-Mart in Lemmon Valley, 11,520 sf of new buildings in the Southcreek center at Foothill Road and a new 2,600 sf Popeye's recently opened at Sierra Marketplace.

TENANTS MOVING IN AND OUT:

The third quarter of 2013 saw a negative net square footage occupied with a net absorption of -7,162 square feet.

There were 31 tenants moving into space in the 3rd quarter consisting of 68,373 square feet of new leases with the largest being Buffalo Wild Wings in the Legends (5,460 sf), and Café De Manila in the Town and Country (5,000 sf). There were 23 tenants moving out consisting of 75,553 square feet including the Welfare Department in the Viewcrest Center (22,150 sf), and Zephyr Books in the South Virginia Plaza (13,000 sf).

INVESTMENT SALES DURING 2013:

There were a few significant sales in the third quarter of 2013. 24 Hour Fitness on Neil Road (24,000 sf) sold in July for \$3.3 million or \$139/sf. The shops at North McCarran Crossing (14,111 sf) sold in August for \$5.2 million or \$369/sf (7.8% cap). The Shops at the Village (45,057 sf) also sold in August at auction for \$3.328 million or \$69.24/sf.

LOOKING FORWARD:

Many of the underlying statistics are improving. Housing value and consumer spending are trending higher, housing sales are increasing, while unemployment has dropped significantly. These numbers allude to an improving local economy. The retail vacancy rates have come off their highs and are trending lower, although they have stalled in the last two quarters. You might say, things are working their way through the system.

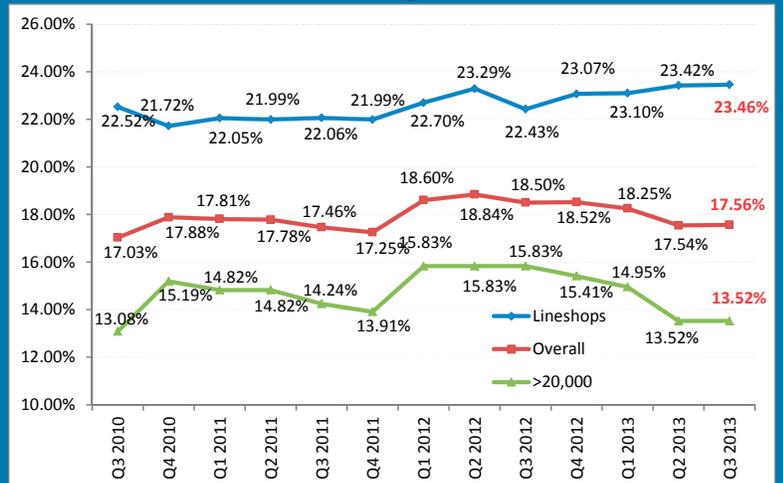
As we look forward, we project that there will be a steady decrease in the vacancy rates through the end of the year.

Unfortunately, we feel that it will take some time for the improving economy to translate into significantly lower vacancy rates. This is not good news to Landlord's, but is positive for tenants looking for good rates on good spaces.

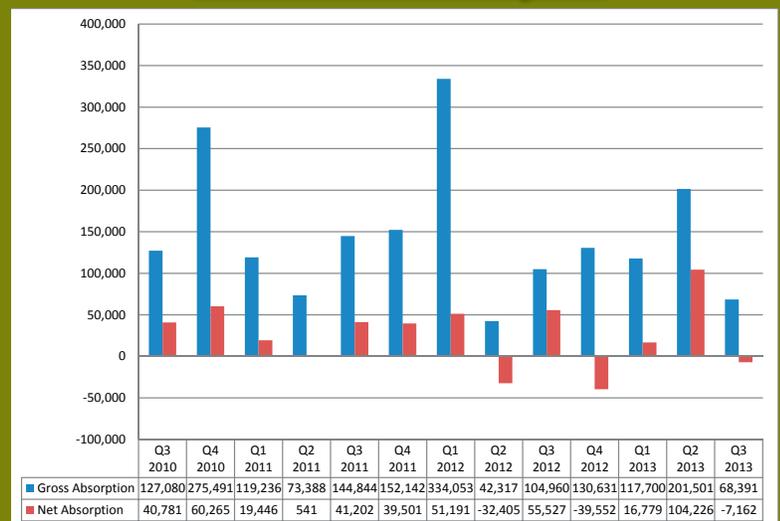
How much time will it take and when will the retail market get to a stabilized, lower overall vacancy of say 9%? Probably longer than most people think or want to realize. In the recession of the early 90's, it took 7 years for the in-line vacancy rate to decline from 20.3% to the 9% range. Today, the vacancy rates are even higher with the in-line vacancy rate at 23.46%.

The market has even farther to recover today than in the 90's. We really are in uncharted territory, but if the early 90's are any indication, it could be at least 7 years before we see normalized vacancy rates again.

Vacancy Rate



Gross & Net Absorption



At NAI Alliance, we work with our clients to provide the timeliest, most accurate and complete sense of the market possible so they can make more informed decisions. We assist our clients to see where the market is going, and help position them properly. We help our clients react quicker than the competition, guiding them to achieve higher profits over the long run. This report is a sample of what we can provide you with to better understand the local retail marketplace. We hope you appreciate it and find it useful. Please let us know how we can assist you further.

Market Snapshot*

	Total Square Feet (SF):	Vacant Square Feet (SF):	Vacancy Rate:
Overall Reno/Sparks Market	13,782,350 SF	2,419,809 SF	17.56%
Lineshops	5,601,142 SF	1,313,784 SF	23.46%
Buildings 20,000 or greater	8,181,208 SF	1,106,025 SF	13.52%

*All numbers exclude Regional Malls

Retail Market Report

Third Quarter 2013



For Sale \$1,250,000

2,697 SF Bar/Restaurant Building with Drive Thru
 Building expandable by 3,000 SF
 8030 S. Virginia St, Reno NV



For Lease

6,543 SF Equipped Restaurant
 Sparks Crossing Shopping Center
 137 Los Altos Pkwy, Sparks, Nevada



3809 N. Carson St., Carson City, NV

2205 W. 4th Street, Reno NV

For Sale

Combined Price \$1,324,000 & 8.4% CAP Rate
 Investment Property - Two Restaurant Buildings
 Carson City and Reno, Nevada



For Lease

Firecreek Crossing
 Kietzke Lane & Redfield Promenade, Reno, Nevada



Land for Sale or Lease

0.87 Acres at NE Corner Veterans Parkway / Geiger Grade
 South Reno Nevada



Newly Completed!

For Lease

Vista Hills Shopping Center
 Anchored by Walmart
 NEC of Sky Vista & Lemmon Dr, Reno, Nevada

Methodology/Definitions

Absorption (Net)

The change in occupied space in a given time period.

Market Size

Includes all existing retail shopping centers (excluding regional malls) within the market consisting of 20,000 square feet or larger.

Overall Vacancy

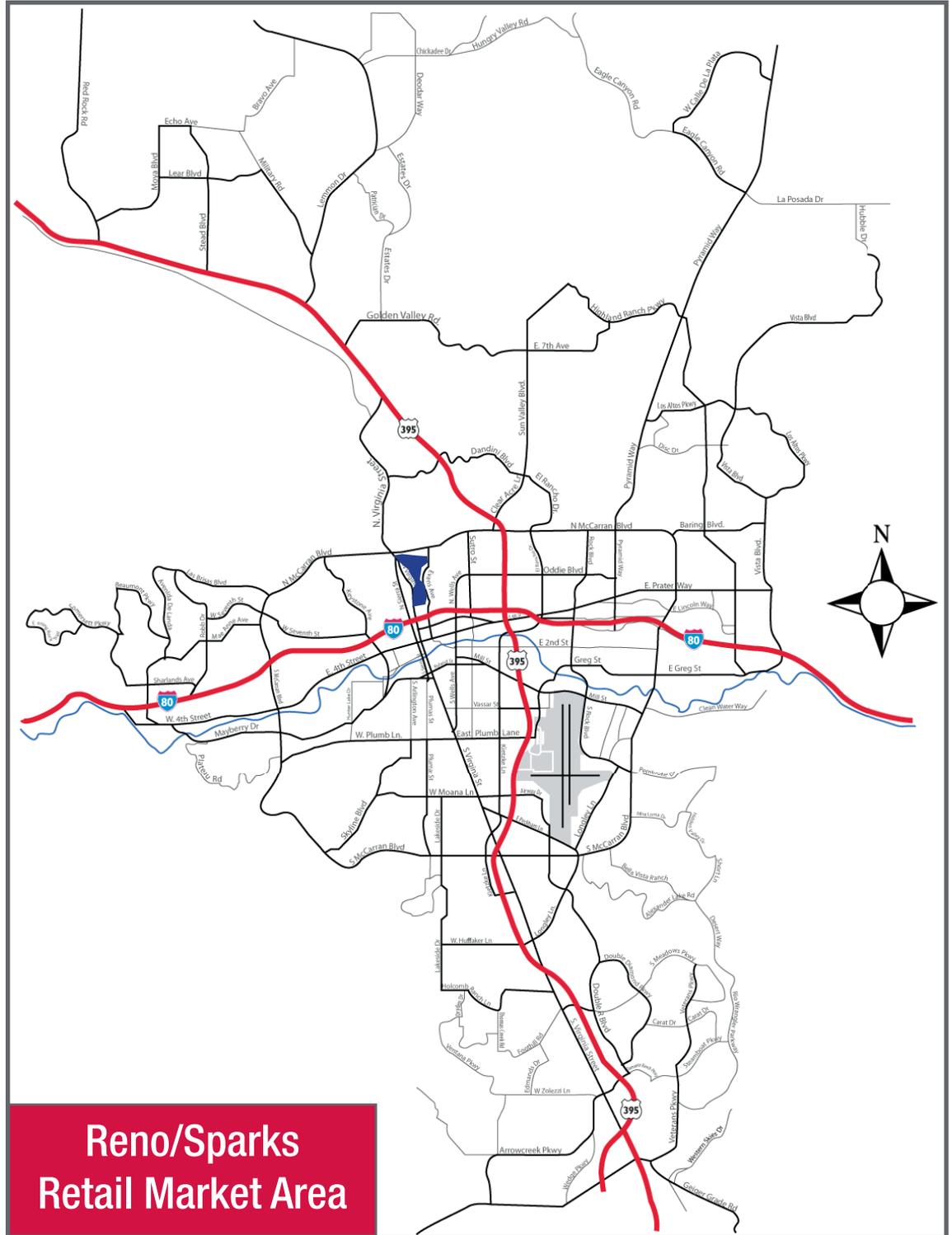
All unoccupied lease space, either direct or sublease.

SF/PSF

Square foot/per square foot, used as a unit of measurement.

Sublease

Arrangement in which a tenant leases rental property to another, and the tenant becomes the landlord to the subtenant.



Reno/Sparks Retail Market Area

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