

OVERVIEW:

The Northern Nevada economic climate is showing signs of improvement, perhaps indicating that the retail vacancy rates may have peaked. The current overall vacancy level in Reno/Sparks declined to 17.54% from the previous quarter of 18.25% and from the previous year of 18.52%.

The anchor space vacancy is currently at 13.52%. In-Line shops have increased in vacancy to 23.42% this quarter from 23.10% last quarter. Total net absorption for this quarter was 104,226 square feet, while the gross absorption was 201,501 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 April 2013 was up 8.7% over the previous year, following a 7.1% increase in March. There has been marked improvement in the unemployment rate. The Reno Sparks MSA Unemployment Rate was 9.8% in June, down from 12% in July of 2012 and its record high of 14.2% in January of 2011.

The number of housing sales for the period of April through June of 2013 continued to increase. The number of re-sales of existing homes picked up during this period, with 164 more sales in 2013 over the same time period the previous year (2,288 for Apr.-Jun. 2013 vs. 2,124 for 2012). New home sales increased 27% over the previous year with 60 more sales occurring in 2013 (282 for Apr.-Jun. 2013 vs. 222 for 2012). According to the Reno/Sparks Association of Realtors, the median sales price in May was \$218,000, up 32.3% 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 approximately 12,000 local homes that are in some stage of the foreclosure or pre-foreclosure process. Based on the sales volume during the second quarter, the shadow inventory alone represents 15.7 month's supply of homes that need to be brought through the process. This is a significantly higher supply of inventory than the 3.6 month's supply that the Reno Sparks Association of Realtors indicates is the current

Trends *ahead*

Vacancy Rate



Net Absorption



Construction



Asking Rents



inventory. Refinances and equity loans increased 16% over the previous year, with a total of 2,719 re-financings during the 2nd quarter. However, refinances and equity loans during the 2nd quarter decreased by 16% from the first quarter as an uptick in interest rates followed upon the Fed comments about reeling in their monthly bond buying program. With interest rates rising nearly a full percentage point since May, it may take a large segment of the refinance market off the table. We expect to see these numbers decrease moving forward.

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 1,312,295 square feet available of in-line shop space throughout the market. Total combined vacancy within the market now stands at 2,418,320 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. Old Navy is the newest tenant, opening in the first quarter of 2013. In 2013, a Galaxy IMAX Theater is planned to open as well as a 9,075 sf pad building with Buffalo Wild Wings. 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 2,306 sf Popeye's under construction at Sierra Marketplace.

TENANTS MOVING IN AND OUT:

The second quarter of 2013 saw a positive net square footage occupied with a net absorption of 98,414 square feet. There were 33 tenants moving into space in the 2nd quarter consisting of 188,766 square feet of new leases with the largest being Fallas Paredes in the Sierra Town Center (78,000 sf), and Big Lots and Grocery Outlet in North Valley's Shopping Center (27,334 and 19,953 sf respectively). There were 40 tenants moving out consisting of 97,275 square feet including Yellow House Furniture Consignment in Coliseum Meadows (6,400 sf), Little Angels Ark Day Care in Sierra Meadows (5,829 sf) and Mad Hatter in the Kohl's Spanish Springs (4,464 sf).

INVESTMENT SALES DURING 2013:

There were no significant sales that occurred during the second quarter of 2013 in the Reno/Sparks retail market. However, as a recap, the first quarter of 2013 saw a number of sale transactions occurring. Sparks Mercantile (106,510 sf), Redfield Promenade (145,000 sf), McQueen Crossing (103,776 sf) and Galena Junction (116,452 sf) transferred as part of a 40 property portfolio where Blackstone joint ventured with Kimco. These were allocated a transfer price at \$253/sf. A 44,826 sf portion of Sierra Town Center transferred for \$1.4 million or \$31/sf. The former Mervyn's building (79,239 sf) in Sierra Town Center sold for \$2,050,000 or \$25.87/sf. Finally, Kietzke Center (157,536 sf) sold for \$4.5 million or \$29/sf. There is quite a discrepancy from the more troubled assets trading in the \$25-31/sf range to the performing centers trading at an allocated price of \$253/sf. Either some are getting a good deal or some are overpaying, or perhaps both.

LOOKING FORWARD:

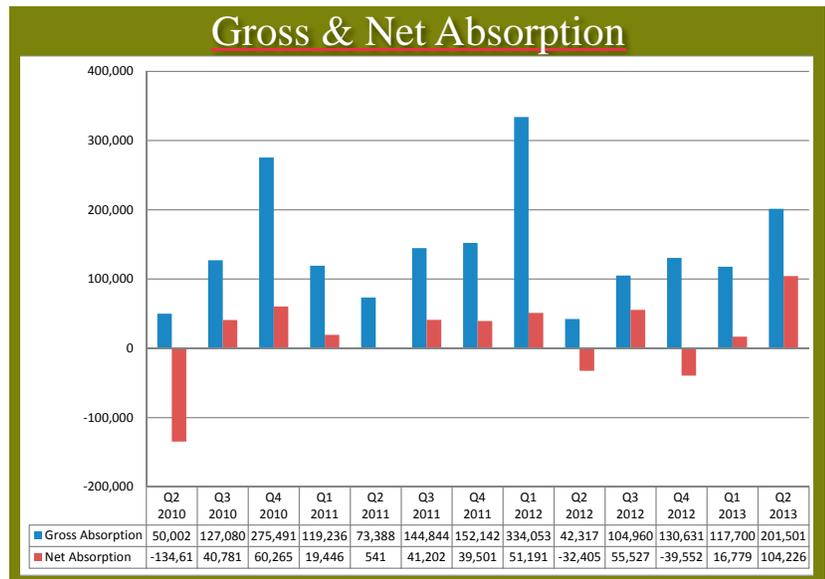
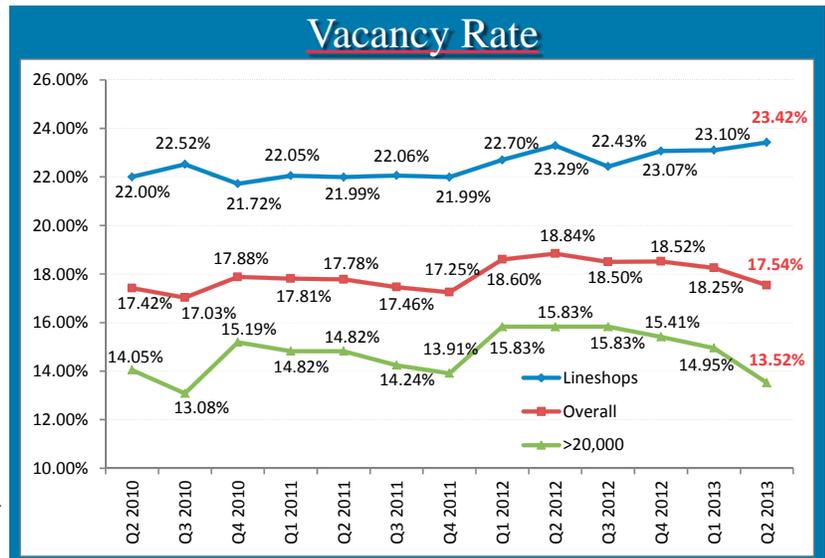
Many of the underlying statistics are improving. Housing value and consumer spending are trending higher, housing sales are increasing, while unemployment has dropped significantly. These numbers allude to an improving local economy. The retail vacancy rates have come off their highs and are trending lower. 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 23.42%.

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.



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	13,785,193 SF	2,418,320 SF	17.54%
Lineshops	5,603,985 SF	1,312,295 SF	23.42%
Buildings 20,000 or greater	8,181,208 SF	1,106,025 SF	13.52%

*All numbers exclude Regional Malls

Retail Market Report Second Quarter 2013



For Lease

Southgate Shopping Center
NEC of S. Carson St & Clearview Dr, Carson City, Nevada



For Lease

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



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



For Lease

Longley Town Centre
5210 Longley Lane, 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

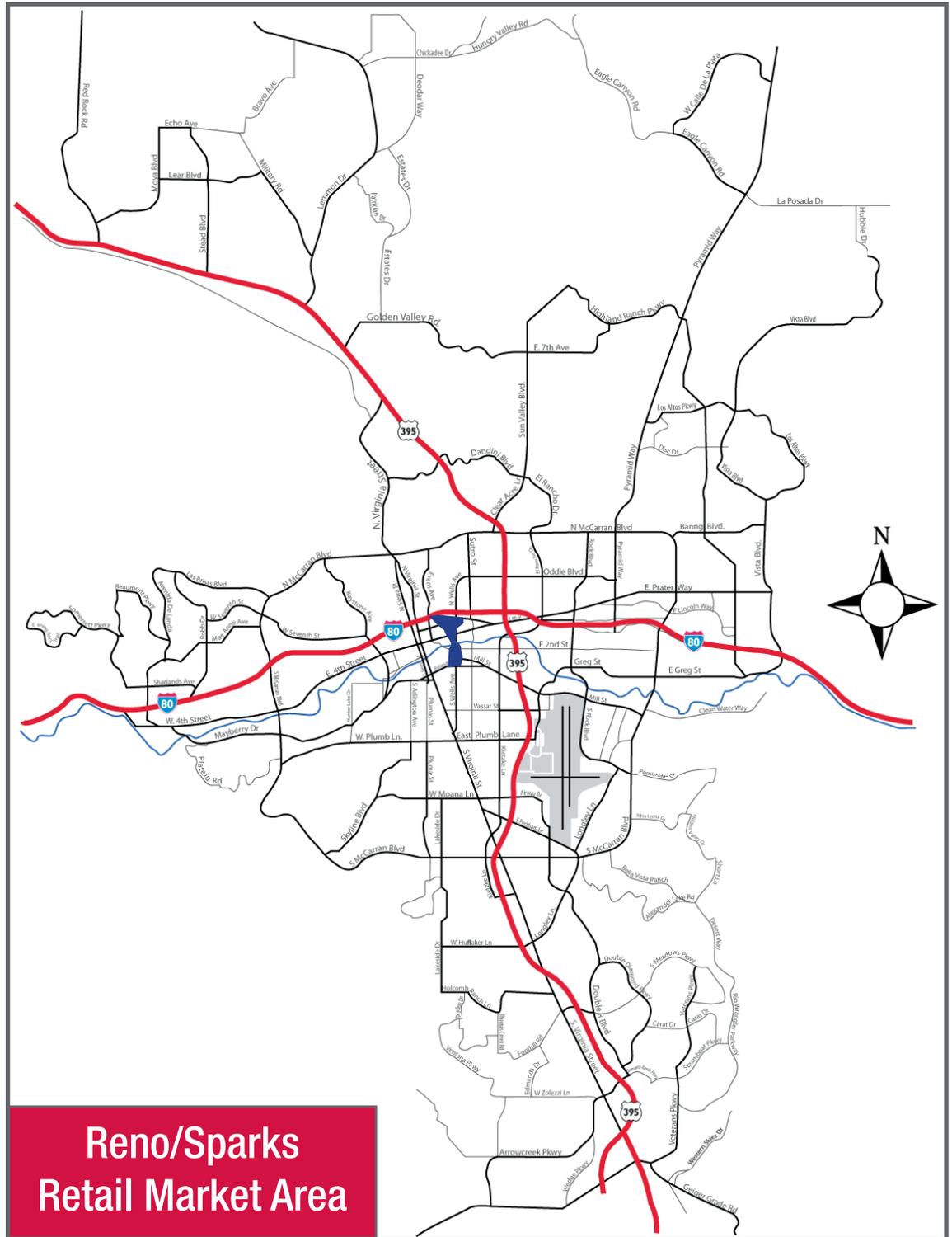
All unoccupied lease space, either direct or sublease.

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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