



TRENDS:

Vacancy Rate



Net Absorption



Construction



Asking Rents



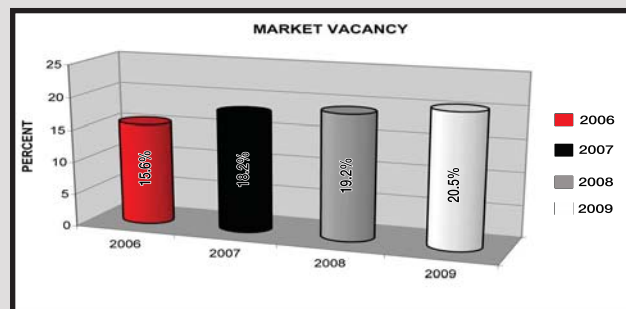
OVERVIEW:

2009 was difficult, to say the least. It was a year in which every Northern Nevada office submarket reached record high vacancy rates, rental rates plummeted and new construction came to a complete halt. When will this negative cycle end? 2010? Depends on who you ask.

Locally speaking, it could take some time before we see any substantial rebound in office leasing. Lease rates and housing costs have plummeted in neighboring California providing much of the cost savings that companies once looked to achieve in Northern Nevada. Moreover, in times of trepidation, the likelihood of corporate relocation is faint. Companies, their executives and their employees, would like to see calmer waters before creating more ripples by a potentially expensive relocation that the company just couldn't withstand. Most of the leasing activity taking place is simply existing Northern Nevada tenants taking advantage of better leasing opportunities either by reducing their occupancy costs and/or upgrading their location. The positive news; we do believe that the majority of business closures and downsizing is behind us. We should see a relatively steady vacancy rate throughout 2010 with price-wars among landlords continuing.

VACANCY AND ABSORPTION:

The overall market vacancy rate increased to 20.53% at year end from 18.76% at the end of 2008. The majority of this increase took place in the 1st and 2nd quarters with relatively minimal fluctuations taking place in the 3rd and 4th quarters. While the 3rd and 4th quarters showed minimal fluctuations in overall vacancy, the same cannot be said for certain submarkets. The Airport and Central Reno submarket vacancy rates, among the lowest during the boom years, increased substantially in Q3 and Q4 as those tenants left for discounted rates being offered in newer, more desirable submarkets. The positive news; approximately 48,000 square feet was absorbed in South Meadows in 2009 bringing this submarket's vacancy rate to 27.69%, still the highest vacancy rate among Northern Nevada office submarkets. South Meadows experienced the most drastic undulation in vacancy and absorption over the past three years. This positive absorption reflects that the cycle has begun to rebuild.



ACTIVITY:

The few Tenants new to Northern Nevada continue to be related to the tech, medical, educational, and government services field. Some movement is also taking place in the mining industry, as their niche seems to be one of the few expanding in today's economic environment. A number of tech companies relocated downtown in 2009. Formerly 12 Horses now One to One Interactive, secured 5,814 square feet at 275 Hill Street, 3G Studios secured approximately 7,500 square feet at 300 E. 2nd Street and, Understand.com secured 5,831 square feet at 100 Washington Street. Another added bonus to Downtown was the relocation of the Department of Public Safety from Northern Nevada's financial district. Their new 33,000 square foot command office is just east of Downtown at 475 Valley Road; a relocation that will assist in the continuation of redevelopment of the primary Downtown business corridor.

(continued on next page)



Office Market Report | Year End 2009

SIGNIFICANT 2009 TRANSACTIONS:

Meadowood Submarket

Kinross Gold: 15,949 SF at 5370 Kietzke Lane

South Meadows Submarket

Doctors XL: 10,628 SF at 10539 Professional Circle

Worth Group: 9,500 SF at 9400 Gateway

Cisco Systems: 10,719 SF at 9850 Double R Boulevard (renewed)

Airport and Sparks Submarket

Career College of Northern Nevada: 32,280 SF at 1421 Pullman Drive

Downtown Submarket

3G Studios: 7,500 SF at 300 E. 2nd Street

Department of Public Safety: 33,000 SF at 475 Valley Road

Center for Unique Business Enterprise: 14,140 SF at 300 E. 2nd Street

Understand.com: 5,831 SF at 100 Washington Street

One to One Interactive: 5,814 SF at 245 Hill Street

LEASE RATES:

Lease rates secured in 2009 have varied widely, even in comparable buildings within the same submarket. Tenants who were flexible in terms of location and floor plan have been able to contract at what will likely become the most advantageous terms of the next decade. Those deals should remain available in 2010 as well, although we do not expect any further substantial decrease in rates, with the exception of a few buildings where Landlords have yet to feel the pinch of long-term vacancy.

During 2008 and 2009, we saw an unprecedented amount of sublease space come to the market, in most cases, significantly discounted from the actual contracted rates. These spaces were some of the first to go given discounted costs, and now the master leases under which those subleases operate are beginning to expire. This creates quite the dilemma for those Landlords as they will take a significant hit to their rental income once they are forced to negotiate within fair market value. Our recommendation: come to terms with the existing sub-tenant. Otherwise, be prepared to carry this vacancy for 6-12 months and expand further capital improvements to attract a new tenant.

Simply put; the aforementioned scenario will create pain for some Northern Nevada landlords. Large or small, these landlords are dealing with 20-30% lease rate reductions from the peak in 2006. We predict this will continue to foster the financing impasse for a relatively large number of owners increasing the number of commercial foreclosures in 2010. In turn, experienced real estate investors with access to cash will be able to capitalize on these opportunities, reset the asset basis and compete economically with the new standard of lease incentives.

Office Market Report Featured Properties



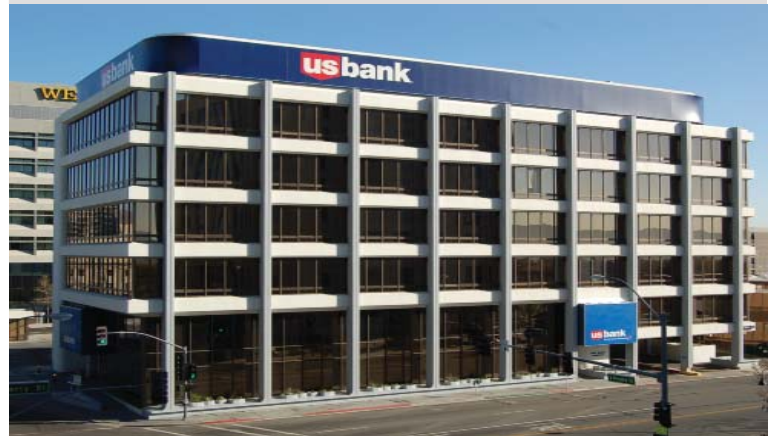
For Lease
50 West Liberty
Reno, Nevada



For Lease
300 East 2nd Street
Reno, Nevada



For Lease
5345 Kietzke Lane
Reno, Nevada



For Sale | For Lease
1 East Liberty
Reno, Nevada



For Lease
100 & 140 Washington Street
Reno, Nevada



For Sale | For Lease
100 North Sierra Street
Reno, Nevada



Absorption (Net)

The change in occupied space in a given time period.

Available Square Footage

Net rentable area considered available for lease; excludes sublease space.

Average Asking Rental Rate

Rental rate as quoted from each building's owner/management company, For office space, a full service rate was requested; for retail, a triple net rate requested; for industrial, a NN basis.

Building Class

Class A Product is office Space of steel and concrete construction, built after 1980, quality tenants, excellent amenities & premium rates. Class B product is office Space built after 1980, fair to good finishes & wide range of tenants.

Direct Vacancy

Space currently available for lease directly with the landlord or building owner.

Market Size

Includes all existing and under construction office buildings (office, office condo, office loft, office medical, all classes and all sizes, both multi-tenant and single-tenant, including

Overall Vacancy

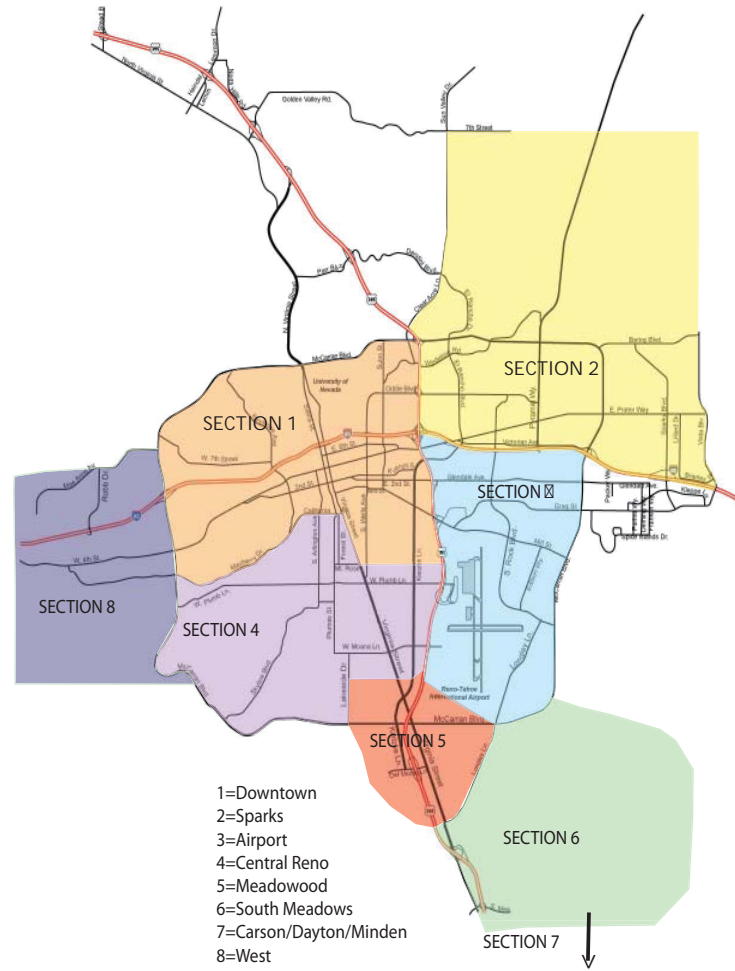
All unoccupied lease space, either direct or sublease.

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.



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