



### TRENDS:

Vacancy Rate



Net Absorption



Construction



Asking Rents



### OVERVIEW:

The Northern Nevada retail market is showing continued softness, as is much of the nation. The current vacancy level in Reno/Sparks reached an all time high in the third quarter at 15.96% which is up from 15.64% the previous quarter. In fact, the vacancy rate is 4.6% higher than in the last big downturn of the early 1990's. The anchor space vacancy decreased slightly to 12.62%, but remains near the highest level since we began tracking market statistics in 1990. In-Line shops have increased in vacancy from 19.63% last quarter to 20.53% this quarter, now officially the highest on record. Total net absorption for the third quarter of 2009 was 177,760 square feet and the total gross absorption was 206,028 square feet. This is two quarters in a row with strong absorption numbers. However, the third quarter absorption numbers were helped out by the opening of approximately 118,000 square feet within the Legends at Sparks Marina, as was the second quarter with a number of stores that opened there during that period.

### UNEMPLOYMENT, SALES TAX REVENUE AND HOUSING:

The downturn in the housing market and increases in job loss continue to impact spending levels. Washoe County Sales Tax figures show spending in August '09 was down 18.1% over the previous year, albeit an improvement from April which was down 22.7%. The Washoe County Unemployment rate was at 13.1% as of September 2009, up 1.3% in the last quarter. A couple of bright spots in retail sales is the Health and Personal Care category which was up 6.3% in August and the Electronics and Appliance category which was up 25.3%.

One other bright spot in the market is the volume of existing homes sales. During the third quarter, home re-sales within the market increased 39% over the previous year for a total of 1,993 sales. However, when combined with the number of new home sales to get a full picture of total sales, the total sales for the second quarter (2,237) were up 16.5% over the same period last year. That's not quite as rosy as the re-sale figures alone, but still very positive for the residential market. A large portion of the current re-sales continue to be foreclosed homes or short sales. The median home sales price for new and existing homes in Washoe County in September was \$188,000, a 24.8% decrease from the previous year.

### RENO/SPARKS RETAIL MARKET:

There are currently 19 vacant anchor shopping center spaces over 20,000 square feet in the Reno/Sparks market. These spaces total 942,464 square feet, which amounts to a 12.62% vacancy rate. This is just below the vacancy rate last quarter which was the highest anchor vacancy rate since we began tracking the market beginning in 1990. The area has 1,117,863 square feet available of in-line shop space throughout the market. Total combined vacancy within the market now stands at 2,060,327 square feet. This is a substantial amount of vacant space that will take time to be absorbed.

Although we have reached the historic high water mark on all vacancy categories, it does appear that the increase in the vacancy rate is slowing as we enter the 4<sup>th</sup> quarter. Monitoring the market through the first quarter of 2010 will be important to see how well the economy is improving along with retailers' performance through the holidays and winter months. Notwithstanding the recent slowdown in store closings, it is possible that we will see another group of tenants close up during the first quarter of 2010.

### NEW DEVELOPMENT – LEGENDS AT THE SPARKS MARINA AND SHOPPERS SQUARE ANNEX:

The gross and net absorption numbers were sustained this quarter primarily due to continued openings within the latest phase of the Legends at Sparks Marina. A total of 118,000 square feet opened in 17 stores, including Forever 21, Off-Broadway Shoes, Adidas, Converse, Lane Bryant, Rack & Pinz, Cadillac Ranch, Fuddruckers and several others. Both the second and third quarter absorption figures were buoyed by the opening of stores in the Legends as well as Shoppers Square Annex (Staples and Smart & Final). As the current phases of these developments wrap up, the absorption numbers are expected to be significantly lower over the next three quarters, until Wal-Mart opens on Glendale which is expected the later part of 2010.

(continued on next page)



## Retail Market Report | Third Quarter 2009

### TENANTS MOVING IN AND OUT:

Even in these challenging economic times, the entrepreneurial spirit has not been crushed. Restaurants were one of the most active categories that continued to open including Cheeseburger Island Style, Tahoe Burger and Fuddruckers (ironically or perhaps a trend, they are all burger places). Several large tenants opened up including two Staples and Smart & Final. During the second quarter, 48 tenants moved into space for a combined total of 206,000 square feet.

On the other hand, more tanning salons and beauty salons closed along with seven restaurants including Cantina Los Tres Hombres, a long time Reno restaurant/bar. During the third quarter, a total of 37 tenants vacated their spaces for a combined total of 82,000 square feet.

Shrewd tenants are taking advantage of this market to occupy better quality locations at lower rents. They are also seeking to lock in long term leases at lower rates. Landlords are working hard at tenant retention to keep quality tenants when their lease expires.

### WEATHERING THE STORM:

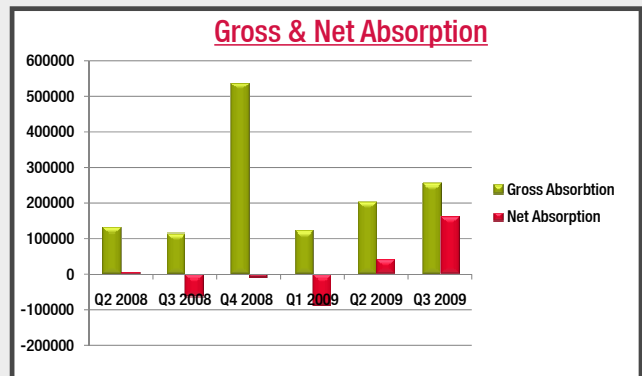
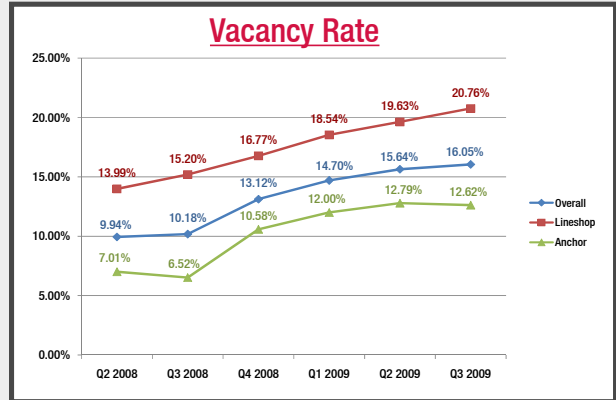
The amount of space that tenants have vacated has slowed dramatically from a high of 544,000 sf in the last quarter of 2008, to 82,000 sf during the last quarter, the lowest quarterly amount since this recession began. This is good news as we appear to be stabilizing! We expect to see this moderating trend continue through the fourth quarter. If this trend continues into next year, the market could experience a slower rate of failure as the economy improves and more people open new retail businesses. The openings will outpace the closings, which will lead to higher net absorption and lower vacancy rates over time.

How much time will it take and when will the retail market get to a stabilized, lower overall vacancy of say 9% from 16% now? Probably longer than most people think or want to realize. In the recession of the early 90's, it only took 2 years for the overall vacancy rate to decline from 11.3% to 9.6% before it lapsed and increased again. That time was different as the anchor vacancy was only 2% compared to 12.62% now. If we look at the in-line vacancy rate during that period, it took 7 years for it to drop from 20.3% to the 9% range.

We need to see a drop in the in-line vacancy from 20.5% and the anchor vacancy from 12.62%, which is farther than we had to come in the 90's. We are really in uncharted territory, but if the early 90's are any indication, it could be sometime longer than 7 years before we see low vacancy rates again.

### PITCH:

At NAI Alliance, we work with our clients to provide the most timely, 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	12,903,584 SF	2,070,802 SF	16.05%
Lineshops	5,435,584 SF	1,128,338 SF	20.76%
Buildings 20,000 or greater	7,468,000 SF	942,464 SF	12.62%

\*All numbers exclude Regional Malls

## Retail Market Report Featured Properties



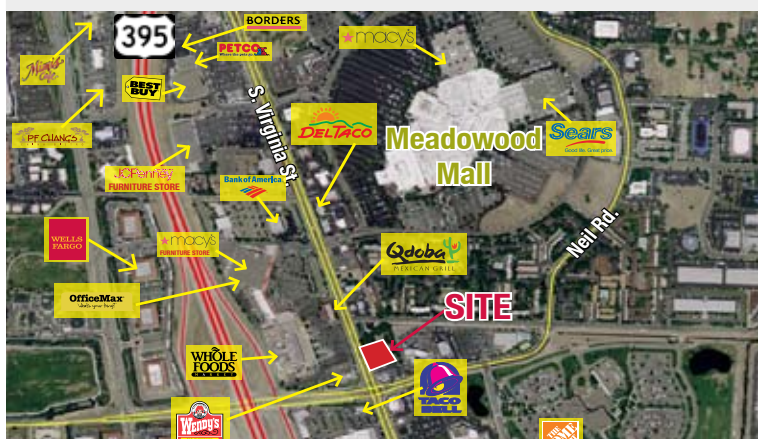
**For Lease**  
 Sharon Square  
 Robb Drive & Sharlands Avenue, Reno, Nevada



**For Lease**  
 Virginia Street Plaza  
 555 South Virginia Street, Reno, Nevada



**For Sale**  
 3.89 acres along Highway 50  
 Fernley, Nevada



**For Sale**  
 Virginia Neil Crossing Land - 1.36 acres  
 Reno, Nevada



**For Lease**  
 Coliseum Meadows  
 Kietzke Lane & Virginia Street, Reno, Nevada



**For Lease**  
 105,000 SF Anchor Space at Ironhorse Shopping Center  
 McCarran Boulevard & Prater Way, Sparks, Nevada



### 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.

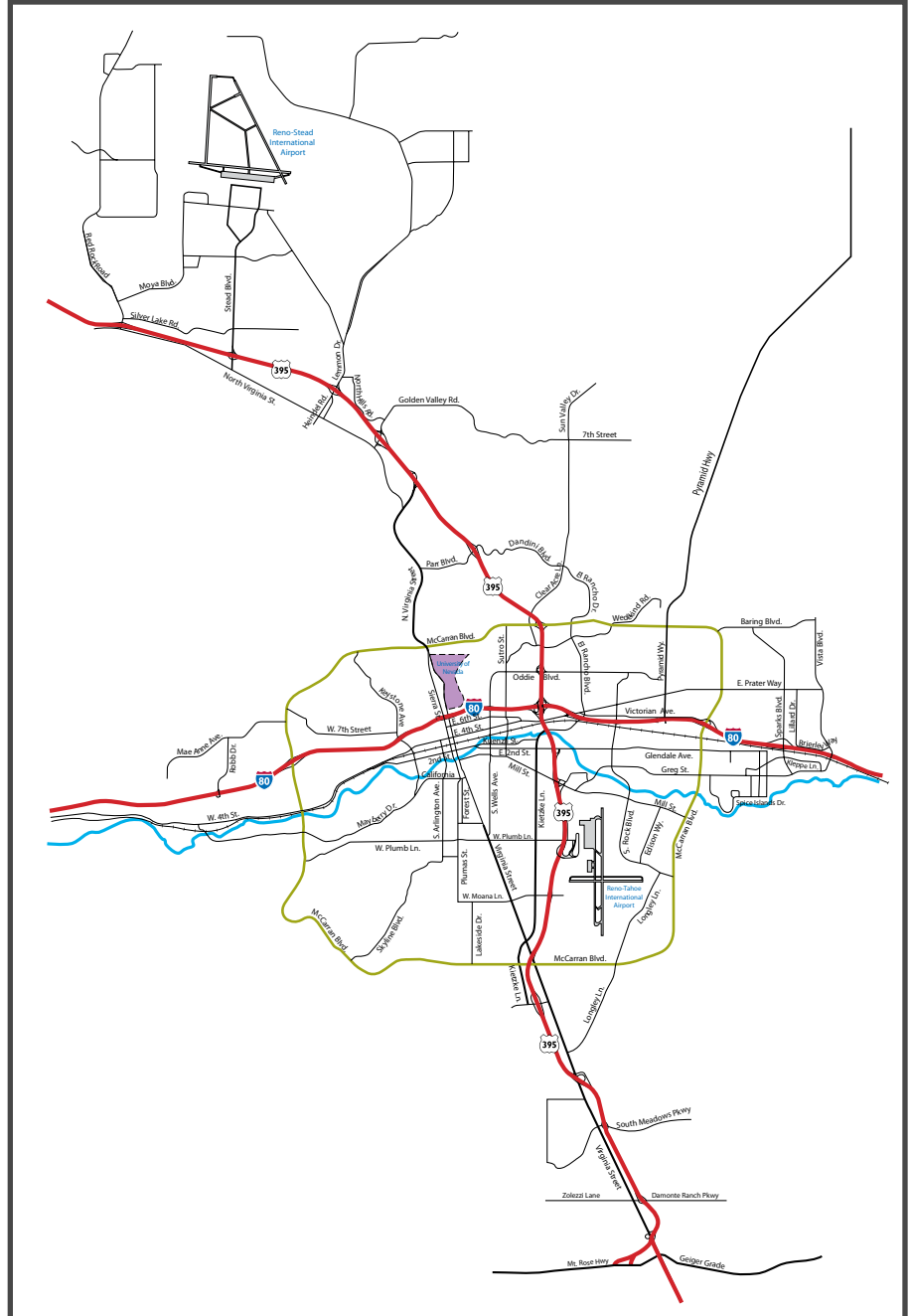
### SF/PSF

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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