NAI Alliance

Commercial Real Estate Services, Worldwide.

Office Market Report Third Quarter 2009

TRENDS:

Vacancy Rate

Net Absorption

Construction

Asking Rents

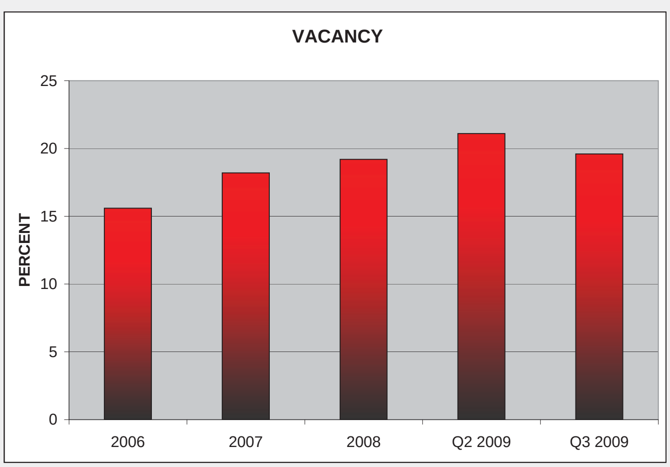
ACTIVITY AND ABSORPTION:

Finally, a positive sign of recovery; after 8 consecutive quarters of negative net absorption, the third quarter of 2009 posted a 1.5% decrease in overall market vacancy. This decrease in vacancy followed a minimal increase in vacancy at the end of Q2, which indicates that we may have hit bottom from a vacancy rate perspective. By no means are we out of the woods. Vacancy rates are still at all-time highs in nearly every Northern Nevada submarket, and rental rates continue to decline as Landlords compete for the relatively few tenants searching for space in our market. Those Landlords who own their buildings outright or have little debt definitely have the advantage in this market as they typically can undercut the overleveraged competition.

VACANCY:

Contrary to what we saw at the beginning of our office market meltdown in which Tenants were migrating from Class A office space to Class B office space in an effort to reduce costs, the trend now seems to be a migration from Class B to Class A office space. The obvious incentive here is the significantly reduced rents now being offered in Class A space. This is evident in the Airport submarket, which is made up of primarily Class B buildings, where vacancy rights climbed nearly 5% in the past two quarters. Tenant's who are flexible with their office space location and build-out requirements are able to find effective lease rates in Class A buildings in the $1.30-$1.50 per square foot Full Service range (downtown excluded). Most of these deals are short term though, and those Tenants should expect, or at least the Landlords will try to achieve, an increase in rent when renewal negotiations commence.

This brings up the topic of rate stabilization. The Landlord hope is that the lease rates of today, in some instances driven 20-30% downward to the levels prior to the dot.com fury, will be short lived and this suppression will be made up in a recovery due in 2010. Let's be realistic, this will not happen. We do believe the lease rates of today will adjust upwards as the demand cycle improves, but the market will have to absorb nearly 500,000 square feet before landlords begin to feel the positive momentum of the pendulum; a 3-5 year chart.



Vacancy Q3 2009: 19.6%
Vacancy Q2 2009: 21.1%
Vacancy 2008: 19.2%
Vacancy 2007: 18.2%
Vacancy 2006: 15.6%

NEW CONSTRUCTION:

The 18,000 square foot State Street Plaza in downtown Reno remains the only new construction to be completed this year. This mixed use, ground floor retail, 2nd floor office development was able to secure the well known La Famiglia Italian restaurant as their anchor tenant. What will become of the office space within this project remains to be seen. Due to demand, it may become a scenario of small office users and 2nd floor retail.

Throughout the rest of the year and into 2010, new office construction will be limited to build-to-suits. Goddard Systems should move into their new 8,100 square foot building by April 2010; a 15 year build-to-suit being completed by Landlord W.E. Banaszak Contracting & Development.

As discussed in our previous market reports, there is a considerable amount vacant shell space available and the near-term outlook for this space is dire. Existing 2nd generation space can usually offer lower rents as those existing improvements have in most cases already been paid for. Landlords with shell space will need to focus on Tenants with unique build-out requirements such as those in the medical, R&D and education fields. These are the tenants that are being stimulated with cash and will drive job growth and absorption in the near term.

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Where can we help you?

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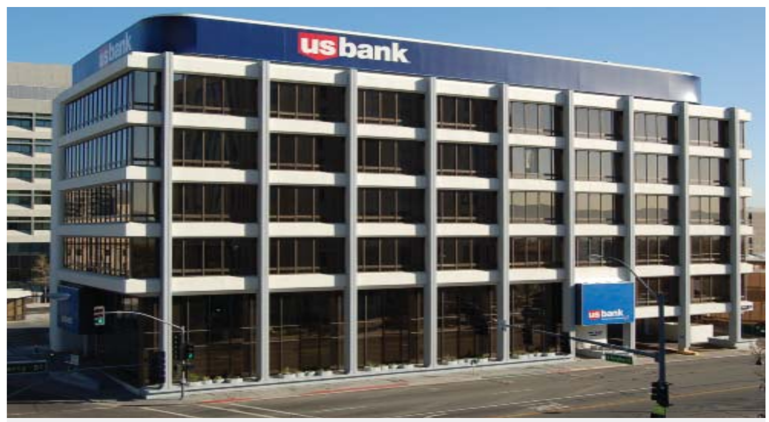
Featured Properties

For Lease
50 West Liberty

For Lease
300 East 2nd Street

For Lease
5345 Kietzke Lane



For Sale - For Lease
1 E. Liberty

For Lease
100 & 140 Washington Street

For Sale - For Lease
100 N. Sierra Street

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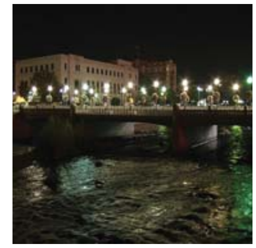
Methodology / Definitions / Sub Market Map



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 owner-occupied buildings) within each market.

Overall Vacancy

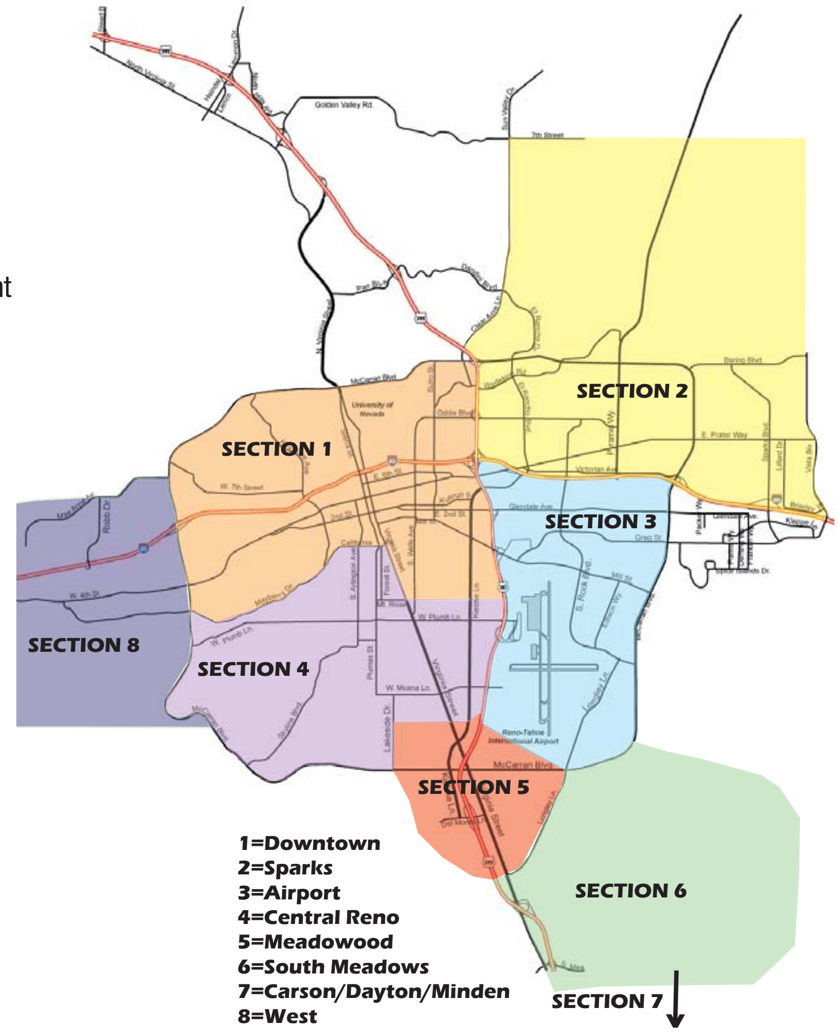
All unoccupied lease space, either direct or sublease.

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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