NAI Alliance

Commercial Real Estate Services, Worldwide.

Industrial Market Report
2009 End of Year

TRENDS:

Vacancy Rate ↑

Net Absorption ↓

Construction ↓

Asking Rents ↘

OVERVIEW - "THE GREAT RECESSION":

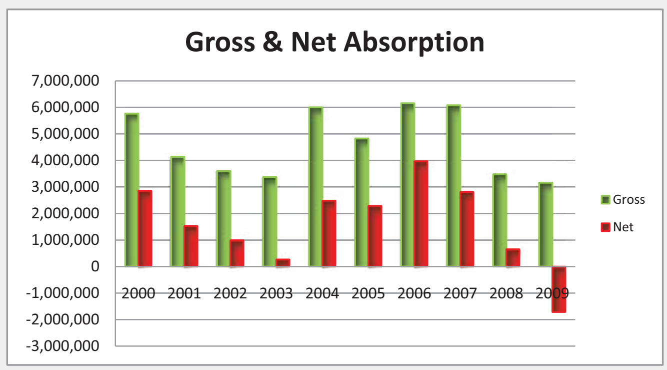
At the end of last year we reported the industrial market had "limped along" with waning activity and increasing vacancy. This year, the market can be characterized as having spent the entire year pretty much in a coma. Activity was the lowest this decade, speculative construction was non-existent, build-to-suit construction wasn't far behind, the vacancy rate rose to a level never before seen and for the first time annual net absorption was negative…significantly.

ACTIVITY – ALMOST AN OXYMORON:

Total space leased or sold during Q4 for new occupancy was 782,653 square feet, bringing the year-end total to just over 3.1 million square feet. This is the lowest annual total since 1994, when the market was less than half its current size and it amounts to just 65% of the average for the previous eight years. Only three transactions for the entire year were larger than 100,000 square feet while 60% of the 115 transactions completed during 2009 were smaller than 20,000 square feet, dropping the average transaction size to 27,523 square feet. By comparison, during 2008, the first full year of recession, there were seven transactions greater than 100,000 square feet, and the overall average size was 32,227 square feet.

NET ABSORPTION – WHERE DID THEY GO?:

Market occupancy contracted yet again during Q4, by 204,222 square feet. The bigger story, as we forecasted mid-year, is that occupancy shrank for the entire year by more than 1.7 million square feet. Never before have we experienced negative growth for an entire year! Some of the noteworthy departures and consolidations during 2009 causing this negative absorption include Amazon.com, Ozburn-Hessey, Standard Motor Products, Weyerhaeuser, Royal Sierra Extrusions (Georgia Gulf), Cantex Inc., Overhead Door and Pro-Cal (Myers Industries). These last four were manufacturing operations whose departures contributed to the area's already high unemployment rate. In all cases, these were the result of global economic conditions and not because of the local business environment.



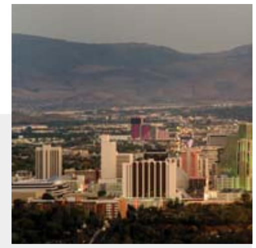
VACANCY – A NEW RECORD:

Not to be outdone by negative net absorption, the market ended the year with a 15.29% vacancy rate (more than 11 msf) increasing from 14.92% a quarter earlier. The highest amount of vacancy continues to be in Sparks, the largest submarket, with almost 3.9 million square feet vacant. Unfortunately, because Sparks is also the oldest submarket, many of the vacant spaces are smaller and/or functionally obsolete. Almost 64% percent are 20,000 sf or smaller and less than 3% were built in 2000 or later. The second highest amount of vacancy is in the East I-80 Corridor, where almost 1.8 million square feet of the total 2.7msf available is new, never occupied space that developers built during the construction frenzy of 2005-2007.

NAI Alliance

Commercial Real Estate Services, Worldwide.

Industrial Market Report | 2009 End of Year

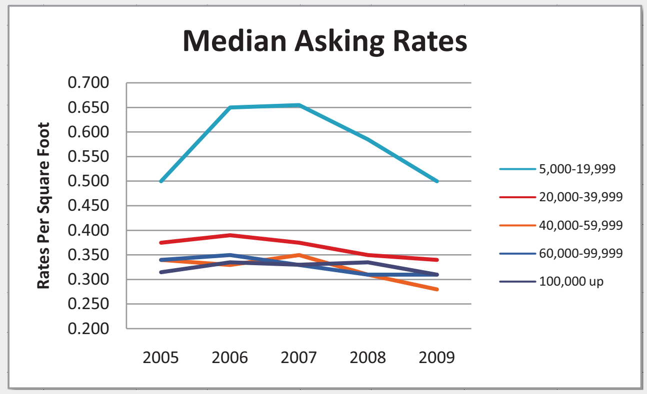


CONSTRUCTION – WHAT CONSTRUCTION?:

Like other market indicators, activity and occupancy, speculative construction during 2009 will be remembered for setting a new record…low. Since the Reno-Sparks area became recognized as a viable industrial market more than 35 years ago, there has never before been a year with absolutely no speculative construction. Adding to contractors' pain, only six built-to-suit buildings totaling 100,427 sf saw completion during the year. This is another manifestation of the flagging economy and the pervasive fear that it may not get better very soon.

LEASE RATES – KICKING THEM WHEN THEY'RE DOWN:

We expected the bidding wars to accelerate during 2009, as more sublessors and landlords wanted their space to become the "next deal made." Unfortunately, that expectation was realized. Although asking rates showed little sign of change, effective rates on numerous transactions dropped to levels not seen in more than fifteen years. Moreover, many tenants with time remaining on existing leases (some with a lot of time) approached landlords with "blend and extend" scenarios at rates substantially lower than rates they were already paying. Most landlords acquiesced, fearful that the market malaise might continue for at least two more years and reasoning that an occupied space, even at a fraction of proforma rent, is better than space that might remain vacant for a long time.



OUTLOOK – GLASS HALF….?:

A number of economists and other analysts predict an economic recovery in 2010. Of course, we heard the same predictions in 2008 about 2009. Even if certain statistics that form the basis of their predictions are accurate, most agree that we are hamstrung by high unemployment and a lack of consumer confidence – two key economic components necessary for a genuine recovery. One statistic that isn't factored into unemployment figures is that many companies have reduced employee hours and operating hours. Even if the broader economy does begin to recover in 2010, it would probably take awhile longer to filter down to our local industrial market. Consequently we expect at least the first half of 2010 to remain somewhat static; a continued lack of demand, flat or declining rents, more negative net absorption caused by companies leaving the market and continued investor skepticism. Speculative construction will again be a "non-starter" during 2010 and probably even 2011 as "The Great Recession" marches on. But wait, there may be some good news! REITS seem to have rebounded somewhat and the public equity market is healing. There is hope that the private debt and equity markets will be the next to rebound. We use the term "rebound" advisedly...more like a slow recovery. The bottom line: The glass is half…..

2009 END OF YEAR AT-A-GLANCE

	Area	Total Space (sq. ft.) 12/31/09	Vacant Rentable (sq. ft.) 12/31/09	Vacant percent 12/31/09	Gross Absorption (sq.ft) Yr-2009	Net Absorption (sq.ft.) Yr-2009	NNN Median Asking Rate (sq.ft./yr)	Under Construction 12/31/09	BTS Construction (sq. ft.) Yr-2009	Spec Construction (sq. ft.) Yr-2009
1	North Valleys	15,163,090	2,440,857	16.10%	823,222	-359,227	$3.96	0	22,000	0
2	Sparks	25,453,693	3,875,334	15.23%	958,508	-1,038,298	$4.62	0	17,327	0
3	Airport	8,954,456	760,507	8.49%	323,691	-64,478	$7.20	0	9,100	0
4	South Reno	8,892,779	885,887	9.96%	479,110	-181,479	$6.00	0	0	0
5	Central & West Reno	1,392,104	365,546	26.26%	83,178	-132,431	$4.56	0	52,000	0
6	East I-80 Corridor	12,187,003	2,687,314	22.05%	497,451	64,247	$4.08	0	0	0
	TOTALS	**72,043,125**	**11,015,445**	**15.29%**	**3,165,160**	**-1,711,666**	**$5.07**	**0**	**100,427**	**0**

NAI Alliance

Commercial Real Estate Services, Worldwide.

Industrial Market Report Featured Properties

For Lease

4900 Ampere Drive

54,736± sf | $0.29 NNN

For Sublease

1335 Greg Parkway

30,750± sf | $0.29 NNN

For Sale

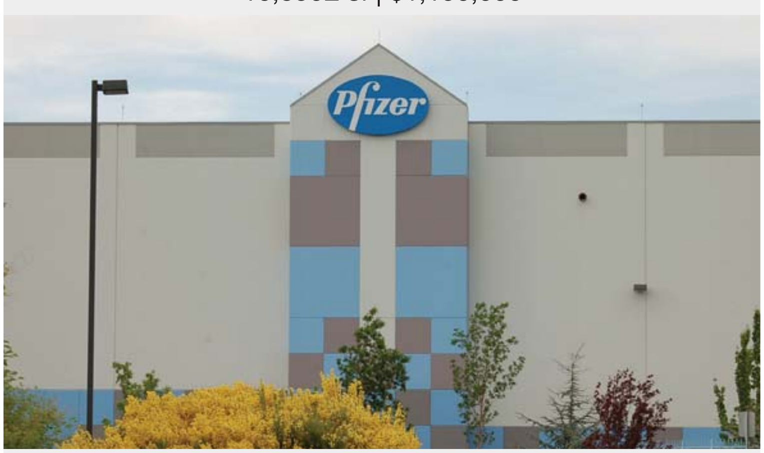
5458 Louie Lane

10,850± sf | $1,150,000

For Lease

9175 Moya Blvd.

44,100± sf | $0.29 sf NNN



For Sale or Lease

1025 Sandhill Road

263,924± sf | $15,500,000 or $0.39 sf NNN

For Sale

305 Western Road

66,240± sf | $2,950,000

NAI Alliance | 6995 Sierra Center Parkway, #100 | Reno, NV 89511 | 775.336.4600 | www.naialliance.com

NAI Alliance

Commercial Real Estate Services, Worldwide.

Fourth Quarter NAI Industrial Team Transactions

Lease 244,000 s.f.
Warehouse Services
14551 Industry Circle
NAI represented owner

Lease 30,720 s.f.
AirGas
1671 Glendale Avenue
NAI represented owner

Lease Renewal 24,000 s.f.
OMED of Nevada
800 Stillwell Road
NAI represented both parties

Lease 10,800 s.f.
OnlineTechStores.com
1335 Greg Street, #107
NAI represented tenant

Lease 6,361 s.f.
Confidential User
475 Valley Road
NAI represented tenant

Lease 2,633 s.f.
Stone Interiors
255 Distribution Drive, #201
NAI represented tenant

Lease Expansion 34,500 s.f.
Stajac
4955 Joule Street
NAI represented both parties

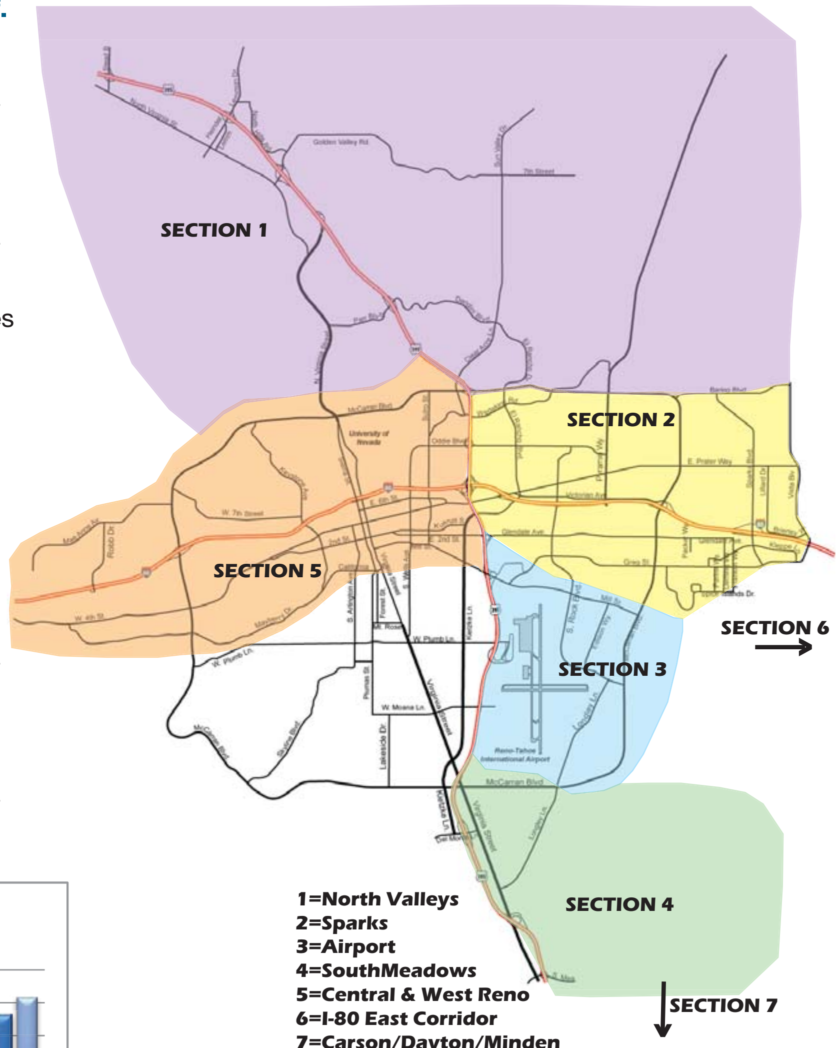
Sale 24,000 s.f.
ENV Tech
300 Edison Way
NAI represented both parties

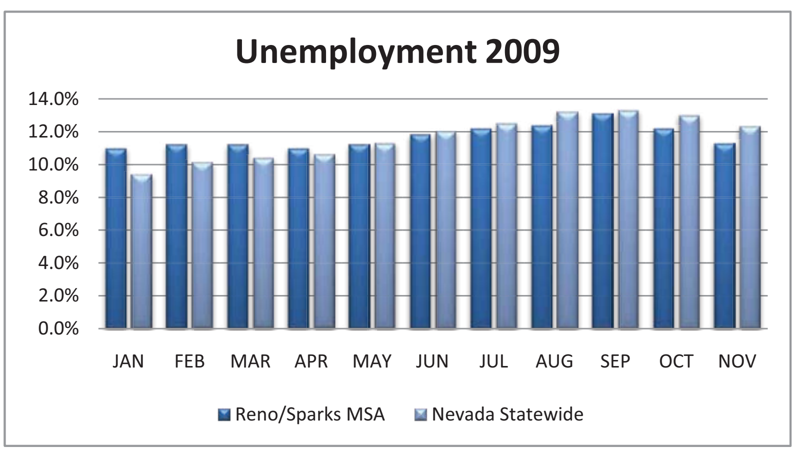
Lease 11,756 s.f.
Discount Pet Food & Supplies
2500 Valley Road, #Z
NAI represented landlord

Lease 9,030 s.f.
Waste Not Recycling of NV
2500 Valley Road, #G & H
NAI represented owner

Lease Renewal 5,120 s.f.
Republic Electric
270 A Coney Island Drive
NAI represented both parties

Lease 2,391 s.f.
ComputerLand
5470 Louie Lane, #102
NAI represented both parties





Source: Nevada Department of Employment, Training & Rehabilitation

VIEW OUR **blog**

blog.naialliance.com

Paul Perkins, SIOR, CCIM
Senior Vice President
775.336.4660
pperkins@naialliance.com

Dave Simonsen, SIOR, CCIM
Senior Vice President
775.336.4667
dsimonsen@naialliance.com

J. Michael Hoeck
Senior Vice President
775.336.4621
jmhoeck@naialliance.com

Dan Oster
Vice President
775.336.4665
doster@naialliance.com