NAI Alliance

Commercial Real Estate Services, Worldwide.

Industrial Market Report
Second Quarter 2010

TRENDS:

Vacancy Rate

Net Absorption

Construction

Asking Rents

OVERVIEW - IS IT STILL 2009?:

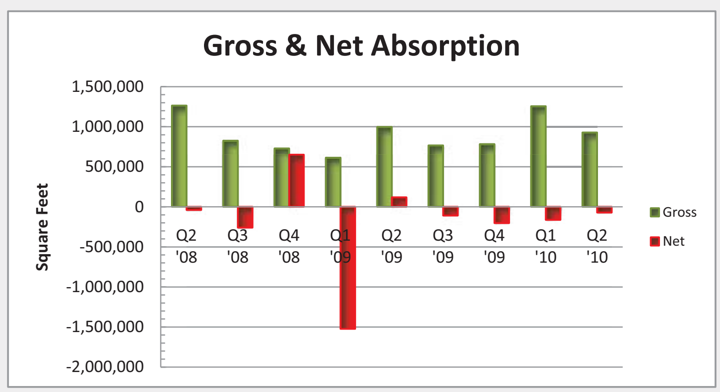
Most people familiar with the Northern Nevada industrial market agree that 2009 was a year to forget…negative net absorption of almost 2.4%, the highest vacancy ever recorded and an activity level 65% of average. We were all anxious to get that period behind us and the first quarter of 2010 gave "some" hope for optimism. Activity rebounded somewhat, the vacancy rate stabilized and, although net absorption was still negative, the drop in occupied space moderated compared with several preceding quarters. We characterized the market as "bouncing" along the bottom. Unfortunately, in Q2 we saw no "bounce" and the data indicates a widely held view that we might begin to see signs of a recovery in the fall may have been prematurely optimistic.

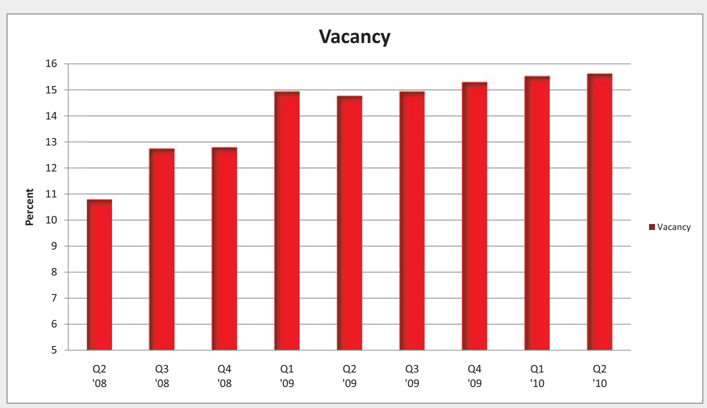
ACTIVITY - MORE BUT LESS:

Forty-one lease and sale transactions for new occupancy were logged during Q2, up from 36 the previous quarter. However, these transactions totaled only 929,206 square feet – 26% less than the amount registered in the first quarter. That is because 85% of the transactions were smaller than 20,000 square feet. One transaction, DP Partners' lease to Ryder Logistics at Logisticourt at Silver Lake for 390,370 square feet accounted for 42% of total market activity. The next largest transaction was a 61,123 square foot building sale to Russell Stover Candies. More than half the transactions occurred in the long-suffering Sparks submarket, filling older, smaller spaces.

NET ABSORPTION – STEMMING THE FLOW:

The hemorrhaging of occupied space we've seen since the Great Recession began (almost 2.2 msf, or 3.4%) slowed during Q1, registering a negative 72,574 square feet. This brings the total negative net absorption for the year to 236,186 square feet, compared with negative 1.4 million square feet at this time last year. We used to italicize negative net absorption because it was so foreign to this market's history, but now we're anxious to italicize positive occupancy growth…which we hope happens soon. The largest defection occurred in the South Meadows Business Park, where Fruit of the Loom vacated more than 220,000 square feet. Although it didn't register for the quarter, we know of another 136,800 square feet that will be back on the market in Q3, also in South Meadows. The Sparks submarket once again led in negative absorption, with almost 278,000 square feet, bringing the total lost occupancy in that submarket to almost 3.4 million square feet since the beginning of 2007 – even before there was an awareness that we were in a recession.

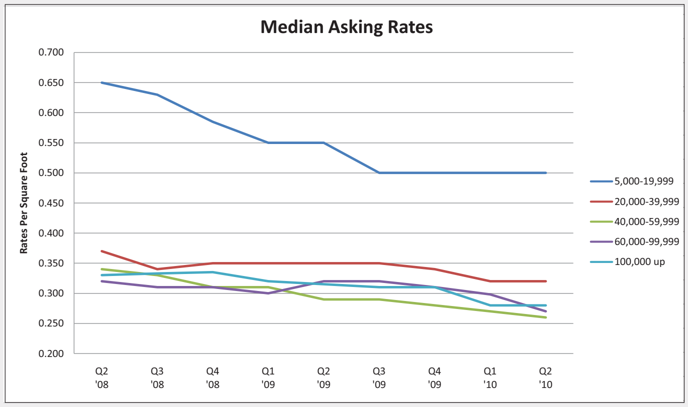




VACANCY – THE BEAT GOES ON:

Every quarter, a new record. Once again, however, the increase is almost imperceptible - up from 15.52% at the end of Q1 to 15.62% at mid-year. The highest rate continues to be in Central and West Reno (26.7%), but since it is by far the smallest submarket the high rate is insignificant. More significant is the continuing rate of more than 20% in the East I-80

corridor, the third largest submarket, where much of the most recent construction occurred and where future growth is destined. The only submarket with a vacancy rate significantly lower than the overall rate is the North Valleys, with 11.63% - still unacceptably high in a “normal” market.



LEASE RATES– THE SHADOW KNOWS:

Throughout the Great Recession, asking rates for most spaces have remained firm. Exceptions have been for older, functionally obsolete spaces and for some sublease spaces, but for new, state of the art distribution spaces, developers have held firm. This hasn’t stopped tenants from offering lease rates that are more reflective of the 1970s and 1980s though, and deals are being struck closer to these offered rates than the asking rates. The area’s largest landlord, ProLogis, has even stopped publishing asking rates because they have become so irrelevant. Others have floated “teaser” rates as low as $0.10 psf for the first year.

CONSTRUCTION – HARDLY WORTH MENTIONING:

The second quarter saw the first construction completion of the year, a 6,000 square foot building for Jentech in the Spanish Springs Business Center. No speculative buildings are planned for the entire year. No surprise here. Industrial contractors accustomed to ground up construction continue to scrap for tenant improvement work, which is almost non-existent as well.

OUTLOOK – HALF FULL OR HALF EMPTY?:

At the end of the first quarter, we noted that more has been written and discussed by economists and others suggesting the worst of the Great Recession is behind us. We also noted that local market statistics for industrial properties gave some credence to that supposition, while not portending much market improvement in the near term. Many experts expected to see evidence of a turnaround during the third quarter, but at mid-year that speculation has waned. Employment in the private sector continues to languish, reflecting a lack of confidence in near-term growth opportunities among employers (other than the federal government) and economic conditions around the world give little hope that things are going to improve soon. In the last two weeks of Q2 two leases in negotiation totaling more than a half-million square feet went silent. Maybe they will come back next quarter, maybe not. Most of the people we talk to are more concerned about “hanging on” than they are about growth and prosperity. When the glass will be “half full” is anybody’s guess.

Q2 2010 MARKET AT-A-GLANCE

	Area	Total Space (sq. ft.) 6/31/10	Vacant Rentable 6/31/10 (sq. ft.)	Vacant percent 6/31/10	Gross Absorption (sq.ft) Q2	Net Absorption (sq.ft.) Q2	NNN Median Asking Rate (sq.ft./yr)	Under Construction 6/31/10	BTS Construction (sq. ft.) ytd	Spec Construction (sq. ft.) ytd
1	North Valleys	15,173,417	1,764,955	11.63%	555,483	580,610	$3.72	0	6,000	0
2	Sparks	25,436,366	4,455,297	17.52%	248,875	-277,339	$4.56	0	0	0
3	Airport	8,954,456	982,944	10.98%	10,008	-114,906	$6.00	0	0	0
4	South Reno	8,892,779	1,084,092	12.19%	50,540	-193,480	$7.14	0	0	0
5	Central & West Reno	1,392,104	372,754	26.78%	21,100	-18,773	$3.72	0	0	0
6	East I-80 Corridor	12,258,003	2,597,589	21.19%	43,200	-48,686	$3.96	0	0	0
	TOTALS	**72,107,125**	**11,257,631**	**15.61%**	**929,206**	**-72,574**	**$4.85**	**0**	**6,000**	**0**

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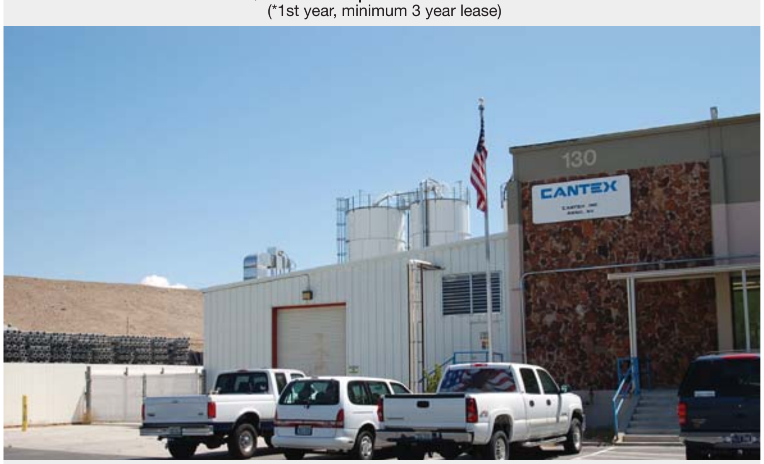
Industrial Market Report Featured Properties

For Lease
4910 Longley Lane
52,500± sf | $0.10/sf NNN*
(*1st year, minimum 3 year lease)

For Lease
9175 Moya Blvd.
44,100± sf | $0.29/sf NNN



For Sale
130 Woodland Ave. (Rail)
61,600± sf | 13.11 acres | $4,900,000

For Lease
9085 Moya Blvd.
259,205± sf | $0.32/sf NNN

For Lease or Portfolio Buy-In*
1135-1285 Southern Way
55,515± sf to 225,515± sf | $0.25
*See Broker for details

For Sale or Lease
255 S. McCarran Blvd.
198,875± sf | $29.66 psf or $0.24/sf NNN

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Second Quarter NAI Industrial Team Transactions

Sale 61,123 s.f.
Russell Stover
13085 Mt. Anderson
NAI represented buyer

Lease Renewal 20,000 s.f.
DS Waters
1312 Capital Blvd.
NAI represented tenant

Lease Renewal 9,920 s.f.
Quality Truck
330 Coney Island Drive
NAI represented landlord

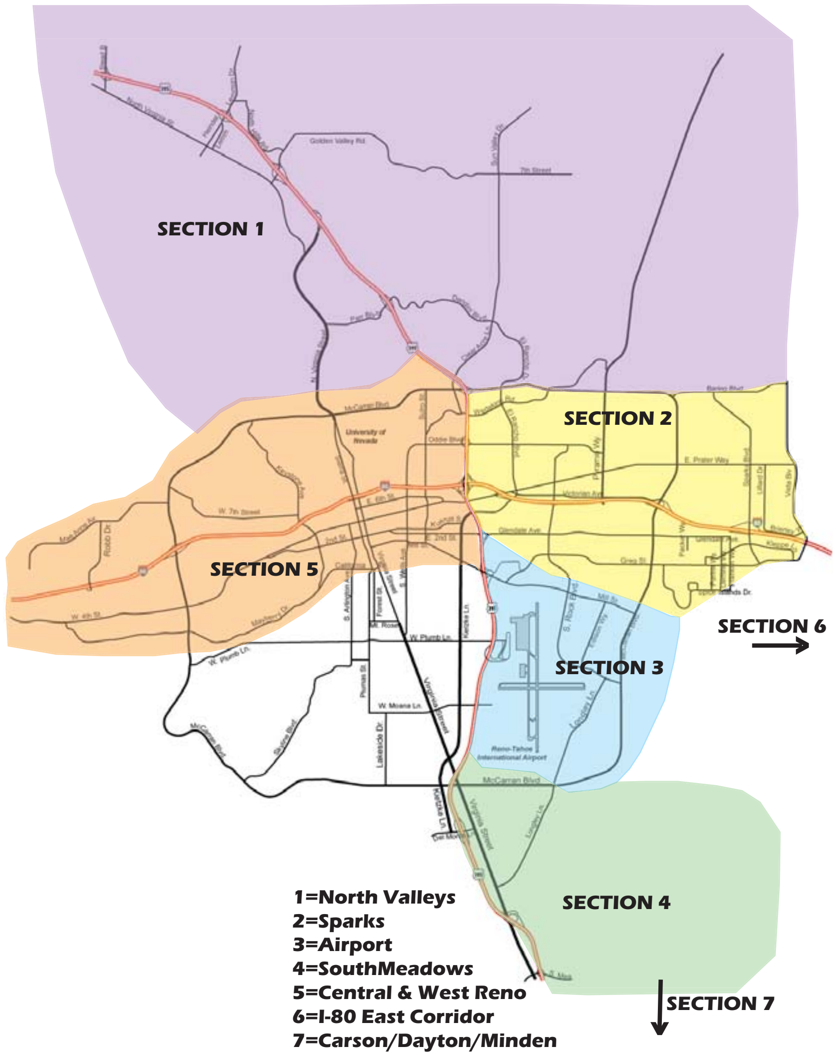
Lease 5,008 s.f.
Clean Energy Center
4865 Joule Street #C4
NAI represented landlord

Lease 5,000 s.f.
Scientia Vascular
705 Trademark Drive #104
NAI represented landlord

Lease Renewal 4,000 s.f.
Konica Minolta
1410 Greg Street #418
NAI represented tenant

Lease 3,615 s.f.
Reno Photo Booth
175 Solomon
NAI represented both parties

Lease 2,573 s.f.
ABC Lock & Glass
2205 Glendale Ave. #125
NAI represented both parties



Nevada Ranks 6th Greenest State

Greenopia announced its newest guide - one that ranks the 50 US states in terms of sustainability. The top 10 greenest states were, in order, Washington, Vermont, New York, Oregon, California, **Nevada,** Maine, Colorado, Minnesota, and New Hampshire.

Source: EDAWN.ORG

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