NAI Alliance

Commercial Real Estate Services, Worldwide.

Industrial Market Report
Third Quarter 2010

TRENDS:

Vacancy Rate

Net Absorption

Construction

Asking Rents

OVERVIEW - THE BEAT GOES ON:

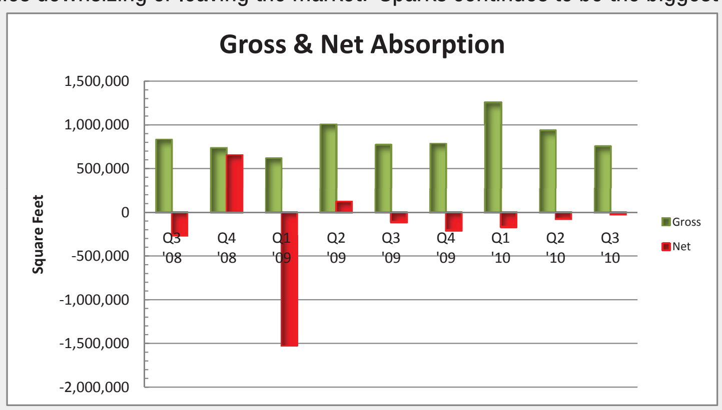
Last quarter we ruminated about whether earlier projections that the economy...and the US commercial real estate markets would begin to see recovery in Q3 of this year. If that is the case, one would never know it by performance of the Reno/Sparks/Fernley industrial market. A year or so ago, we characterized this market as "limping along" and more recently as "bouncing along the bottom." Market statistics for Q3 do nothing to change that assessment: Lease and sale activity was down again, vacancy was up slightly and occupied space was down again – not by huge amounts, but enough to indicate the market has not yet turned. If the results of Q3 are an indicator, it looks like we are indeed "bouncing along the bottom."

ACTIVITY - NEW DEALS:

Total space leased or sold for new occupancy during Q3 was 751,312 square feet, almost identical to the same quarter a year earlier. The good news is that total activity for the first three quarters of 2010 is more than 23% higher than last year. The bad news is that it is 19% lower than Q2 and 40% less than Q1, so the trend so far this year continues downward. This brings total activity for the year to just over 2.9 million square feet –20% below the average for the first three quarters during the previous nine years. The number of transactions decreased from 41 during Q2 to 38 during the third quarter, with 74% of the transactions for spaces smaller than 20,000 square feet. The largest transaction was a lease by ProLogis to OnTrac for 161,400 square feet. This was an expansion/relocation from a smaller space within the ProLogis portfolio. The next largest transaction was a $1.8 million sale to Sierra Western (National Cart) of a 66,240 square foot building in Panther Valley.

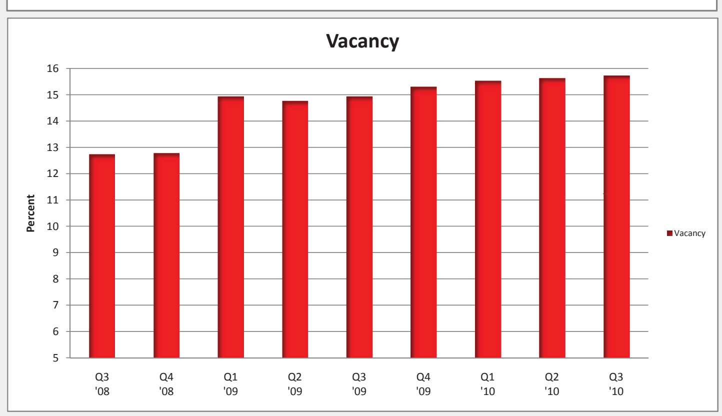
NET ABSORPTION – OCCUPANCY LEVELING:

If there is a bright spot in the foggy outlook, it might be in the amount of occupied space. Net absorption was negative again, for the fifth consecutive quarter, but by only 21,006 square feet. This brings the total negative net absorption YTD to 257,192 square feet, compared to more than 1.5 million square feet negative for the first three quarters last year. Hopefully this signals a positive trend (163,612 negative in Q1 and 72,574 in Q2), with fewer companies downsizing or leaving the market. Sparks continues to be the biggest victim of reduced occupancy, lower by 610,831 square feet (2.8%) so far this year. Conversely, the North Valleys and East I-80 submarkets have experienced positive net absorption totaling 921,162 square feet during the first three quarters. This is not surprising considering these are two of the newer submarkets, with more modern, functional buildings and Sparks is the oldest submarket.



VACANCY – STILL MANY OPTIONS:

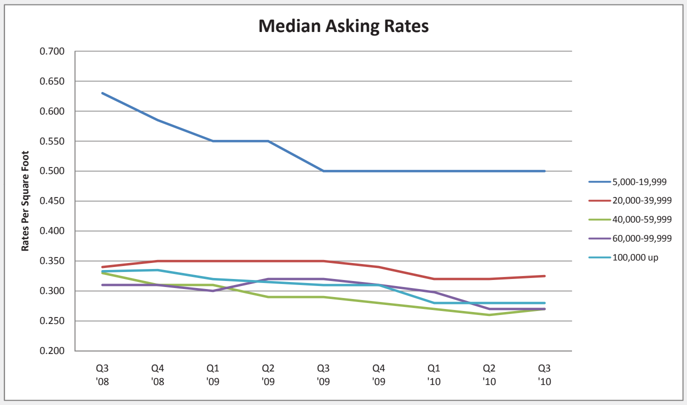
Overall market vacancy continues to inch up, increasing from 15.62% to 15.73% during the third quarter. The year began at 15.29%. Although the rate continues to increase, the rate of increase has slowed dramatically. Last year vacancy increased an alarming three percentage points and established a new record. The slight increase we have seen this year indicates the market is leveling. For potential tenants in the 75,000 to 250,000 square foot range there are 27 class-A spaces totaling almost 4 million square feet and another 20 class-B spaces in that size range totaling more than 2 msf. The Central/West Submarket continues to have the highest vacancy rate at 24.5%, but since it represents only 1.9% of the total market, its vacancy is insignificant. Of greater significance is the 20.5% vacancy rate in the East I-80 Submarket and 17.64% in Sparks. These two submarkets comprise more than 52% of the total market and they account for 62% of the total vacancy...for very different reasons. After the market began its downward spiral and landlords began to feel the pinch and lowered rates on newer space, there was a flight to quality, leaving



some functionally obsolete spaces in Sparks empty. The East I-80 Submarket is where much of the new speculative buildings were completed as the market was crashing. Of the 2.5+ million square feet vacant in that submarket, almost half is new, never occupied space, some of which was completed in May, 2007. The submarket with the lowest vacancy rate is the Airport Submarket, standing at 11.05%.

LEASE RATES– HAVE RATES BOTTOMED?:

As we have noted in the past, asking rates in general have not declined noticeably, with the only exception in spaces smaller than 20,000 square feet. That being said, the gap between asking rates and effective rates that emerged during 2008 and widened during 2009 has not narrowed. Fierce competition is keeping effective rates 20% to 40% below asking rates through free rent, lower contract rates, tenant improvement allowances or a combination of all three. Some owners aren't even publishing asking rates because they don't want to encourage a market-wide reduction. However, they are more than willing to respond to requests for proposals with rates we saw in the 1970's and 80's. Although some owners have indicated their intention to firm up rates, when viable tenants show up, they do what they can to win the deal, even if it means dropping their rate as needed to compete.



CONSTRUCTION – DON'T BLINK:

As we have said before, don't look for any speculative construction until at least 2012. With effective rates as low as we've seen and lenders as picky as they have become, there is no justification for new construction. The only construction this year has been build-to-suit, with most of it occurring during Q3. That said, the largest building completed was 50,000 square feet in the Tahoe-Reno Industrial Center by Miles Construction for Saginaw Controls. Two other 8,000 square foot buildings were completed, also in TRIC. There is currently no other construction under way that will be completed this year.

OUTLOOK – HALF FULL OR HALF EMPTY?:

Although the local industrial market performance this year has been almost as bleak as 2009 so far, we have learned that recently some requirements have emerged that may portend better times ahead. Whether some of these deals land during Q4 or next year remains to be seen, but at least they are out there. We are also hearing that others are waiting for the November election outcomes before deciding on a course of action. Although we often hear that refrain during election years, this year seems to be more pivotal because of the general dissatisfaction with the direction of the country. A change in direction seems inevitable. The question remains, how and when will affect our market.

Q3 2010 MARKET AT-A-GLANCE

	Area	Total Space (sq. ft.) 9/30/10	Vacant Rentable 9/30/10 (sq. ft.)	Vacant percent 9/30/10	Gross Absorption (sq.ft) Q3	Net Absorption (sq.ft.) Q3	NNN Median Asking Rate* (sq.ft./yr)	Under Construction 9/30/10	BTS Construction (sq. ft.) ytd	Spec Construction (sq. ft.) ytd
1	North Valleys	15,173,417	1,761,481	11.61%	133,940	3,474	$0.32	0	0	0
2	Sparks	25,436,366	4,486,165	17.64%	404,498	-30,868	$0.38	0	0	0
3	Airport	8,954,456	989,710	11.05%	125,710	-6,766	$0.50	0	0	0
4	South Reno	8,892,779	1,247,468	14.03%	62,694	-163,376	$0.64	0	0	0
5	Central & West Reno	1,392,104	342,285	24.59%	24,470	30,469	$0.38	0	0	0
6	East I-80 Corridor	12,258,003	2,517,628	20.54%	0	146,061	$0.34	0	66,100	0
	TOTALS	**72,107,125**	**11,344,737**	**15.73%**	**751,312**	**-21,006**	**$0.43**	**0**	**66,100**	**0**

*Asking Rates are negotiable, typically effective rates are lower

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Industrial Market Report Featured Properties

For Sale or Lease
240-250 S. Stanford Way
54,500± sf to 158,574± sf
$0.19/sf | *$0.03/sf NNN* | $4,950,000 ($31.22/sf)

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

For Lease
Mill@McCarran
2,028± sf to 11,288± sf | $0.68/sf NNN

For Lease
9085 Moya Blvd.
50,000± sf to 259,205± sf | $ Rate Negotiable

For Lease
14551 Industry Circle
176,000± sf | $0.15/sf NNN

For Lease
Trademark Commerce Center
5,000± sf to 10,000± sf | $0.50/sf

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Third Quarter NAI Industrial Team Transactions

Sale 66,240 sf
National Cart
305 Western Rd
NAI represented seller

Lease Renewal 52,500 sf
Innotrac Corporation
4910 Longley Lane
NAI represented landlord

Lease Renewal 32,760 sf
Forbo linoleum
9175 Moya Blvd
NAI represented landlord

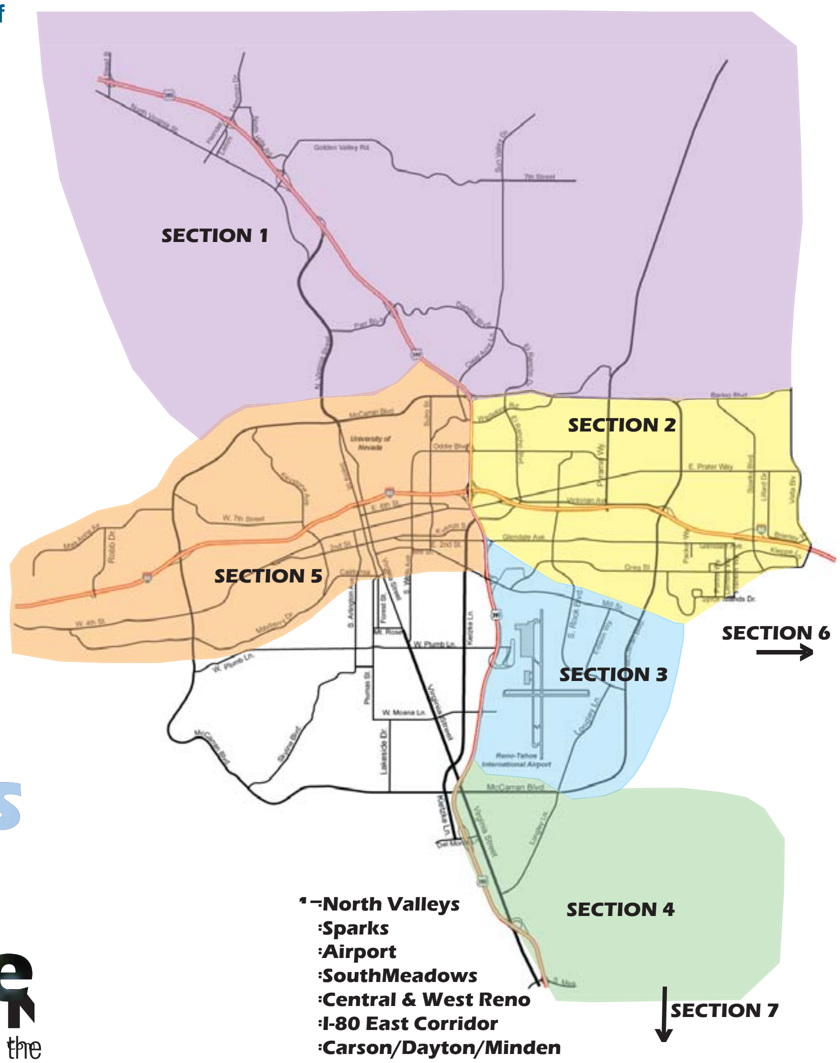
Lease 22,896 sf
Crop Production Services
855 East Greg St, #101
NAI represented tenant

Lease Renewal 19,600 sf
Crown Automotive
750 Greg St
NAI represented landlord

Lease 8,055 sf
IQ Technology Solutions
5595 Equity Ave
NAI represented landlord

Lease Renewal 5,120 sf
K & D Delivery Service
260A Coney Island
NAI represented landlord

Lease 2,477 sf
Gilson Automotive
2205 Glendale Ave. #111
NAI represented landlord



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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