

### Trends ahead

Vacancy Rate



Net Absorption



Construction



Asking Rents



### OVERVIEW - Good finish to a good year

All year we have mentioned the understandable hesitation most companies experienced in making major commitments during a pivotal election year. We had predicted a slow but positive year, and it played out as expected. Helped by the largest lease of the year, we finished the 4th quarter and the year with positive absorption. For the third year in a row, we began the year with 1st quarter unexpected closure announcements and negative net absorption. Like the prior two years, we then experienced slow steady growth for the remainder of the year to finish with positive net absorption and a drop in vacancy. Vacancy began the year at 14.6%. With no new construction and nearly 700,000sf of net absorption, vacancy fell by year end to 13.6%. Vacancy is headed in the right direction and we anticipate it dropping again throughout 2013.

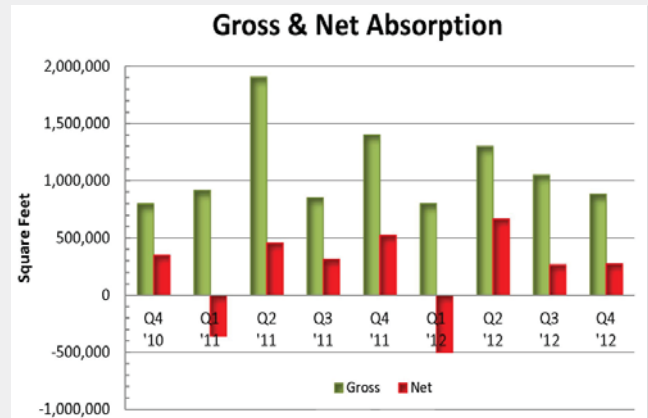
### MARKET ACTIVITY - Slow and steady

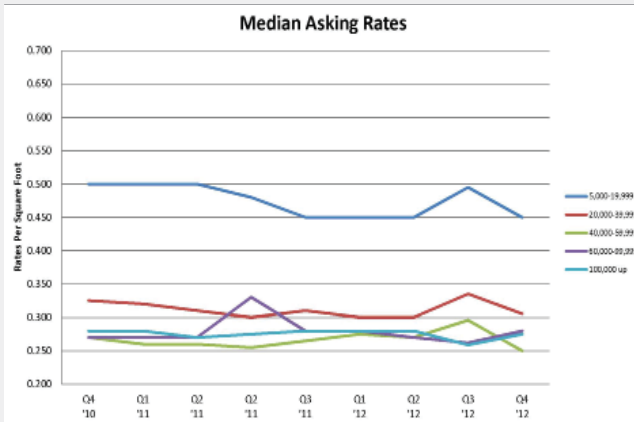
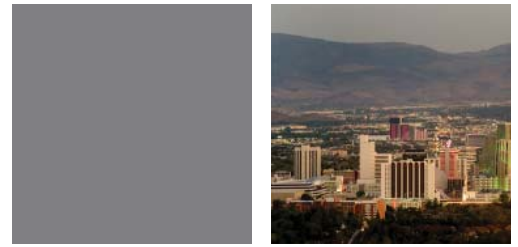
There was a total of 39 transactions completed in the 4th quarter for a total gross absorption of 881,779sf. Average deal size was 22,610sf which was 30% lower than the prior eight quarters. Biz Chair's lease of 292,500sf at the Lear Industrial Center in Stead elevated the average deal size. There were also a number of sales and many small leases completed, proving that not everybody was waiting to see who was going to win the election before making a move. Gross absorption for the year totaled 4,030,809sf. The five year range in gross absorption is 3,165,160sf to 6,021,422sf with an average of 4,250,397sf so 2012 is viewed as average.

Closure announcements from Midwest Air (140,000sf) and Carlisle (181,400sf), as well as others, offset some of the gross absorption. Net absorption for the quarter was 275,368sf which contributed to overall 2012 net absorption of 691,636sf. You will see in the chart below, net absorption has been positive over the past three years tracking slow gains in the general economy. The Sparks submarket had the highest net absorption (539,150sf) of all the submarkets last year. This was a dramatic turnaround following four straight years of negative absorption/increasing vacancy within the area. Plagued with some older functionally obsolete buildings, some had given Sparks up for dead but not now.

### RENTAL RATES - Not up yet but getting close

Rental rates continued to languish but on the bright side, owners can see the light at the end of the tunnel. With no new construction to occupy, all of this year's transactions landed within existing buildings. The market is still out of balance in the tenants favor at 13.6% but it is moving in the right direction. One notable exception is availability of large Class A product. While the landlords were licking their wounds agreeing to ugly lease rates, the market has become tight on large Class A buildings. Two years ago there were five buildings available to accommodate a user in excess of 350,000sf within the desirable Class A buildings. Now, there is only one option. We are about two leases away from realizing there is a lack of Class A product in the market. At which time, we anticipate an increase in rental rates. We believe this year we are going to see rents firm in the Class A buildings. There will be a little lag for Class B and C buildings, but the tide is turning. Another sign of a rising tide is owners transitioning away from survival mode toward trying to increase rents. We also see reluctance on behalf of landlords to give concessions to renew tenants who have remaining term on their lease. They are betting rents will be higher in the future when the lease expires. We believe the days of "drop your drawers" deals are going away.





### SALES - Low prices and interest rates drives transactions

The largest sale of the quarter was Hamilton Companies purchase of a 95,718sf building at 645 Edison Way for \$6,860,000(\$71.67/sf). Hamilton was a captive buyer looking to acquire a building adjacent to their existing campus. Other notable sales for the quarter include Wolf Gang Vault's purchase and subsequent seller lease back of a 34,000sf building at 3663 Barron Way for \$2,900,000(\$85.29/sf), Gurnea's purchase of three buildings totaling 23,319sf located at 7900 Sugar Pine Drive for \$1,710,000(\$73.33/sf), Bedrosian Tile's purchase of a 39,160sf building at 535 E. Glendale for \$1,500,000(\$38.30/sf) and On Command's purchase of a 20,000sf building at 1500 Marietta Way for \$775,000(\$38.75/sf). All in all, there was plenty of sale activity for the quarter and for the year. This will pale in comparison to 2013 as the long anticipated 15 million square foot portfolio sale which includes 8 million square feet in Reno will be brought to market in the first

quarter. It should be another interesting year for sales.

### LAND AND CONSTRUCTION - Crickets

Sorry folks.....nothing to report here. 2012 was the first year on record with NO industrial building construction – speculative or build-to-suit. Inexpensive existing buildings enticed buyers to focus on cheap rehabilitation projects as opposed to ground-up construction. Hang in there, with existing building options being eliminated; focus should turn once again to building.

### FORECAST – Cautiously optimistic

We now wake up to a new year with more clarity and a fresh outlook. The general feel throughout the market is once again “cautiously optimistic”. We start the year with the lowest vacancy in four years and good activity circling around the market. As mentioned in the overview, in recent years we begin the year with large closure announcements and then proceed to dig ourselves out of the hole for the remainder of the year to end positive. We believe we may hear about some early year closures but think they will be outweighed by the positive activity. Some in the market believe the federal debt will hamper the national economy, and in turn Reno, as we walk further out the debt plank. However, most in the market feel the plank will hold and the stars are aligned for a good or very good year in northern Nevada. Hopefully, 2013 will enable us to take bigger steps toward a balanced market of 8% to 10% vacancy. We'll close this year with a tip of our hats to the California voters. Businesses in the once golden state are voting with their feet, and we welcome them walking across the border.

### Q4 2012 MARKET AT-A-GLANCE

Area	Total Space (sq. ft.) 12/30/12	Vacant Rentable (sq. ft.) 12/30/12	Vacant percent 12/30/12	Gross Absorption (sq.ft) Q4	Net Absorption (sq.ft.) Q4	NNN Median Asking Rate* (sq.ft./month)	Total Under Construction 12/30/12	BTS Construction (sq. ft.) YTD	Spec Construction (sq. ft.) YTD
1 North Valleys	15,653,157	2,183,873	13.95%	292,500	70,399	\$0.30	0	0	0
2 Sparks	25,588,241	3,932,591	15.37%	290,082	243,269	\$0.29	0	0	0
3 Airport	8,954,456	806,465	9.01%	120,388	-26,583	\$0.41	0	0	0
4 South Reno	8,892,779	1,082,561	12.17%	125,319	88,133	\$0.50	0	0	0
5 Central & West Reno	1,267,960	252,071	19.88%	30,450	11,410	\$0.32	0	0	0
6 East I-80 Corridor	12,356,103	1,599,782	12.95%	23,040	-111,260	\$0.35	0	0	0
<b>TOTALS</b>	<b>72,836,840</b>	<b>9,857,343</b>	<b>13.56%</b>	<b>1,050,898</b>	<b>275,368</b>	<b>\$0.33</b>	<b>0</b>	<b>0</b>	<b>0</b>

\*Asking Rates are negotiable, typically effective rates are lower



**For Lease**  
14551 Industry Circle  
400,000±sf | \$0.15/sf NNN



**For Lease or Sale**  
550 Spice Island Drive  
187,878±sf | \$0.35/sf NNN | \$5,260,000



**For Lease**  
1025 Sandhill  
103,924±sf | Call for Pricing



**For Lease**  
6645 Echo Ave  
50,750±sf | Call for Pricing

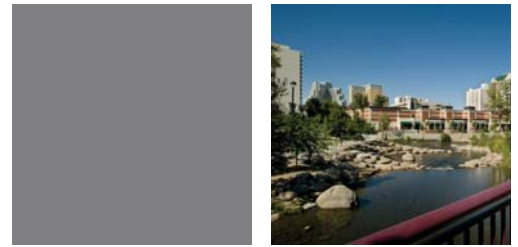


**For Sale or Lease**  
690 Kresge  
15,740± sf | \$0.60/sf IG | \$990,000



**For Sale**  
2393 Heybourne  
52,741±sf | \$3,700,000





## Transactions *Q4*

### Sale 20,000sf

The Auto Body Shop  
1500 Marietta Way  
NAI represented seller

### Sale 34,000sf

Wolf Gang Vault  
3663 Barron St  
NAI represented seller & buyer

### Lease 25,508sf

3PL Business  
1021 East Glendale  
NAI represented landlord

### Lease 14,000sf

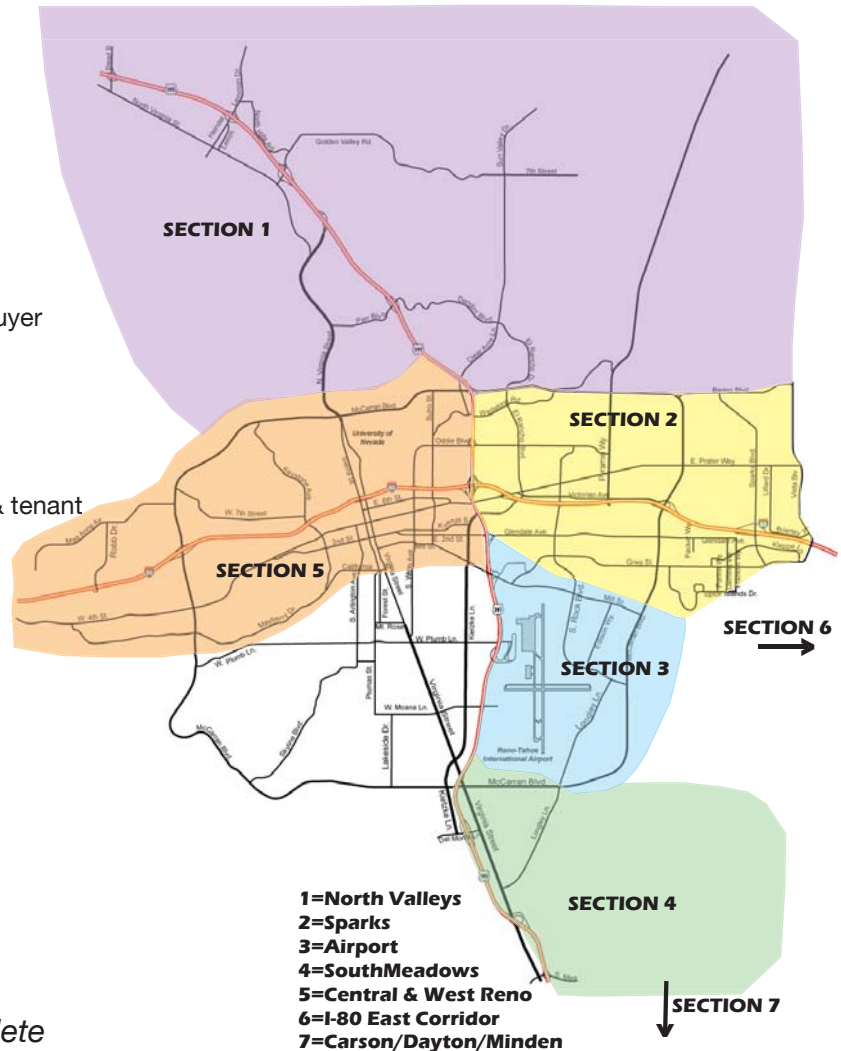
Zuvo Water  
895 E Patriot Blvd  
NAI represented landlord & tenant

### Lease 337,500sf

Trex  
2375 Newlands Rd  
NAI represented landlord & tenant

### Lease 10,000sf

Dog Care  
1500 Marietta  
NAI represented landlord



## Did You *Know?*

*Nevada is the only state to possess a complete skeleton, approximately 55 feet long, of an Ichthyosaur? This extinct marine reptile is evidence of Nevada's once underwater history.*

*\*Fun facts taken from <http://www.nevada-landmarks.com/facts.htm>*

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