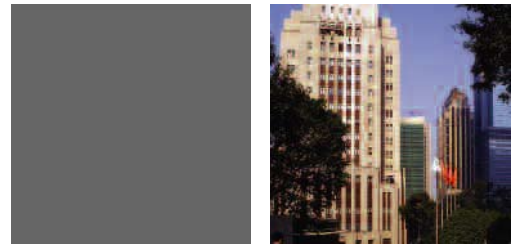
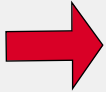


Northern Nevada Office Market Mid-Year - 2008 Report

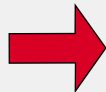


TRENDS

Vacancy Rate



Net Absorption



Construction



Asking Rents



Mid-Year Office Leasing and Investment Market Report

The story in 2007 was about the dampening effect the residential downturn created on the commercial real estate market. In 2008, credit markets began to suffer and the effects have spread not just locally, but globally. The spillover from the credit crises in real estate has resulted in a slow down in economic growth which is leading to a slack in demand for commercial space, as well as a wave of sublet property. The current result is downward pressure on rents as well as investment values moving downward due to the effect of changing rental streams and lack of financing.

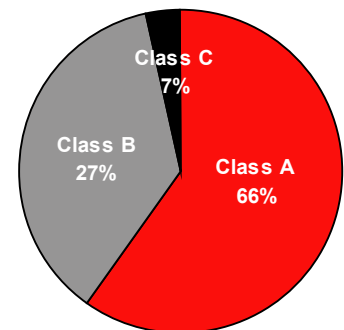
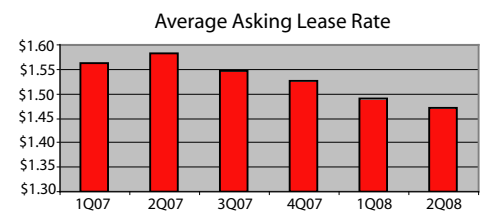
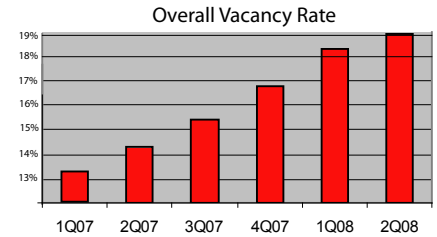
Given the lack of new office construction and no development pipeline, we see this window changing over the next 12-18 months. While the slowing economy may force more companies to re-evaluate their requirements and perhaps consolidate their operations; there is an argument that this may, over time, benefit the Northern Nevada market. Over the next 12-18 months, we should see an increase in out of state companies relocating to Northern Nevada, not only for the business friendly climate, but also for the re-adjusted residential and commercial real estate values which during their peak in 2006, limited the argument that Northern Nevada was a more cost effective location than neighboring states.

Over the next year, tenants will have the opportunity to position themselves to take advantage of this slowdown by locking in long-term leases at reduced rates. The market is

seeing significant free rent and tenant improvement allowances as part of deals, although in many cases these concessions are being offered to sustain face rents.

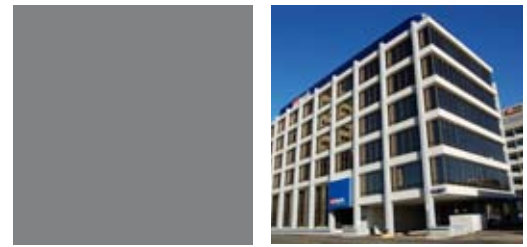
Class A buildings (loosely defined in northern Nevada as newer, multi-story buildings) have been hit the hardest by this real estate slow down. Landlords with vacant space in shell condition will have a difficult time finding a tenant given the abundance of 2nd generation space available at more affordable rates. We have seen a number of instances where landlords are offering short-term leases at significantly reduced rents simply to generate cash flow to help weather the storm. Most of this activity is occurring in South Meadows where vacancy rates have risen the last 6 consecutive quarters to approximately 22.03%; and 25.8% with sublease space. While Class A office space is suffering the worst, class B space is holding its ground as tenants take a more cost conscience approach when choosing their location.

Sales of vacant shell space will be largely limited to owner-users as traditional financing for current non-income producing assets has nearly dried up. On a more positive note, there are a number of excellent financing options available to owner-users with strong financial history, including 100% financing for professionals. Doctors, CPA's, Attorneys, Insurance Agents, the time has come to become an owner-user. With weakening vacant building prices and excellent interest rates, there hasn't been a better time in nearly a decade for owner-users with long term hold intentions to purchase.



RENO

Q2 2008 Office Market Report



On the investment side of things, the current bid-ask spread between buyers and sellers results from the fact that sellers are reluctant to accept that pricing has declined over the last 12 to 18 months, and that buyers have expectations of continued pain which they believe will lead to steeper pricing discounts in the future. This dynamic has without question led to upward pressure on cap rates (downward pressure on real estate prices). Rising cap rates is being driven in part by highly restrictive debt underwriting by commercial real estate lenders as well as lofty equity return requirements amongst investors. Lenders are unwilling to accept the aggressive underwriting assumptions that had been commonplace last year (if they are willing to write loans at all). Investors, on the other hand, have a belief that there will be ample opportunities to take advantage of distressed owners in the near future.

Unfortunately for buyers, the process of identifying such distressed opportunities will not be easy, and not all investors are equipped to take advantage of them. The mindset of those under-capitalized owners is one of trying to avoid having to acknowledge the reality of the new market environment. In many instances owners delay the difficult decisions regarding their distressed properties until very late in the process and as a result they are pinched by the deadline of loan expiration dates. This gives buyers the extreme upper-hand in these situations. However, there are a large number of buyers with capital looking for these types of distressed situations. So while Buyers do get to dictate terms under such conditions, they can only take this so far. The market still possesses some efficiency, and while buyers would like to price these investments to generate 30% or 40% plus IRR's, only the most aggressive vulture investors (oxymoron intended) will succeed in winning deals.

This is an important point. In this difficult economic environment it is an accepted notion that there will be pain amongst SOME sellers (the size of the distressed equity market is open for debate and dependent upon on-going changes in the debt markets). While some sellers may feel pain, the supply of value-add and opportunistic equity capital remains plentiful. There are a large number of well capitalized, intelligent buyers looking for low priced (high return) investments. Many of these investors have ample infrastructure as well as access to debt and equity capital and can therefore close on deals. In this world of vulture investing there will be those that execute, and those that continue to wait for the perfect deal, only to find that other investment groups are better, stronger and faster to the punch.

This characteristic of the real estate investment universe is fundamentally different to the turmoil that existed in the early 1990's. During that market downturn, opportunistic real estate capital was a new concept being led by the likes of Sam Zell and other lesser known vulture investors. Sellers had very few alternatives, and so those buyers that did exist were able to dictate terms. In today's market, opportunistic investment strategies are many and wide spread. The capital markets are more mature and money has already been raised to take advantage of this displacement. This situation will limit the ability of investors to dictate pricing to distressed sellers, because although there may be pain on the sell side, the supply of capital on the buy side will create competition at certain pricing levels.

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Where can we help you?

