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FOR IMMEDIATE RELEASE
March 15, 2013

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Northern Nevada Office Property Market Continues To Improve, Optimism Slowly Rising

(Reno, NV) – Many in northern Nevada are starting to feel that most industries are beginning to experience rebounds. The office property market in the area is experiencing the same. Cautious optimism in the office market is prevailing, and there are a number of reasons this is the case.

With asking rents and interest rates remaining low coupled with the quantities of available space on the market, brokers, investors and developers continue to feel that this will only benefit both new, and existing, tenants in the area.

There are some key areas that are experiencing near “back to normal” market trends. The downtown market is a highly sought after environment, as is the Meadowood area. In both of these hot sub-markets, tenants can be expected to pay in the \$2.00/sqft range for high-quality Class A space, which is close to where prices were before the recession in the area.

This is due in large part to the demand for Class A space. However, Class A space is at a premium. Good properties are going fast in this tenant market, and landlords can get top dollar for the hot market properties. Due to the lease market conditions, a number of companies have been swapping space in the region. There is a measureable image improvement from moving from a Class C space to a class B space, and even more so to a Class A space. This space swapping also opens up tremendous deals in Class B and Class C spaces.

All tenants understandably want quality buildings at a discounted price. This is natural. Some tenants have flexibility in the amount per square foot they can afford, some don't.

So here's the twist we are seeing in the office property market.

The most successful landlords are getting creative in their approach to client negotiations. There's been a shift from “here's what we want” to “how can we help your long term growth?” Landlords that are being flexible in helping clients achieve growth over time are finding a great deal of success.

One example of this is Rogue Gaming Studio, a new start-up company with 4 employees who recently leased 6,600 sq.ft. at 50 West Liberty Street in downtown Reno.

“The reason I selected this building was the location, and the great deal that the landlord offered,” said Patrick Crawford, Owner of Rogue Gaming Studios. “We're right in the heart of downtown and just a few blocks from Mid-town. While we do have an abundance of space today, in the future, as we grow the business, I certainly won't need to split the team into multiple locations – which is a big positive.”

In addition, the migration of businesses from California to Nevada continues, as companies see the value in Nevada as a no tax state, as well as the fact that employment costs are relatively low. This



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makes Nevada a very favorable option for creating jobs for people looking for work, given the unemployment rate in the state. California Prop 30, a Sales and Income Tax Increase Initiative, was passed in the November election, which makes Nevada increasingly attractive for many business.

The Economic Development Authority of Western Nevada (EDAWN) has done a tremendous job in identifying and assisting organizations looking for an alternative to their operations in California. Whether it's a complete, or partial, relocation of assets, the business climate of Nevada can prove very beneficial to these companies. Employment costs are considerably less in Nevada than they are in California, which also makes the area a great option for companies looking to move.

According to EDAWN from July 1, 2011 to June 30, 2012, the organization and its regional partners assisted 16 companies relocate to or expand in the region creating a projected 1,591 jobs within five years, 873 new jobs immediately. This is nearly double the 840 assisted job average of the past 5 years.

While we anticipate zero new construction to the inventory we currently have, especially in Class A properties, we are continuing to see incremental positive absorption, similar to what we've seen starting from 2010. Although net absorption in 2012 was slightly lower than 2011, we still had positive net absorption of 67,000 sq.ft. In 2013, we are forecasting positive net absorption of 100,000 sq.ft. This is a tremendous turnaround from the lowest low of -133,000 sq.ft. at the markets' worst in 2009.

Vacancy rates have been slowly dipping since 2009. In 2012, vacancy rates were at the lowest since 2006, at 16.6%. In 2013, we are forecasting a continued incremental decline in the vacancy rate, expected to be 16%.

And on the sales side, we are starting to see strong growth in the area with many owner-users and investors taking advantage of the price values of the assets available.

Having been committed long-term to business and growth in northern Nevada, at NAI Alliance we are excited at what we see as the region continues to rebound. Our commitment to the region has helped us greatly in the marketplace as a leading provider of commercial real estate services. We listen to our client's needs and make sure they're set up for long-term success.

So with the continued efforts of landlords, EDAWN, businesses and entrepreneurs, we expect that the office property market will continue to recover. Organizations need to find the right fit, and we think northern Nevada is just that – the right fit.

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ABOUT NAI ALLIANCE

NAI Alliance is the premier commercial real estate firm in Northern Nevada. We specialize in the sales, leasing and management of office complexes, retail shopping centers, and industrial warehouse buildings in conjunction with land, multi-family and investment properties. As a member of NAI Global, we are part of 350 offices, with 5,000 professionals in 55 countries with \$45 billion in transaction volume and over 300 million square feet managed worldwide. Our expert's long standing experience in the community provides the combination of local insight and global resources to deliver the real estate opportunities and solutions that your business requires. Please visit us at www.naialliance.com.