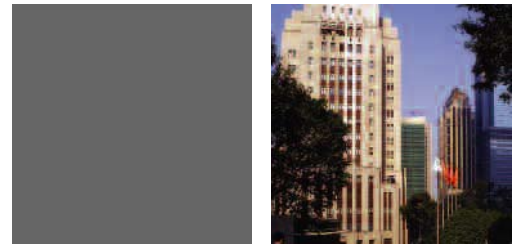
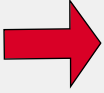


Northern Nevada Office Market Q1 - 2008 Report

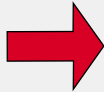


TRENDS

Vacancy Rate



Net Absorption



Construction



Asking Rents



OPPORTUNITIES WILL RISE

It's up to us as individuals to decide; when we walk into the office Monday morning, will we be that person regurgitating the prophecy of our national news anchors? Whether we do or we don't, the point is to look at the view from your own 'back yard'. How will it affect you? What opportunities does it create?

At NAI Alliance we tend to look at the big picture. Yes, we track statistics and run our numbers, but it is the opportunity we advise our clients to pursue that sets us apart. As we look at our numbers and evaluate how it affects us in our own 'backyard', let's remember the definition of rebound:

Rebound is a term used in sports to describe the ball (or puck or other object of play) becoming available for possession by either opponent after an attempt to put the ball or puck into the goal has been unsuccessful. Rebounds are generally considered to have a major part in the game, as they often lead either to a possession change or to a second (and often better) opportunity to score by the side whose initial attempt failed. (<http://en.wikipedia.org>)

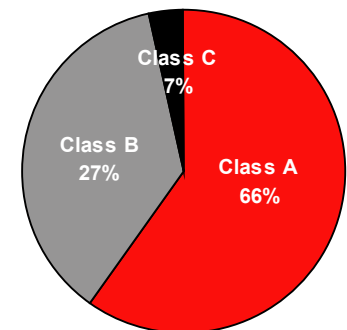
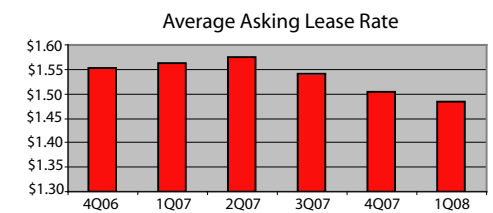
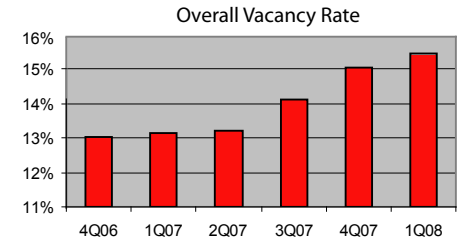
The Reno-Sparks office market remained stagnant in Q1 of 2008. Although the glut of vacancy is upon us, we project bit more to come. The surfacing of further vacancies for sublease, namely in the South Meadows submarket, has halted current and future construction plans. Future Class A spec development near the Airport and in the Northern Nevada Corporate Center will cease. The only development to come out of the

ground in the next six months will be the office and medical office development of Iron Crest at Mountain View Corporate Centre.

This development, like others, appeal to the industries that we project to continue expanding through the end of 2007 and into 2008; the medical, vocational and educational industries. These industries, amidst a slowdown of others, continue to be innovative in their approach to growing business, thus affecting the office market in a positive manner.

The two largest transaction of Q1 2008, were the expansions of the University of Phoenix and the first time presence of the US Education's nursing vocational school, Apollo College. We are seeing further tenant, landlord, buyer and seller activity in this market sector showing no signs of a slowdown as demand continues for quality health care and educational services. Both of these transactions took place in well located master planned office projects; the Reno-Tahoe Tech Center and the Mountain View Corporate Centre, respectively.

Vacancy rates continue to rise in Northern Nevada as the state of the economy remains uncertain. A nationwide struggle in the financial services sector and residential real estate market has made its impact on Northern Nevada. Many companies are reluctant to expand or relocate during this economic period of uncertainty.



RENO

Q1 2008 Office Market Report



The Reno-Sparks office market vacancy rose 0.4% to 15.31% from Q4 2007 to Q1 2008. Year over year, this reflects a 16.8% increase in vacancy from Q1 2007. Rising vacancy rates should level off in Q4 of 2008 as new construction is at a stand still and will remain slow until a market equilibrium is reached. With little new construction planned, the absorption of existing vacancy should turn positive by Q3 2008 and continue well into 2009. As the excess supply of office vacancy leaves the market, the currently decreasing lease rates and sales prices should level off and return to standard market appreciation rates.

Perhaps the hardest hit office investors in this economic rough patch are those who purchased or constructed buildings in shell condition on a speculative basis. With the vast amount of 2nd generation space available in the market, it is difficult for tenants to consider leasing shell space as a worth-while lease investment. The time and out-of-pocket expenses required by the tenant to build out shell space, coupled with the growing incentive packages offered on 2nd generation space, is driving tenants toward 2nd generation space. Landlords are often unable to match the incentives being offered elsewhere as their shell building is often tied to requirements set by their institution. We believe the absorption of shell space will remain slow through 2008.

South Meadows continues to hold the highest vacancy rate at approximately 23% including sublease vacancy. The sublease vacancy presents the greatest dilemma to current landlords as this vacancy is offered at significantly reduced rates. Absorption of direct vacancy in South Meadows should remain slow until this sublease vacancy is absorbed. The vast majority of sublease vacancy consists of units 5,000 square feet or larger with few demising options.

The downtown revitalization is underway. The current construction of the new Baseball Stadium and mixed use retail complex has commenced and is progressing quickly. Downtown begun its transformation only 5 years ago and in this short time has become one of Reno's most desired places to live, work, and play. We are very excited to see this continued redevelopment along with the positive office real estate returns it will bring.

While most office market reports nationwide are filled with negative news, this news is only negative for one side of the spectrum. Tenants who are in the market to relocate or expand are finding a multitude of options with reduced lease rates and excellent incentives. Sales prices are coming down accross nearly all markets nationwide. Investors with the ability to carry real estate investments through this downturn should find excellent returns when this real estate cycle turns positive again.

NAI Global is one of the world's leading providers of commercial real estate services. NAI manages a network with 5,000 professionals and 350 offices in 45 countries worldwide. We bring together people and resources wherever needed to deliver outstanding results for our clients, and complete over \$40 billion in transactions annually. Our clients come to us for our deep local knowledge. They build their businesses on the power of our global managed network.

Where can we help you?

