



### TRENDS:

Vacancy Rate



Net Absorption



Construction



Asking Rents



### OVERVIEW:

As we stated in our year-end report for 2009, these have been very trying times for the commercial real estate market. Well, the beat goes on for 2010, at least for the 1st quarter, and we don't see a real leap of activity any time soon.

That being said, the market would be in a lot worse shape if we didn't have a robust amount of leasing activity by the federal government. Deals that were completed by the federal government in the 1st quarter include; Immigrations Customs Enforcement (ICE) leased 35,000 square feet at 6999 Sierra Center Parkway, FBI leased 20,000 square feet from Panattoni Development on Sandhill Road, Customs and Immigration Services is moving into a build-to-suit on Sandhill Road and the GSA expanded by 4,000 square feet at 100 W. Liberty Street (Museum Tower). In all, this is evidence that certain sectors are obviously being helped by the stimulus of the federal government, and we'll take every bit of help we can get.

Unfortunately, our report is a bit redundant from the EOY 2009. Unemployment is the single largest factor in office leasing, and with unemployment levels still stuck in the double digits, we don't see a lot of change in the foreseeable future. In addition to the deals done by the fed, we've also seen a lot of movement from local businesses that are taking advantage of all time low rents to upgrade space into a more desirable location or building. The Class A market has been hit with an approximate 25-30% discounting of rental rate values, which has put deals that were previously too expensive for many companies to consider into the mix when re-locating. While this has created internal market movement and the perception of the market being active, it does also present some short term problems. With all of the upgrading in asset class, this has and will leave a big dent in the vacancy of Class B and C properties in the market. As a result, you will see further discounting in those asset classes to attract deals and keep the lights on. This will be in the form of lower rents and market incentives. In the long term, this will force the reallocation of certain assets and owners will have to address issues on low level assets including; deferred maintenance, efficiency, design

and functionality.

With all of the bad news regarding vacancy, activity and rent compression, there is a silver lining in the fact that building has been minimal, if you think that's good news. Well, we think it's good because it will certainly help in the supply and demand of available office space. So far this year, the resounding majority of space built or under construction has been build-to-suit. Without the construction of speculative space, the market will rebound much quicker once things turn around, thus creating a much healthier market in the future.

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## Office Market Report | First Quarter 2010

### VACANCY AND ABSORPTION:

The overall market vacancy rate decreased to 19.58%, from 20.53% at the end of 2009. While we consider the market fortunate to start showing some decline in vacancy rates, we remain cautious due to the amount of absorption that was created by the fed. While there was less than a 1% change in vacancy from the prior quarter, it still was a move in the right direction. The best news was that South Meadows looks like it is continuing to right the ship and stabilizing from last years free fall. With sub-lease space, the South Meadows sub-market is now tracking at a 28.21% vacancy. Until we see this sub-market with a vacancy of less than 20%, the overall market will continue to lag as a result of the discounting and incentives that South Meadows landlords will have to provide to attract tenants.



### ACTIVITY:

As previously mentioned, the majority of the significant transactions that were completed were done by the federal government. Downtown Reno also continues to see activity and there are numerous deals on the table for signature that will be inked in the 2nd quarter of 2010. With the vacancy declination of South Meadows, look for rents to hold or even increase in the healthier sub-markets.

### SIGNIFICANT Q1/2010 TRANSACTIONS:

#### Meadowood Submarket

Immigration and Customs Enforcement (ICE): 35,692 SF at 6999 Sierra Center Parkway

#### South Meadows Submarket

FBI: 20,000 SF at Sandhill Road

Customs and Immigration Services (CIS): 18,000 SF at Sandhill Road & Double R Boulevard

#### Downtown Submarket

GSA: 5,938 SF at 100 W. Liberty Street (Museum Tower)

### LEASE RATES:

Expect rental rates in all sub-markets to stabilize. Downtown and Meadowood continue to be the most attractive markets with rates ranging from \$1.65 to \$2.00 per square foot full service, and South Meadows pulling up the rear at \$1.40 to \$1.60 per square foot full service. Many landlords are still offering initial "teaser" rates to incentivize tenants, but this will eventually subside as the vacancy rate continues to decline.

## Office Market Report Featured Properties



**For Lease**  
50 West Liberty  
Reno, Nevada



**For Lease**  
300 East 2nd Street  
Reno, Nevada



**For Lease**  
5345 Kietzke Lane  
Reno, Nevada



**For Lease**  
1 East Liberty  
Reno, Nevada



**For Lease**  
5525 Kietzke Lane  
Reno, Nevada



**For Sublease**  
425 Maestro Drive  
Reno, Nevada



### Absorption (Net)

The change in occupied space in a given time period.

### Available Square Footage

Net rentable area considered available for lease; excludes sublease space.

### Average Asking Rental Rate

Rental rate as quoted from each building's owner/management company. For office space, a full service rate is requested; for retail, a triple net rate is requested; for industrial, a NN basis is requested.

### Building Class

Class A Product is office Space of steel and concrete construction, built after 1980, quality tenants, excellent amenities & premium rates. Class B product is office Space built after 1980, fair to good finishes & wide range of tenants.

### Direct Vacancy

Space currently available for lease directly with the landlord or building owner.

### Market Size

Includes all existing and under construction office buildings (office, office condo, office loft, office medical, all classes and all sizes, both multi-tenant and single-tenant, including owner-occupied buildings) within each market.

### Overall Vacancy

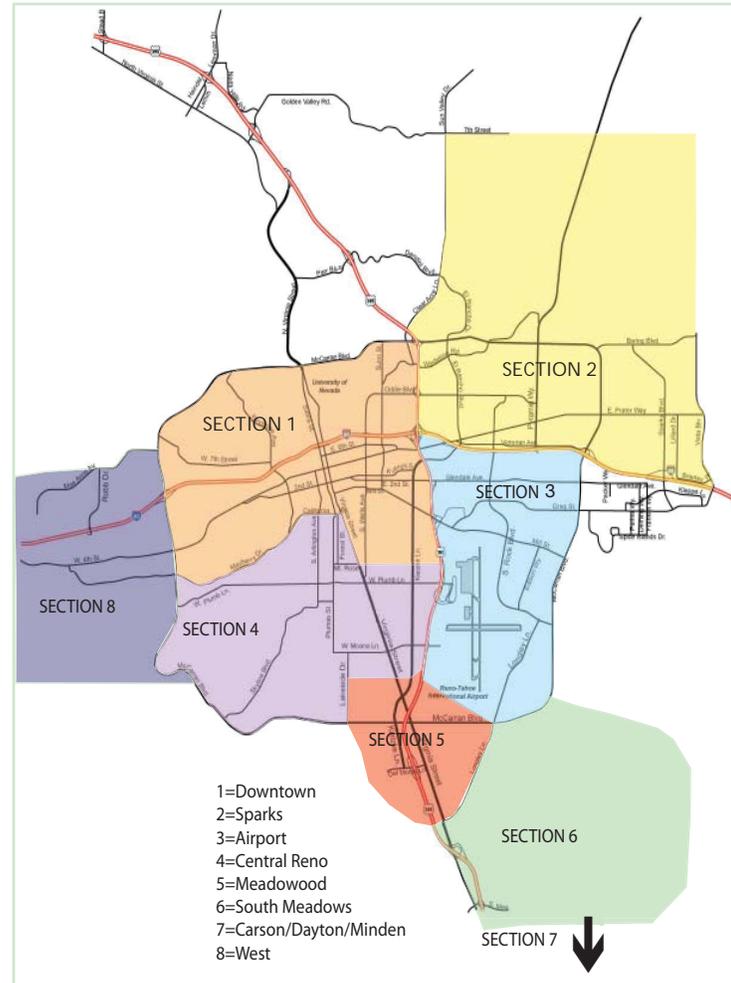
All unoccupied lease space, either direct or sublease.

### SF/PSF

Square foot/per square foot, used as a unit of measurement.

### Sublease

Arrangement in which a tenant leases rental property to another, and the tenant becomes the landlord to the subtenant.



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