

# Northern Nevada Office Market 2007 Year End Report

## TRENDS

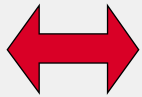
Vacancy Rate



Net Absorption



Construction



Asking Rents

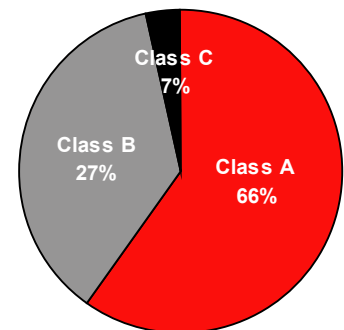
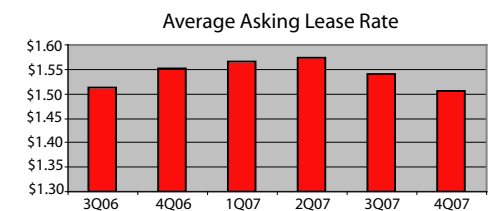
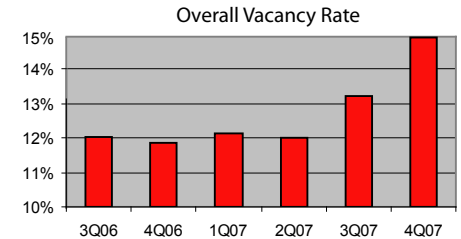


## Q4 2007 - A Year to Remember

Most would say 2007 has been a year they yearn to forget, not remember. The national economic climate has thrown 2nd tier markets, such as Reno, Nevada, into somewhat of a whirlwind. Those that cannot remember going through the dot.com implosion are probably experiencing the first real economic cycle of their professional lives. What comes to mind is this Gregory Peck quote "Tough times don't last..." Hopefully, you can finish this quote and that's why it will be a year to remember.

The Northern Nevada Office Market has been directly affected by the national economic conditions in a somewhat drastic manner. For the first time in at least 5 years, the Office Market has experienced negative net absorption. The reduction in residential real estate sales, the sub-prime disrepair and eventually the trickle affect on associated service sector companies, has created vacancies in the South Meadows Submarket that will take 12-24 months to backfill. In addition, the Garden Office sector, which has always been a bit overbuilt, continues to show many signs of the lagging economy.

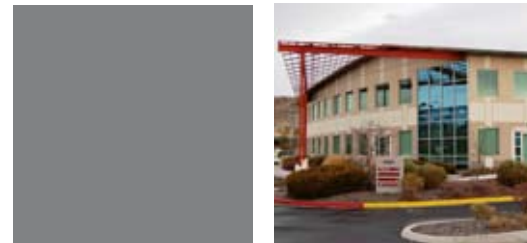
Total market vacancy increased by approximately 60 basis points, to 15.1%. Including associated space available for sub-lease, the total market vacancy increases to 20.2%. Albeit, most of this vacancy is in the South Meadows Submarket, it will affect new construction, lease rates and concessions, and land prices market wide.



Positive points of interest take us from South Meadows into Meadowood and Downtown. The Meadowood Submarket continues to define central Reno. NevDex Properties on Kietzke Lane have had success in leasing their new Class A 60,000 square foot building. Cornerstone tenants such as Schneider Logistics and Morgan Stanley see the value in identifying themselves within this area. In addition, Mountain View Corporate Centre, the forethought of Templeton Development out of Las Vegas, Nevada, continues to expand and will soon be neighbored by IronCrest, a 50,000 square foot professional and medical office development suitable for tenants and owner-users. The IronCrest project is due to break ground in early 2008.

Yet, the best news of 2007 has been in the story of Downtown Reno. At a healthy 13% vacancy, the pendulum is swinging in the right direction and not only tenants, but regional and national investors have noticed. The latest disposition of what once was the Harrah's corporate headquarters and now multi-tenant 15 story office building exemplifies the turn of Downtown Reno. Basin Street Properties, now the largest single office investor in Downtown Reno, plans to not only reposition the office building, but cross utilize its parking amenity in order to construct and operate a 6 story Hyatt Hotel next door.

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A new investor to town gave longtime Downtown Reno ambassadors, Capstone Partners, a strong reason to sell their office building at 100 W. Liberty. The \$38.25M sale was one of Northern Nevada's most notable office transactions in 2007. Another notable ambassador of Downtown Reno that must be mentioned AMH Properties. Their downtown holdings include 201 W. Liberty Street, 241 Ridge Street and, as of December 2007, 100 & 140 Washington St. and 275 Hill St. In total, AMH Properties has acquired over 100,000 square feet in the Downtown Office submarket.

Most notable, two internationally recognized names; Simon and Katzoff, have declared the current site of the Reno Fire Department, Fire Station 1, as the future home of a AAA baseball team. This development will bring a new class of Downtown retail which amenities will nurture the Downtown office market.

## New Construction

The 4th Quarter of 2007 brought no change to the new construction outlook. There were only two buildings being built speculatively at mid-year; SilverStar Communities is building a 25,000 square foot, two story mixed use (office/retail) building located at The Towne Center at Virginia Lake Crossing and TrammellCrow is building a 35,000 square foot, two story concrete tilt-up building in the Meadowood Submarket. Other new construction on the market is relative build-to-suite and Garden Office product. Employers Insurance is scheduled to move into their new 80,000 square foot building at the Reno Tahoe Tech Center, vacating 76,000 square feet at Thomas Creek. This state-of-art building stands three stories off of Highway 395 and is sure to portray Employers Insurance as a major contributor to the Western Nevada and Northern Nevada Economy.

## Absorption

Not a significant change from the end of the 3rd Quarter, this is the first year that the office market will see negative net absorption since the keeping of accurate data. Year-to-date, the Reno office market stands at a negative net absorption of approximately 92,000 square feet.

## Lease Rates & Concessions

Direct lease asking rates may look stagnant, but when calculated with Landlord provided concessions, they are actually decreasing. Concessions most prevalent at year end are free rent, phased-in rent escalation, staged square footage take downs and exorbitant first and second generation tenant improvement allowances (approximately \$50 per square foot and \$20 per square foot, respectfully). These concessions, combined with the natural competition of sublease rate decreases of 10-20%, have put the leverage into the hands of the tenant.

## Sales

The Downtown transactions mentioned above are a good indication of the continued support Northern Nevada has been provided by regional, national and international investors in 2007. As the value of the American dollar trends downward,

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Where can we help you?



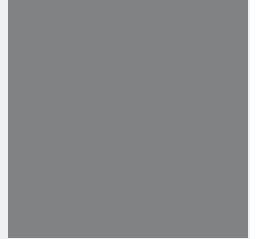
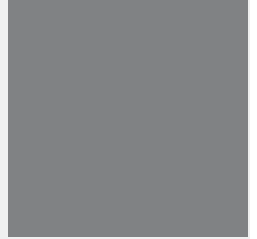
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international investors see opportunity in US properties. Regional investors still recognize the discount in purchasing in Northern Nevada due to the slight increase in expected return in comparison to larger markets such as Phoenix, Los Angeles, San Jose, San Francisco, Sacramento, Salt Lake, Portland and Seattle.

Average per square foot prices throughout 2007 landed at \$251 per square foot. This included 10,000 square feet and greater investor and owner-user office properties. Where applicable, cap rates ranged from 6% to 9% in well positioned Class A or Class B properties. The two signature sales of the year were in Downtown, both California buyers: Chawin Properties' acquisition of 100 W. Liberty at a reported 6% cap rate for \$38.25M and Basin Street Properties acquisition of 300 E. 2nd Street at a 9% cap rate for \$24.5M.

The acquisition of Northern Nevada's own Dermody Properties by ProLogis sets the standard on an international level. This trade is a display of the world's most prominent industrial developers continued attraction to Northern Nevada.



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