



TRENDS:

Vacancy Rate



Net Absorption



Construction



Asking Rents



OVERVIEW - Good News

Are we in the eye of the storm or at the end? Finally, after five consecutive quarters of negative net absorption and rising vacancy, we have some good news to report. The number of expansions and new companies moving into the area outweighed the departures in the fourth quarter resulting in positive net absorption of 350,239 square feet. Growth in occupancy in the fourth quarter was strong enough to exceed the three prior quarters of slightly negative absorption to enable the year to finish with a positive absorption of 93,047 square feet. On the whole, 2010 can be viewed as a neutral year which came as a welcome relief following four years of increasing vacancy. Vacancy started the year at 15.3%, rose to 15.9% by mid-year but finished down at 15.1%. One good quarter does not make a trend but it does signal we may have hit bottom and turned positive.

MARKET ACTIVITY - Looking Up

There were 43 deals completed in the fourth quarter totaling 795,630 square feet of gross absorption. Absorption was 19% lower and transactions were 12% higher than the average of the first three quarters of 2010. Number and size of transactions was not the cause of the market turning positive in the fourth quarter. The reduction in the number of tenants vacating space turned the market positive. Slowing outbound is good. However, increasing inbound transactions is the signal the market is seeking. Notable transactions for the quarter included leases by Benco Dental (100,000sf), Swanson Health (52,500sf), Velux (50,900sf) and SK Foods (40,000sf) as well as a 45,600sf building purchase by Ranshu.

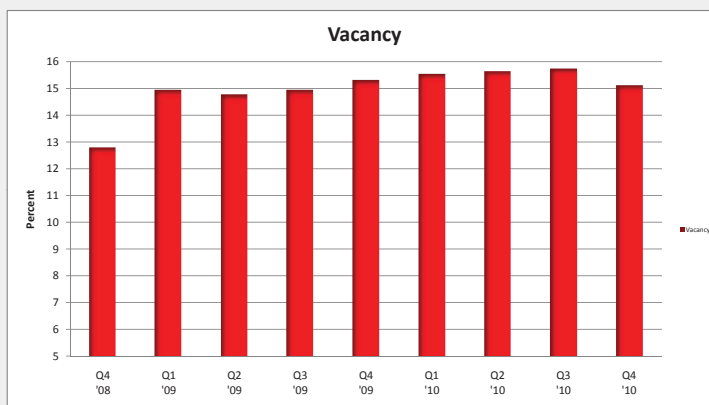
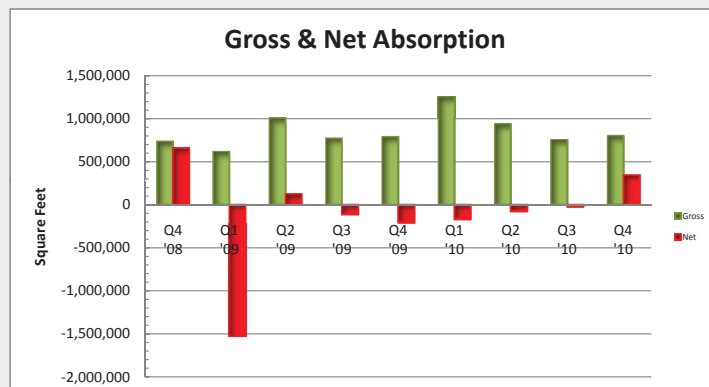
RENTAL RATES – Still Down

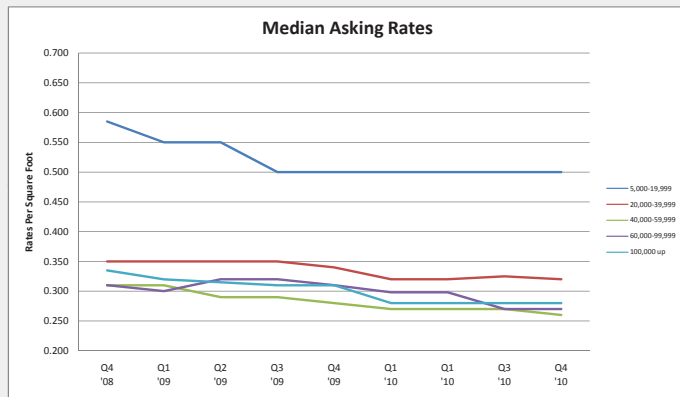
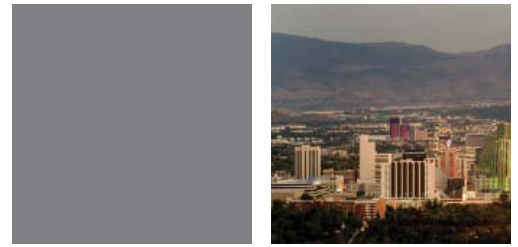
Although conditions are looking more favorable, building owners are continuing to be aggressive with low rental rates to fill buildings. The market will need to experience a few quarters of declining vacancy before landlords firm up rents. We continue to see companies looking to upgrade the quality of their facilities while rates are down. Vacancy and therefore rental rates will tighten in the class A buildings before class B & C buildings firm. The median asking rents for large bulk distribution space was \$0.29 per square foot, while median asking rents for smaller flex and R&D space was \$0.50 per square foot. Effective rates

continue to be negotiated 10% to 25% below asking rates.

SALES PRICES – Good Time to be a Buyer

Prices per square foot continued to trend downward as landlord's tire of paying for empty buildings in a high vacancy market. Unlike the residential market, there is not an overwhelming supply of buildings for sale. However, like the residential market, the distressed and motivated sellers are setting the market. Buyers are looking for a deal better than the last sale to justify the long term commitment of a purchase in what has been a down market. For buyers, interest rates and prices are good. For owners, it might be a long haul from 15.1% vacancy to a balanced 8 to 10% vacant market but keep your fingers crossed hoping for continued absorption to firm rents and prices. User sales for the quarter included Ranshu's purchase of 405 Edison Way (45,600sf) for \$918,500 or \$20.14/sf, Nortom Corp's purchase of 4984 Joule (38,308sf) for \$1,575,000 or \$41.11/sf, Deckade's purchase of 2085 East Greg St (11,872sf) for \$700,000 or \$58.96/sf and Bristlecone's purchase of 95 Isidor Court (15,000sf) within the Spanish Springs Business Center for \$860,000 or \$57/sf. Two significant investment sales closed in the fourth quarter. ProLogis sold 978,436sf to Blackstone Group LP for \$44,595,000 (\$45.48/sf) which was part of a larger \$1 billion sale of 22 million square feet. In addition, Panattoni Development Company and California State Teachers' Retirement System (CalSTRS) formed a \$1.15 billion equity joint venture named PanCal. To seed the venture, Panattoni contributed core assets including four bulk distribution buildings in Stead





of 1,112,484 square feet valued at \$53,883,000 (\$48.43/sf). Both ProLogis and Panattoni were looking to recapitalize their balance sheets and provide a platform for future growth and development.

CONSTRUCTION – Very Few Shovels in the Dirt

Construction in 2010 was a paltry 104,558 square feet, comprised of five build-to-suit projects. There were no speculative industrial buildings constructed in 2010. As we head into 2011 with high vacancy and low rents, there is nothing planned and little justification or hope for a speculative project to be built this year. Currently, there is one build-to-suit of 90,000 square feet under construction in the Tahoe Reno Industrial Center for Schluter Systems. We anticipate a few more build-to-suit announcements as the year progresses. Regardless, 2011 will be a slow construction year.

LAND – Frozen Tundra

No surprise here. With plenty of existing buildings options for sale and lease, like construction, and land sales are minimal. Most of the existing developers have land holdings for future speculative construction when justified so it will be some time before land sales get back to 2004 to 2007 levels. Land owners should hold tight and focus on attracting the limited build-to-suit activity.

WHERE ARE WE HEADED – Clearing Skies????

The Reno/Sparks industrial has been tracking the national economy down over the past few years. The national economy is beginning to show sluggish signs of life and this is reflected in our local industrial activity and statistics. Most in the market are hoping the economic storm has ended and the forecast is for clearing skies, decreasing vacancy, increasing rents and a return to a balanced market. The short term forecast for the first quarter 2011 is for continued blue skies. We know of three large companies planning to exit the market in the first quarter adding to vacancy but there is activity to match or surpass these departures giving us an anticipated positive net absorption number, and a slight decline in vacancy, by the end of the first quarter. The extended forecast for 2011 is unclear. Clouds on the horizon include state and municipal debt causing austerity measures which will affect employment and spending in addition to likely food and energy price increases this summer pinching disposable income. The 800 pound gorilla in the room remains the federal debt. All agree, trillion dollar deficits are unsustainable. If the federal government enacts reverse stimulus plans by doing needed cuts in spending, is the private sector ready and healthy enough to pick up the slack? That question will likely be answered in 2012. Whether these factors are the other side of the hurricane or light clouds in a clearing forecast is yet to be determined. For the present time, we recommend everyone enjoy the sunshine.

Q4 2010 MARKET AT-A-GLANCE

Area	Total Space (sq. ft.) 12/31/10	Vacant Rentable 12/31/10 (sq. ft.)	Vacant percent 12/31/10	Gross Absorption (sq.ft) Q4	Net Absorption (sq.ft.) Q4	NNN Median Asking Rate* (sq.ft./yr)	Under Construction 12/31/10	BTS Construction (sq. ft.) YTD	Spec Construction (sq. ft.) YTD
1 North Valleys	15,173,417	1,786,770	11.78%	146,900	-33,189	\$0.32	0	6,000	0
2 Sparks	25,436,366	4,258,443	16.74%	259,104	192,974	\$0.38	0	0	0
3 Airport	8,954,456	1,012,492	11.31%	117,248	-47,570	\$0.48	0	0	0
4 South Reno	8,892,779	1,093,934	12.30%	147,478	131,114	\$0.59	0	0	0
5 Central & West Reno	1,392,104	339,874	24.41%	8,400	-9,590	\$0.35	0	0	0
6 East I-80 Corridor	12,258,003	2,401,128	19.59%	116,500	116,500	\$0.34	0	98,558	0
TOTALS	72,107,125	10,892,641	15.11%	795,630	350,239	\$0.41	0	104,558	0

*Asking Rates are negotiable, typically effective rates are lower



For Lease

9175 Moya Blvd
44,100± sf to 194,100± sf | \$0.29/sf NNN



For Lease

2205 Glendale Ave
5,023± sf | \$0.70 NNN



For Lease

4902 Ampere
54,736± sf | \$0.10/sf NNN



For Sale

251-259 S McCarran Blvd
1985,875± sf | \$5,900,000 (\$29.66/sf)



For Sale

130 Woodland Ave
61,600± sf/13.11± acres | \$4,900,000 (\$79.55/sf)



For Lease

6640 Echo Ave
29,250± sf | \$0.33/sf NNN



Sale 11,872 sf

Deckade
2085 East Greg St.
NAI represented buyer

Lease 33,400 sf

Pfizer Animal Health
1170 Trademark Dr.
NAI represented tenant

Lease 4,800 sf

Full Circle Flooring
9720 South Virginia St.
NAI represented tenant

Lease 40,000 sf

SK Foods Group
251 South McCarran Blvd.
NAI represented landlord

Lease 50,900 sf

Velux America
46 Isidor Ct.
NAI represented tenant

Lease Renewal 5,000 sf

Office Plus
705 Trademark Dr. #102
NAI represented landlord

Lease Renewal 5,000 sf

Worldwide Indoor Golf
705 Trademark Dr. #103
NAI represented landlord

Lease 6,720 sf

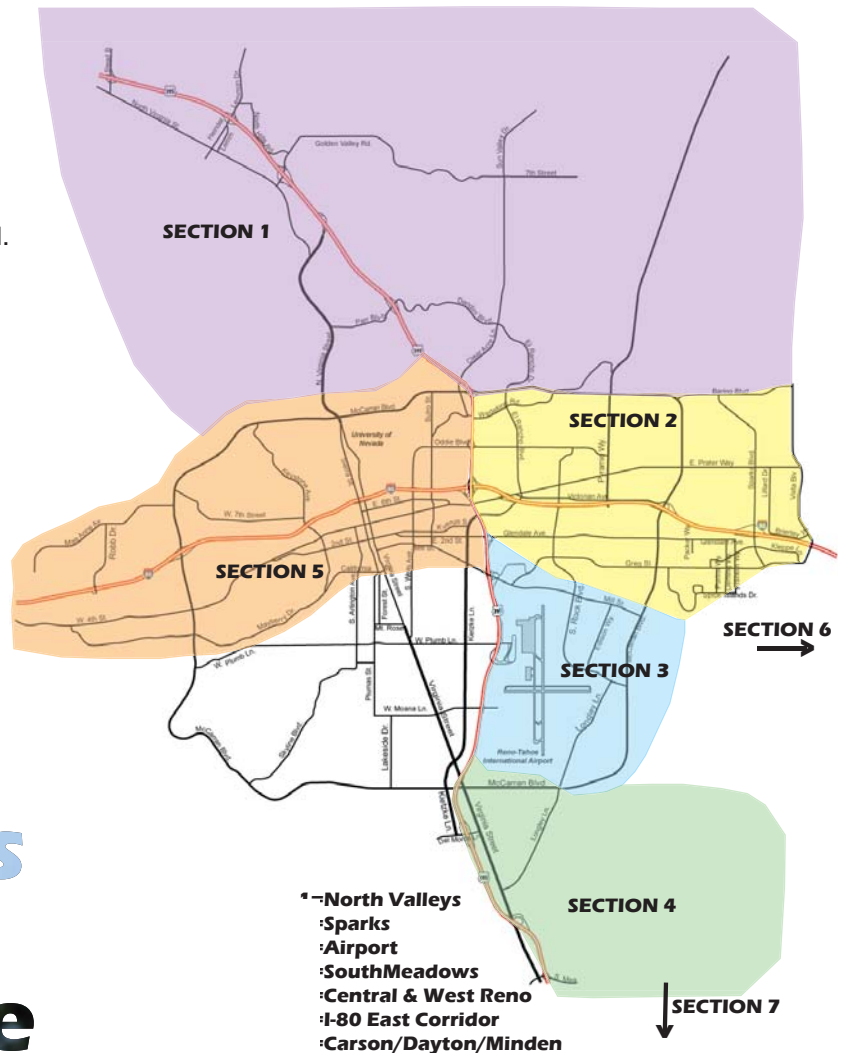
BeavEx
5355 Capital Ct #109
NAI represented tenant

Lease 8,000 sf

Acco
895 East Patriot Blvd.
NAI represented tenant

Lease 24,000 sf

TnB Enterprises
845 Deming Way
NAI represented landlord



Nevada Ranks 6th Greenest State

Greenopia announced its newest guide - one that ranks the 50 US states in terms of sustainability. The top 10 greenest states were, in order, Washington, Vermont, New York, Oregon, California, Nevada, Maine, Colorado, Minnesota, and New Hampshire.

Source: EDAWN.ORG

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