



### Trends ahead

Vacancy Rate



Net Absorption



Construction



Asking Rents



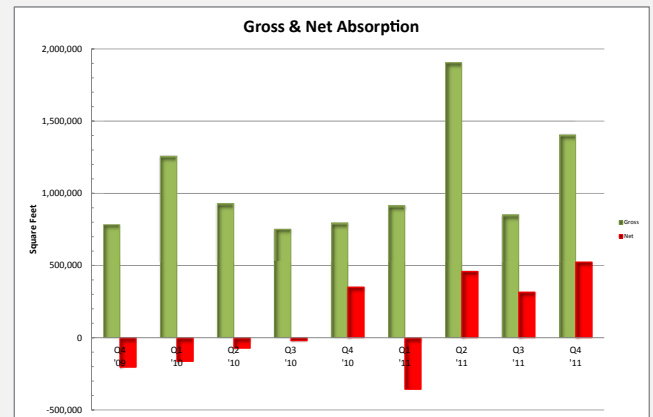
### OVERVIEW - Better Year than Expected

Brokers and developers needed a boost and got one this year. While 2011 was not the boom time of 5 years ago, it was a welcome relief following two rough years. Closures, which were rampant during 2009 and 2010, slowed and activity picked up. With increased activity, fewer closures and nothing new being built, the market began to heal this year with gradual dropping vacancy. Helped by the completion of three build-to-suit projects, absorption for the fourth quarter was a respectable 1,404,217sf. This contributed to a gross absorption for the year of 5,071,078sf. Average annual gross absorption during the good years of 2004 - 2008 was 5,312,194sf and average gross absorption for 2009 and 2010 was 3,449,281sf, so one can see how 2011 is viewed as a rebound. Vacancy started the year at 15.1%. With positive net absorption, vacancy dropped gradually throughout the year to end at 14.6% (including sublease space). We are no longer tip-toeing through mine fields and sense we are on stable ground at the moment. Election year jitters along with national and European debt concerns continue to restrict our market but we are making progress.

### MARKET ACTIVITY - Thank You Build-to-Suits

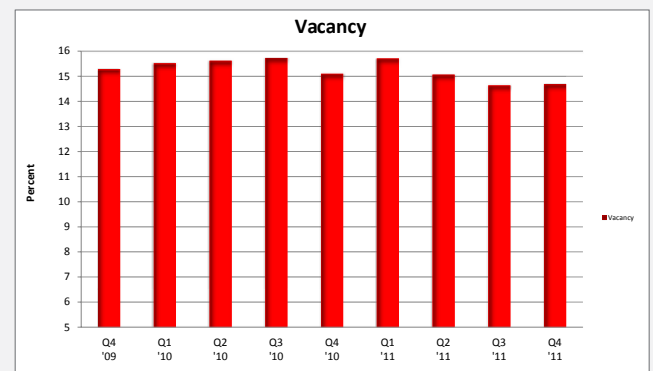
There were 32 deals completed in the fourth quarter totaling 1,404,217sf of gross absorption. Absorption was 14.7% higher and the number of transactions was similar to the average for the first three quarters. Net absorption for the quarter was a welcome 524,328sf, which was a large contributor to net absorption for the year of 941,133sf. There has been no new speculative construction for 3 years so the positive turn in net absorption is a result of a slight increase in activity coupled with a decrease in tenants vacating the market. As one developer said "the damage has been done". Companies in need of right sizing their operations did so in 2009 and 2010. They have adjusted to the "new normal" and are running lean. Notable transactions for the quarter are Urban Outfitters build-to-suit (472,720sf),

Zulily (expansion of 157,215sf), Replico (150,000sf), NOW Foods build-to-suit (130,000sf), Kassbohrer (115,140sf), Dash Top (41,033sf), Center for Spiritual Living (34,000sf) and Silver Eagle Relocation (29,750sf).



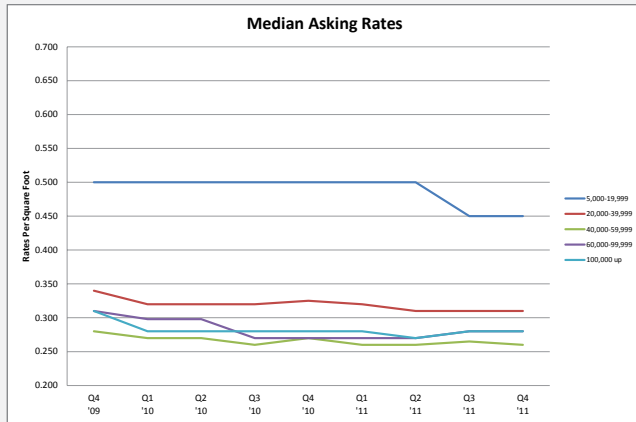
### RENTAL RATES – Down but Headed in the Right Direction

Owners tired of sitting on long term vacancy or nervous about a building becoming vacant, continue to hamper rents. Although vacancy is decreasing, it is still a high 14.6% causing some owners to lure tenants with cheap rent to fill space. Those landlords advertising cheap rent set the level for the others. Tenants shop around, find the rent rate they like and take that expectation to the space they want. We will begin to see rents tighten in class A space if the occupancy trend and flight to quality continues. We see users coming to town expecting great deals on class A space and getting it. With 71% of absorption in 2011 occurring in class A buildings, this part of the market has tightened to the point where demand has filled the long term vacancies and there are few large spaces available. Large tenants seeking class A product might be frustrated in 2012 as new deals likely will not match expectations set over the prior three years. Demand is expected to outpace supply of quality product leading to higher rents in class A space. The longer term result of this will either be new class A construction, a push into class B & C product or hopefully a combination of both.



### SALES – Slowed but Still Active

Bargain hunters abound. Sales were plentiful this year with buyers taking advantage of very low interest rates and inexpensive buildings. Like the leasing market, the anxious owners set the market. Some owners sitting on long term vacancy turned to selling to relieve themselves of debt service. Profit was not the motive of most sellers. The goal of most sellers was how to get out and minimize the damage. Two sales did buck the trend with



attractive prices. One was the sale of the new Urban Outfitters building in Stead and the other was the sale of a new 567,000sf building in the Tahoe Reno Industrial Center. Both were large new buildings with leases in place which shows that institutions will still pay up for quality product. User sales for the quarter included, Kassbohrer's purchase of the former 115,140sf GameTech facility at 8850 Double Diamond Pkwy for \$6,125,000 (\$53.20/sf), Dash Top's purchase of a 41,033sf facility at 5385 Alpha for \$1,500,000 (\$36.56/sf) and Center for Spiritual Living's purchase of a 34,000sf facility at 3663 Barron Way for \$2,600,000 (\$76.47/sf).

### CONSTRUCTION – Better Year but Still Concerned

New Construction for the quarter was strong at 624,595sf due to the three build-to-suits. Construction for the year was 721,615sf all of which was build-to-suit. Average annual construction for years 2006 to 2008 was 4,082,619sf. Average

annual construction for 2009 through 2011 was 308,867sf. It has been a tough 3 years for construction. With the help of build-to-suits and government jobs, construction companies held their ground but there is concern about the lack of activity on the horizon for 2012. New development is a major undertaking and with so much political and financial uncertainty, companies are having a hard time making commitments. Even with all the uncertainty, there is hope for construction as most of the tenant flow prefers new product. The reducing supply has perked up the development community and we are starting to hear from local developers trying to justify new construction.

### LAND – Tundra Remains Frozen

With plenty of options for sale and lease throughout the market in 2011, land sales remained very low. Land is out of favor with investors and developers. There are a few sales to users for build-to-suit activity but other than the occasional user sale.....all quiet on the western front.

### WHERE ARE WE HEADED – In the Eye or at the End of the Storm?

2011 was a welcome relief following two difficult years. The question remains, was last year the eye of the storm or are we at the end with clearing skies and better days ahead? On the positive side, companies are lean, profitable and have money in the bank ready to spend. On the negative side, it is an election year and Europe's debt problems continue to be a worry. What we are hearing on the street is that most tenants and buyers are content to sit tight for a year and wait to see what happens with the election and markets. There is a huge policy disparity between the parties which would effect companies differently depending upon who is elected. This coupled with the threat of another banking crisis originating in Europe with ramifications here have lead most to hold tight for another year and continue to store profits. There are those comfortable with the new normal market and will act now to capitalize on good pricing, but we hear most say they are happy to wait and see how the year plays out. Europe is a game changer if a 2008 banking/credit crisis is repeated on a larger scale. We foresee another year like 2011 wherein the market is tempered, with few move-out's and some companies moving forward through uncertainty leading to positive absorption and a drop in vacancy.

### Q4 2011 MARKET AT-A-GLANCE

| Area                  | Total Space (sq. ft.) 12/31/11 | Vacant Rentable (sq. ft.) 12/31/11 | Vacant percent 12/31/11 | Gross Absorption (sq.ft) Q4 | Net Absorption (sq.ft.) Q4 | NNN Median Asking Rate* (sq.ft./yr) | Total Under Construction 12/31/11 | BTS Construction (sq. ft.) YTD | Spec Construction (sq. ft.) YTD |
|-----------------------|--------------------------------|------------------------------------|-------------------------|-----------------------------|----------------------------|-------------------------------------|-----------------------------------|--------------------------------|---------------------------------|
| 1 North Valleys       | 15,653,157                     | 2,163,897                          | 13.82%                  | 693,503                     | 460,004                    | \$0.29                              | 0                                 | 479,740                        | 0                               |
| 2 Sparks              | 25,588,241                     | 4,471,741                          | 17.48%                  | 310,329                     | 162,744                    | \$0.35                              | 0                                 | 151,875                        | 0                               |
| 3 Airport             | 8,954,456                      | 775,624                            | 8.66%                   | 68,187                      | -10,098                    | \$0.50                              | 0                                 | 0                              | 0                               |
| 4 South Reno          | 8,892,779                      | 1,020,042                          | 11.47%                  | 174,983                     | -75,227                    | \$0.55                              | 0                                 | 0                              | 0                               |
| 5 Central & West Reno | 1,392,104                      | 533,196                            | 38.30%                  | 0                           | -129,990                   | \$0.31                              | 0                                 | 0                              | 0                               |
| 6 East I-80 Corridor  | 12,356,103                     | 1,708,623                          | 13.83%                  | 157,215                     | 116,895                    | \$0.35                              | 0                                 | 90,000                         | 0                               |
| <b>TOTALS</b>         | <b>72,836,840</b>              | <b>10,673,123</b>                  | <b>14.65%</b>           | <b>1,404,217</b>            | <b>524,328</b>             | <b>\$0.39</b>                       | <b>0</b>                          | <b>721,615</b>                 | <b>0</b>                        |

\*Asking Rates are negotiable, typically effective rates are lower



**For Lease**  
6645 Echo Avenue  
50,750± sf | \$0.32/sf NNN



**For Lease**  
7525 Colbert Drive #104-106  
20,740±sf | Negotiable



**For Lease**  
1285 Southern Way  
55,515± to 225,515±sf | \$0.25/sf NNN



**For Sale**  
130 Woodland Avenue  
61,600±sf on 13.11± acres | \$3,750,000



**For Lease**  
655 Spice Island Drive  
62,672±sf | \$0.28/sf NNN



**For Lease**  
4675-4677 Aircenter Circle  
32,500±sf | Negotiable



## Transactions *Q4*

### Lease 150,000sf

Replico Corporation  
9175 Moya Blvd  
NAI represented landlord

### Lease 29,750sf

Silver Eagle Relocation  
6640 Echo Avenue  
NAI represented landlord

### Lease 27,000sf

GDI Communications  
879 Deming Way  
NAI represented landlord

### Lease 16,000sf

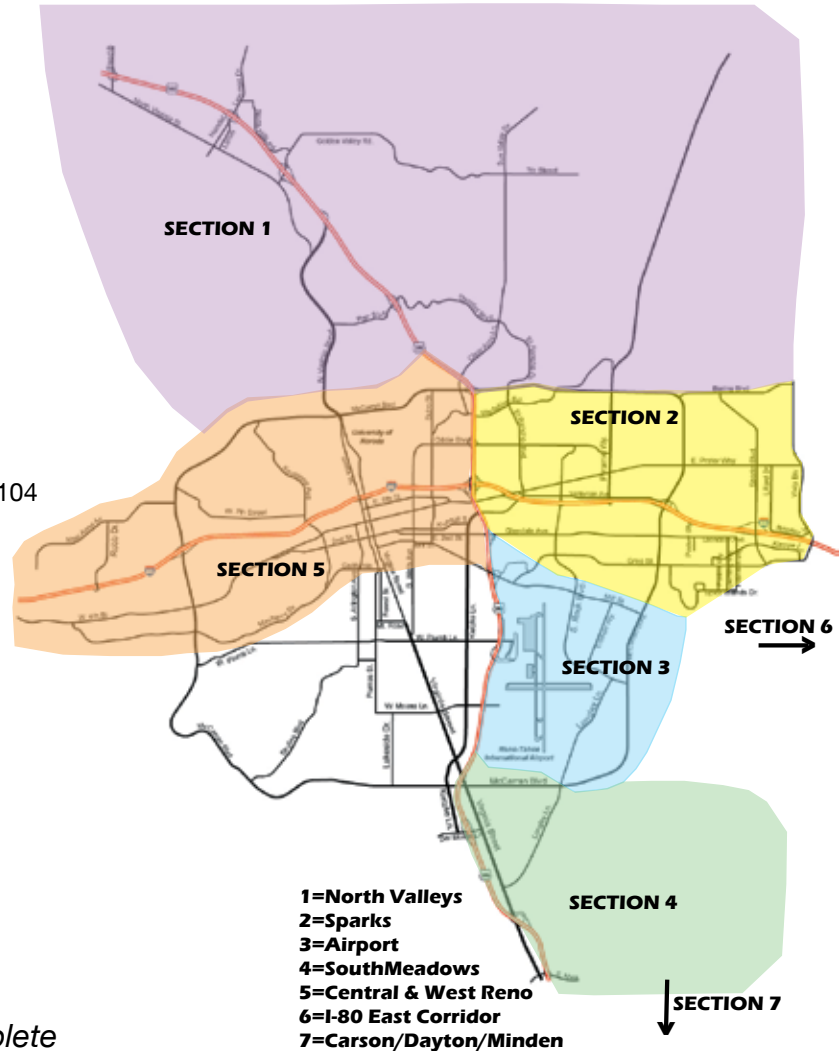
EZ Air LLC  
895 E. Patriot Drive, #103/104  
NAI represented landlord

### Lease Expansion 5,280sf

McClelland Labs  
966 Greg Street  
NAI represented landlord

### Lease 5,023sf

Gilson Auto  
2205 Glendale Avenue  
NAI represented landlord



## Did You *Know?*

*Nevada is the only state to possess a complete skeleton, approximately 55 feet long, of an Ichthyosaur? This extinct marine reptile is evidence of Nevada's once underwater history.*

*\*Fun facts taken from <http://www.nevada-landmarks.com/facts.htm>*

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