

OVERVIEW:

The Northern Nevada economic climate is showing signs of improvement, perhaps indicating that the retail vacancy rates may have peaked. The current overall vacancy level in Reno/Sparks declined to 17.99% from the previous quarter of 18.52% and 18.60% from the previous year.

The anchor space vacancy is currently at 14.88%. In-Line shops have decreased in vacancy from 23.07% last quarter to 22.62% this quarter. Total net absorption for this quarter was 16,779 square feet. The total gross absorption was 117,700 square feet for this quarter.

UNEMPLOYMENT, SALES TAX REVENUE AND HOUSING:

The areas consumer spending has been sporadic, but in general, is trending higher. Washoe County Sales Tax figures show spending in January 2013 was up 7.4% over the previous year, following a 4.7% decrease in December. There has been marked improvement in the unemployment rates. The Reno Sparks MSA Unemployment Rate was 10% in March, down from 12% in July of 2012 and its record high of 14.2% in January of 2011.

Housing sales for the period of January through March of 2013 held steady at a healthy pace. The number of re-sales of existing homes held virtually steady during this period, with just 6 fewer sales in 2013 over the same time period the previous year (1,841 for Jan-Mar 2013 vs. 1,847 for 2012). New home sales were also virtually the same over the previous year with just 2 more sales occurring in 2013 (224 for Jan-Mar 2013 vs. 222 for 2012). However, re-sale and new home sales for the January through March period fell over 16% compared to the previous quarter. According to the Reno/Sparks Association of Realtors, the median sales price in March was \$195,000, up 30.1% from the prior year. The significant increases in median price and steady year over year sales appear to be a result of the limited supply of homes currently available on the market. However, the increase in median home prices may be constrained in the future as more inventory is brought to the market. A recent report released by Ticor Title of Reno estimates that conservatively, there are approximately 12,000 local homes that are in some stage of the foreclosure or pre-foreclosure process. Based on the sales volume during the first quarter, the shadow inventory alone represents 19.6 month's supply of homes that need to be brought through the process. This is a significantly higher supply of inventory than the 3.4 month's supply that the Reno Sparks Association of Realtors indicates is the current inventory. Refinances and equity loans increased 79% over the

Trends ahead

Vacancy Rate



Net Absorption



Construction



Asking Rents



previous year, with a total of 3,226 re-financings during the 1st quarter spurred on by extremely low interest rates.

RENO/SPARKS RETAIL MARKET:

There are currently 19 vacant anchor shopping center spaces over 20,000 square feet in the Reno/Sparks market. These spaces total 1,225,500 square feet, which amounts to a 14.88% vacancy rate. This is just under the highest anchor vacancy rate on record. The area has 1,254,216 square feet available of in-line shop space throughout the market. Total combined vacancy within the market now stands at 2,479,716 square feet. This is a substantial amount of vacant space that will take time to be absorbed.

NEW DEVELOPMENT:

The Legends at Sparks Marina has had many tenants open during the last few years, and continues to add stores. Old Navy is the newest tenant, opening in the first quarter of 2013. In 2013, a Galaxy IMAX Theater is planned to open as well. Wal-Mart is also in the planning stages to upon a store in the Legends center. Most other large retail developments within the market have either been completed or put on hold.

TENANTS MOVING IN AND OUT:

The first quarter of 2013 saw a positive net square footage occupied with a net absorption of 16,779 square feet. There were 37 tenants moving into space in the 1st quarter consisting of 115,770 square feet of new leases with the largest being Old Navy in the Legends (12,500 sf), Auto Zone in the McCaran Plaza (16,984 sf) and Tuesday Morning in Shoppers Square (15,793 sf). There were 32 tenants moving out consisting of 97,773 square feet including Old Navy in the Sparks Crossing (16,796 sf) and in Firecreek Crossing (14,000 sf) and Tuesday Morning in Sparks Crossing (7,000 sf).

INVESTMENT SALES DURING 2012:

The first quarter of 2013 saw a number of sale transactions occurring in the Reno/Sparks retail market. Sparks Mercantile (106,510 sf), Redfield Promenade (145,000 sf), McQueen Crossing (103,776 sf) and Galena Junction (116,452 sf) transferred as part of a 40 property portfolio where Blackstone joint ventured with Kimco. These were allocated a transfer price at \$253/sf. A 44,826 sf portion of Sierra Town Center transferred for \$1.4 million or \$31/sf. The former Mervyn's building (79,239 sf) in Sierra Town Center sold for \$2,050,000 or \$25.87/sf. Finally, Kietzke Center (157,536 sf) sold for \$4.5 million or \$29/sf. There is quite a discrepancy from the more troubled assets trading in the \$25-31/sf range to the performing centers trading at an allocated price of \$253/sf. Either some are getting a good deal or some are overpaying, or perhaps both.

LOOKING FORWARD:

Many of the underlying statistics look to be improving. Housing value and consumer spending are trending higher, housing sales are holding steady, while unemployment has dropped significantly. These numbers allude to an improving local economy. The retail vacancy rates, although not showing significant improvements, are trying to establish a firm base from which to improve on. You might say, things are working their way through the system.

As we look forward, we project that there will be a steady decrease in the vacancy rates through the end of the year.

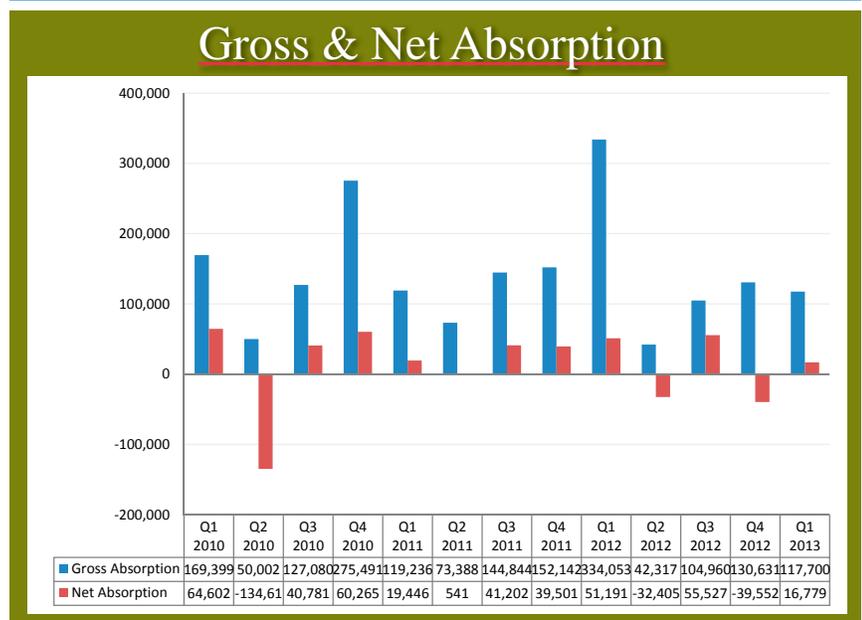
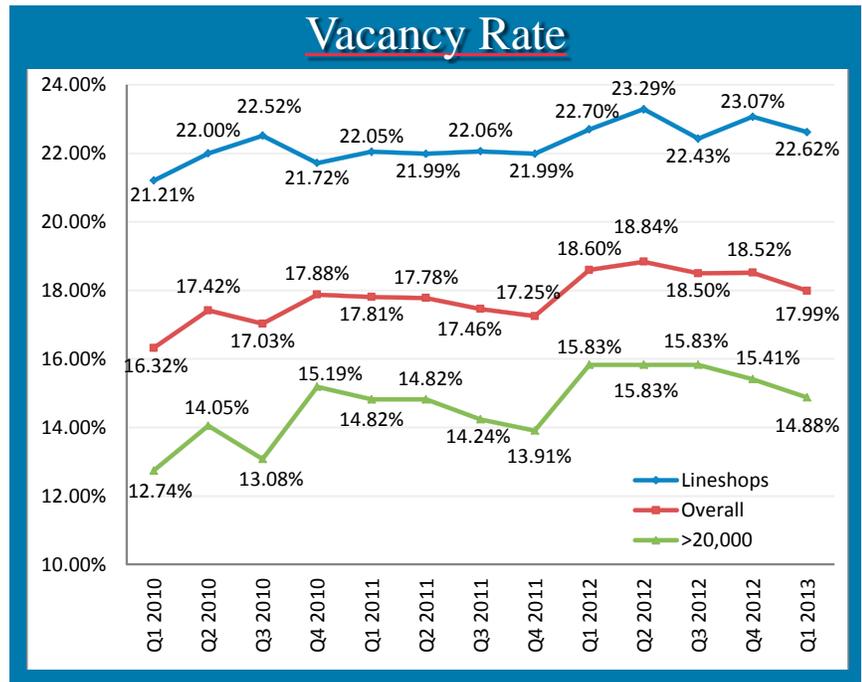
Unfortunately, we feel that it will take some time for the improving economy to translate into lower vacancy rates. This is not good news to Landlord's, but is positive for tenants looking for good rates on good spaces.

How much time will it take and when will the retail market get to a stabilized, lower overall vacancy of say 9% from the current 17.99%? Probably longer than most people think or want to realize. In the recession of the early 90's, it only took 2 years for the overall vacancy rate to decline from 11.3% to 9.6% before it lapsed and increased again.

That period of time was different as the anchor vacancy was only 2% compared to 14.88% now. However, if we look at the in-line vacancy rate during that period, it took 7 years for it to decline from 20.3% to the 9% range. Today, the vacancy rates are even higher with the in-line vacancy rate at 22.62%.

The market has even farther to recover today than in the 90's. We really are in uncharted territory, but if the early 90's are any indication, it could be at least 7 years before we see normalized vacancy rates again.

At NAI Alliance, we work with our clients to provide the timeliest, most accurate and complete sense of the market possible so they can make more informed decisions. We assist our clients to see where the market is going, and help position them properly. We help our clients react quicker than the competition, guiding them to achieve higher profits over the long run. This report is a sample of what we can provide you with to better understand the local retail marketplace. We hope you appreciate it and find it useful. Please let us know how we can assist you further.



Market Snapshot*

	Total Square Feet (SF):	Vacant Square Feet (SF):	Vacancy Rate:
Overall Reno/Sparks Market	13,780,641 SF	2,479,716 SF	17.99%
Lineshops	5,545,394 SF	1,254,216 SF	22.62%
Buildings 20,000 or greater	8,235,247 SF	1,225,500 SF	14.88%

*All numbers exclude Regional Malls

Retail Market Report

First Quarter 2013



For Lease

Southgate Shopping Center
NEC of S. Carson St & Clearview Dr, Carson City, Nevada



For Lease

6,543 SF Equipped Restaurant
Sparks Crossing Shopping Center
137 Los Altos Pkwy, Sparks, Nevada



For Lease

4,800 SF Freestanding Retail Building
3375 Kietzke Lane, Reno, Nevada



For Lease

Firecreek Crossing
Kietzke Lane & Redfield Promenade, Reno, Nevada



Land for Sale or Lease

0.87 Acres at NE Corner Veterans Parkway / Geiger Grade
South Reno Nevada



For Lease

Sierra Town Center - 3 Spaces
6775 Sierra Center Pkwy, Reno, Nevada

Methodology/Definitions

Absorption (Net)

The change in occupied space in a given time period.

Market Size

Includes all existing retail shopping centers (excluding regional malls) within the market consisting of 20,000 square feet or larger.

Overall Vacancy

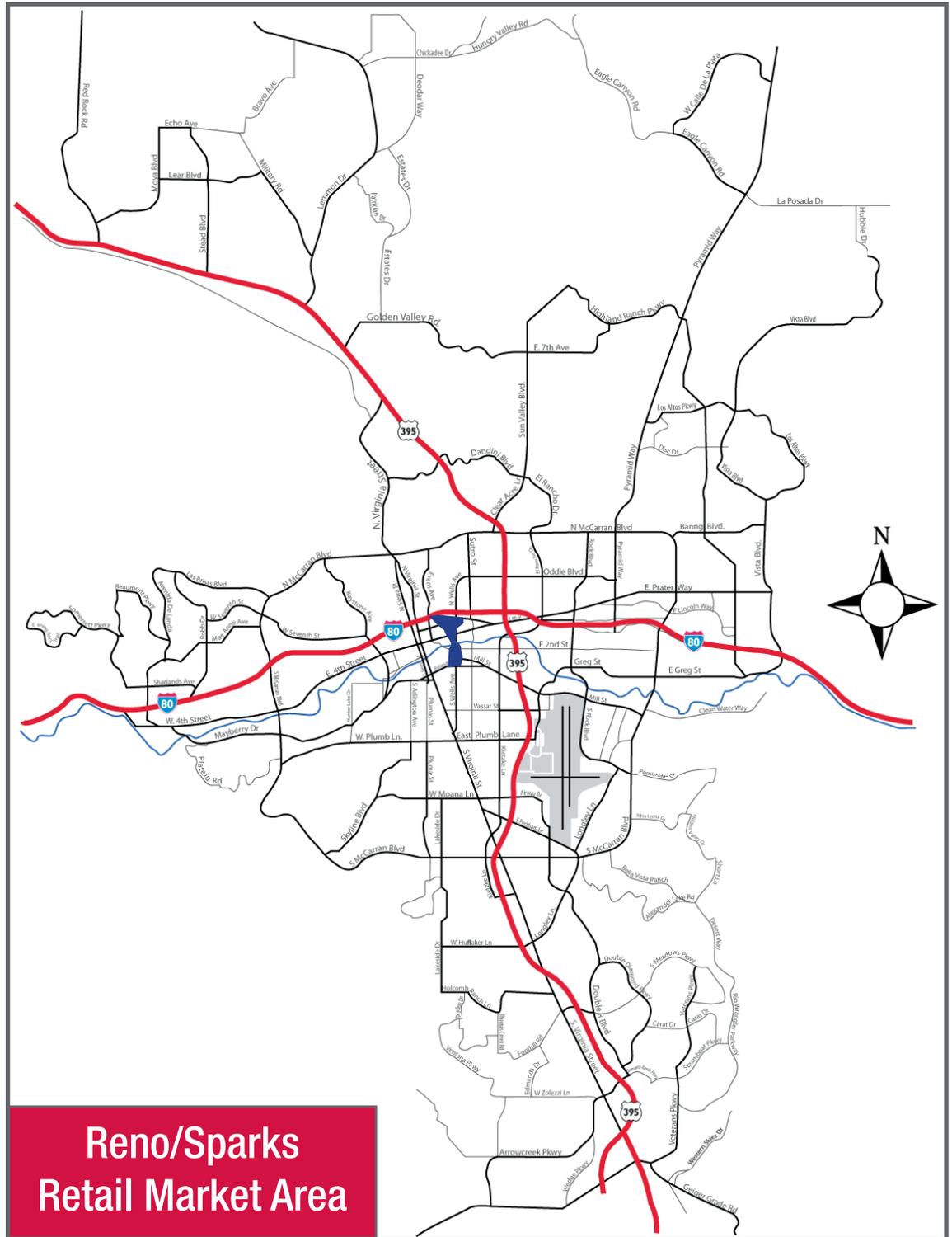
All unoccupied lease space, either direct or sublease.

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.



Reno/Sparks Retail Market Area

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blog.naialliance.com

Kelly Bland
Senior Vice President
775.336.4662
kbland@naialliance.com

Mark Keyzers
Senior Vice President
775.336.4663
mkeyzers@naialliance.com

Maria Gerlinger
Marketing Specialist
775.336.4629
mgerlinger@naialliance.com