

# MarketView Reno Industrial

Fourth Quarter 2009

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## Quick Stats

|                              | Change from last |     |      |
|------------------------------|------------------|-----|------|
|                              | Current          | Yr. | Qtr. |
| Availability Rate            | 15.3%            | ↑   | ↑    |
| Effective Lease Rate         | \$0.24/SF        | ↓   | ↔    |
| Net Absorption* (318,515 SF) |                  | ↓   | ↓    |
| Completed Construction       | 0 SF             | ↓   | ↓    |
| Under Construction           | 0 SF             | ↓   | ↔    |

\*The arrows are trend indicators over the specified time period and do not represent a positive or negative value. (e.g., absorption could be negative, but still represent a positive trend over a specified period.)

## 2009 Hot Topics

- Anderson Manufacturers, represented by CBRE, leased 274,000 SF at 1175 Trademark Drive in the South Reno Submarket.
- Randa Group leased 234,000 SF 201 Ireland Drive in the East Valley Submarket. CBRE represented the Landlord.
- Fosdick, represented by CBRE, leased 155,000 SF at 12035 Moya Boulevard in the North Valley Submarket.
- Arrow Electronics, represented by CBRE, renewed for 453,249 SF at 665 Maestro Drive in the South Reno Submarket.
- Ames True Temper renewed for 396,000 SF at 3980 Airway Drive in the South Reno Submarket. CBRE represented both the Landlord and the tenant.

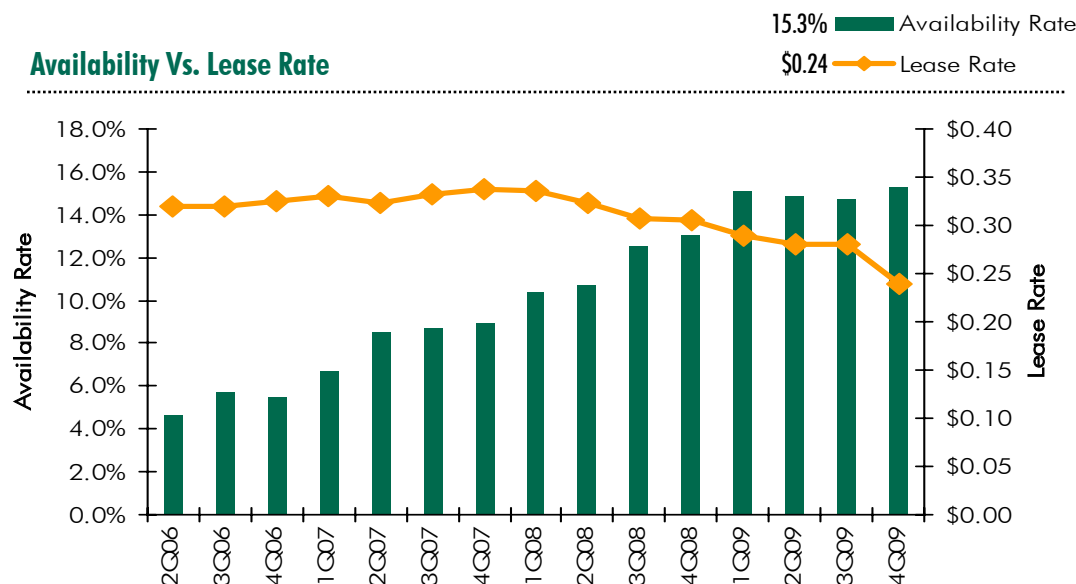
2009 ushered in a combination of business expirations, corporate downsizing, and decreased demand in the market. These combined factors led to historically high vacancy statistics, significant downward pressure on base rental rates, and considerable concessions offered by landlords in the market. The end of 2009 resulted in the highest vacancy and largest YTD loss ever recorded in the Reno/Sparks industrial market; a direct result of several large occupiers vacating the market.

Statistically 2009 represented the worst performance the Northern Nevada industrial market has ever posted. Available vacancy ended the year at 15.3%, which is the highest vacancy on record in the Reno/Sparks industrial market. This represents an 18% increase over year-end 2008. The outlying submarkets of the North and East Valley recorded the highest vacancy with 16% and 24% respectively, while the core submarkets of South Reno and Central Airport are the lowest. These increases in vacancies are a direct result of large users, specifically Dell, Ozburn Hessey, Georgia Gulf and Amazon.com vacating or downsizing in 2009.

Net absorption resulted in a 318,515 square foot loss for the 4<sup>th</sup> quarter and 1.4 million square feet loss for entire year. As expected, every single submarket was in the red at the end of 2009, with hardest hit being Sparks at 862,727 square feet of loss for the year. As previously noted, business downsizing, lease expirations, and diminished demand combined to post the 2<sup>nd</sup> straight year of negative net absorption in addition to an all time historic decrease in demand.

We forecast that the overall vacancy has peaked as the market is witness to increasing activity levels for the first half of 2010. Northern Nevada's favorable business climate and geographical location to the eleven western states will continue to drive activity levels even in a down market as companies look for ways to consolidate their logistics model. In addition, for the first time we are beginning to see an elevated interest from California companies targeting the Northern Nevada market for their distribution needs due to ongoing challenges in the State of California.

## Availability Vs. Lease Rate

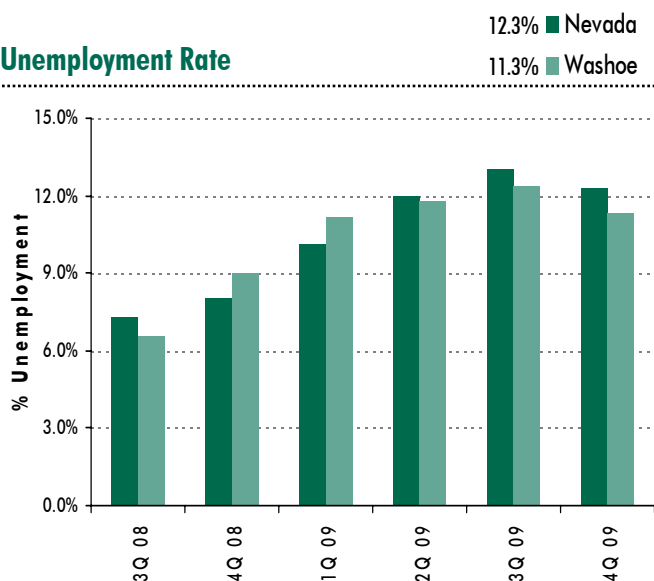


## Market Statistics

| Submarket         | Building SF       | Total Vacant SF   | Vacancy Rate | Available Rate | Net Absorp.      | YTD Net Absorp.    | Under Const. |
|-------------------|-------------------|-------------------|--------------|----------------|------------------|--------------------|--------------|
| Central / Airport | 9,633,521         | 879,124           | 9.1%         | 9.2%           | 245,154          | (6,334)            | 0            |
| East Valley       | 11,115,498        | 2,739,804         | 24.6%        | 24.6%          | (670,000)        | (319,831)          | 0            |
| North Valley      | 13,931,112        | 2,211,065         | 15.9%        | 16.5%          | 221,350          | (177,848)          | 0            |
| South Reno        | 9,090,366         | 807,341           | 8.9%         | 9.1%           | (44,877)         | (3,306)            | 0            |
| Sparks            | 27,204,544        | 3,720,096         | 13.7%        | 14.8%          | (110,072)        | (862,727)          | 0            |
| West Reno         | 1,581,223         | 304,558           | 19.3%        | 19.3%          | 39,930           | (98,770)           | 0            |
| <b>Reno</b>       | <b>72,556,264</b> | <b>10,661,988</b> | <b>14.7%</b> | <b>15.3%</b>   | <b>(318,515)</b> | <b>(1,468,816)</b> | <b>0</b>     |

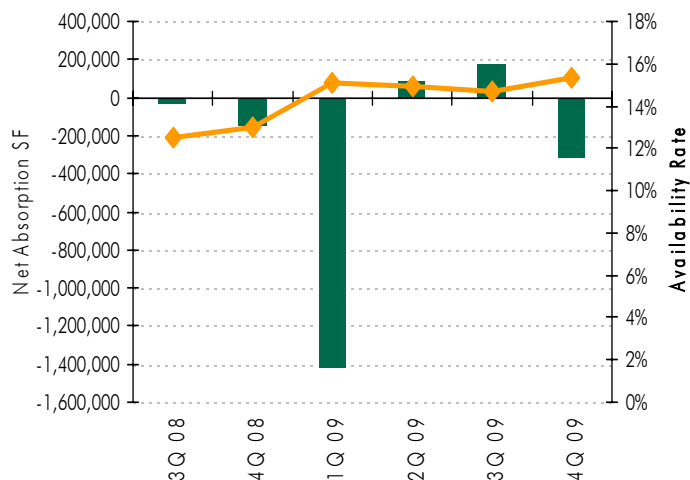
NOTE: Only industrial properties over 5,000 sq. ft., excluding government-owned buildings and medical buildings, are included

## Unemployment Rate



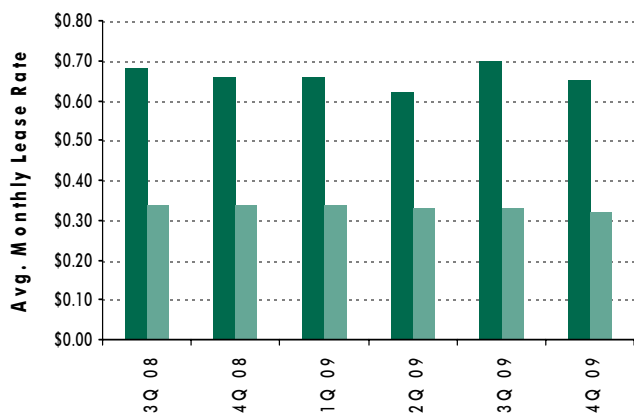
According to the US Bureau of Labor Statistics, Nevada's unemployment rate has trended upward since the final months of 2008. However, October 2009 showed the first positive signs with a month-to-month decrease in unemployment compared to September. Although job losses have been widespread and consistent throughout the state, growth in initial unemployment claims has leveled-off, a possible sign of stabilization. While stabilization can be hoped for, 175,300 Nevadans are still unemployed and the Silver State's economy has lost jobs in each month since February 2008. Additionally, in the fourth quarter there were only 58,500 employers in Nevada, 3.2 percent less compared to the same period in 2008. Leading indicators of recovery remain weak, though residential construction and the real estate market have shown some signs of improvement, given the increase in transactional volume in the resale markets.

**Availability vs. Net Absorption** (318,515 SF) Net Absorption 15.3% Availability



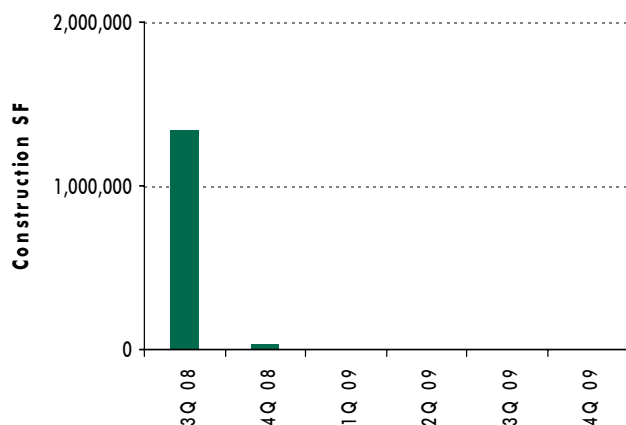
Gross absorption, while slightly higher than 2008 at 3.2 million SF, is still lower than the ten year average for the market. Average transaction size of 38,797 SF represents an 8% decrease from 2008, denoting that larger requirements are being signed with less frequency in our area. While companies continued to show interest in locating their distribution business to Northern Nevada, macro economic challenges delayed a large number of real estate decisions/initiatives through out the year. At publication time of this market view, we are beginning to see resurgence in the activity that was put on hold in 2009, with over one million SF of market prospects in which CB Richard Ellis is currently engaged.

**Average Asking Lease Rates** \$0.65 Flex \$0.32 Bulk



Lease rates are the biggest story to be told in 2009, as Landlords are reacting to an acute increase in vacancy in the market. Effective lease rates for Class A bulk space began trading at \$0.28/SF on average in Q1 2009, but decreased to \$0.24/Sf by Q4 2009 representing a 14% decrease from 2008 levels. Average effective rates for 2009 cumulatively for this product rested at \$0.27/SF. In class B properties, the decrease is more severe as rates for this product have fallen 30-40% overall from 2008 levels. Class A flex properties are averaging between \$0.50-\$0.55/SF effective on a direct lease basis and \$0.40-\$0.45/SF for Class B properties. In regard to asking lease rates, the difference between ask and contract rates is widening, in some cases swinging as much 200 basis points. The downward or flat trend to lease rates will most likely continue until vacancy levels off at 8-9% overall. At current trends, the market should reach these levels sometime in 2011.

**Construction Activity** 0 SF Under Construction



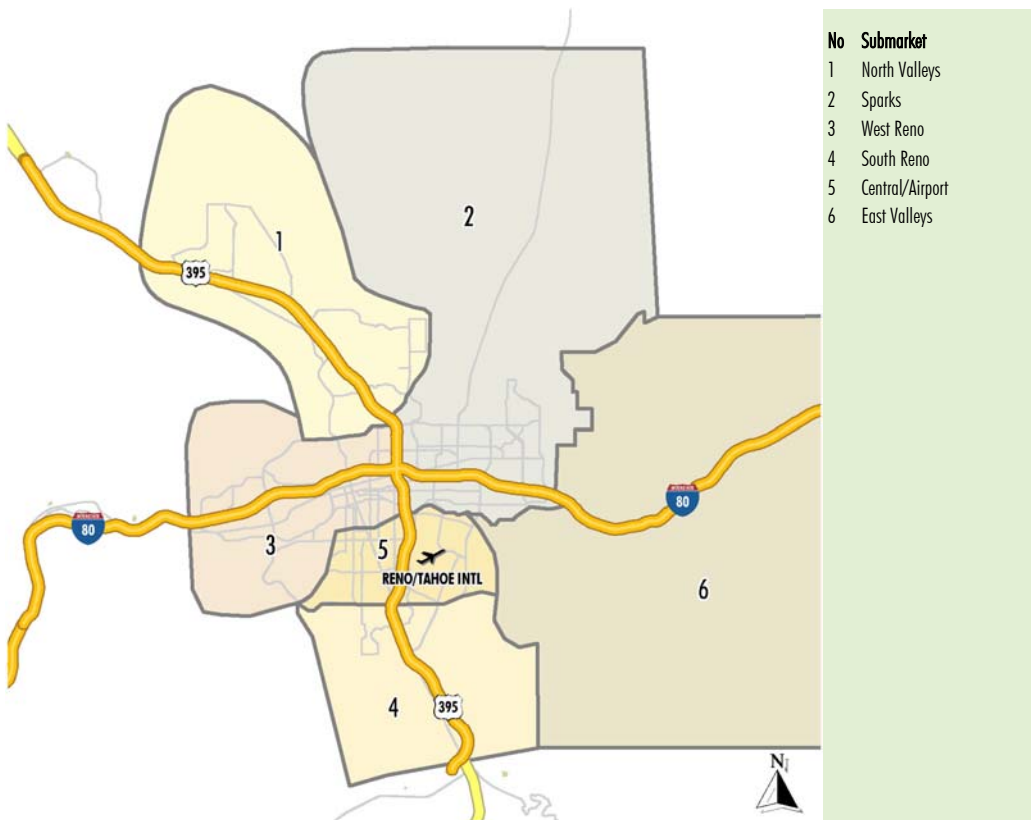
Construction activity for 2009 was almost non-existent with less than 50,000 square feet delivered this year. Most of these deliveries were for owner-occupiers such as Old Dominion Freight Line in the East Valley Submarket. There are no planned speculative projects forecasted for 2010, however several owner-occupier BTS projects will be delivered early next year. It is unlikely that any speculative construction will be delivered in the next 24 months.

## MarketView Reno

### Significant 2009 Lease Transactions

| Size (SF) | Tenant                      | Address                           |
|-----------|-----------------------------|-----------------------------------|
| 623,000   | Barnes and Noble (renewal)  | 12660 Old Virginia Rd, South Reno |
| 453,249   | Arrow Electronics (renewal) | 665 Maestro Dr, South Reno        |
| 396,000   | Ames True Temper (renewal)  | 3980 Airway Dr, South Reno        |
| 274,000   | Anderson Manufacturers      | 1175 Trademark Dr, South Reno     |
| 234,000   | Randa Group                 | 201 Ireland Dr, East Valley       |
| 224,000   | Warehouse Services          | 14551 Industry Cr, North Valley   |
| 173,000   | ITS Logistics               | 620 Spice Island Dr, Sparks       |
| 155,000   | Fosick                      | 12035 Moya Blvd, North Valley     |

### Submarket Map



#### Asking Lease Rate

Average of Asking Lease Rates for each property weighted by the associated Available Space. Includes Direct Available Space unless otherwise indicated

#### Completions

Rentable Building Area completed during the period

#### Market Coverage

'Existing' completed competitive properties

#### Net Absorption

The change in Occupied Sq. Ft. during the period for all Existing properties

#### Base Inventory, Base or Building Square Feet

The sum of the Rentable Building Area for all competitive properties

#### Occupied Square Feet

Rentable Building Area less Vacant Space

#### Under Construction

Buildings that have begun construction as evidenced by site excavation or foundation work, and is on-going

#### Available Space

Space being marketed to potential occupants, in Rentable Sq. Ft. (direct and sublease combined, unless otherwise indicated)

#### Availability Rate

Available space as a percentage of the Base Inventory or Building Sq. Ft

#### Vacant Space

Available Space that is physically vacant, in Rentable Sq. Ft

#### Vacancy Rate

Vacant space as a percentage of the Base Inventory or Building Sq. Ft

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