

Colliers International GREATER RENO-TAHOE MARKET Reno, Nevada



1st Quarter 2010

OVERVIEW

This could easily be one of the most fascinating periods in the Northern Nevada Office Market. The convergence of multiple factors is changing many of the traditional dynamics in our market.

The most dominant factor has been the influence of the federal government. While the state, city, and county are all contracting, the feds continue to expand, much to the delight of office landlords. We could have titled the report, "We are from the federal government, and we are here to lease your buildings." In order of magnitude; Immigrations Customs Enforcement (ICE) leased 35,000 sf in Sierra Corporate Center; The FBI leased 20,000 sf from Panattoni Development on Sandhill, Customs and Immigration Services (CIS) is having an 18,000 sf building built on Sandhill, and the GSA expanded by 4,000 sf in Museum Tower downtown. While this is not all gross equals net business, it represents nearly 50,000 sf of net absorption.

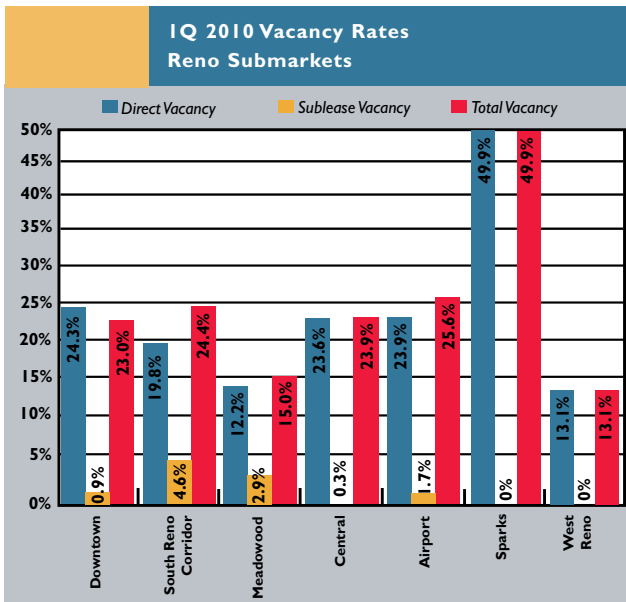
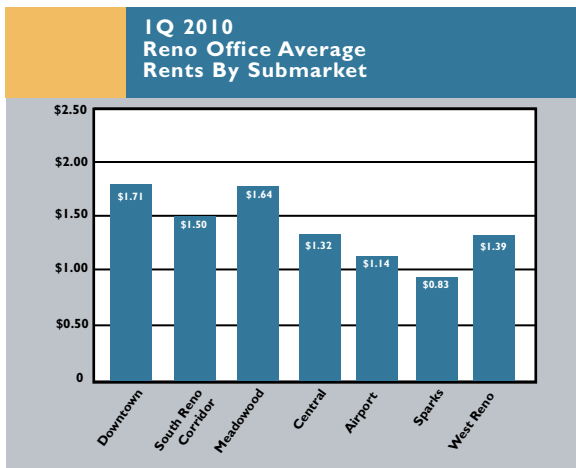
You would think with all this leasing the net absorption would be positive, unfortunately it was not. The market registered a negative net absorption of just over 40,000 sf. This is similar to last year when the market returned 95,000 sf. It appears those businesses hanging on at year end threw in the towel in the first quarter. This year most of the space returned was in downtown. This is a divergence from previous years where most of the space was returned in the suburbs.

Tenants are also starting to seriously consider upgrading their office, taking advantage of the huge surplus of prime Class A space for direct lease and sublease. On the sublease side, tenants are asking

for few tenant improvements with the intent of keeping rents as low as possible. Interestingly, Class A buildings had positive net absorption for the quarter; while space was returned to the market in Class B & C buildings. We believe this is a trend driven by baby boomers who want to work in nice office spaces for the remainder of their careers. Tenants today can lease some Class A buildings for the same rate as Class C. Class C owners may struggle to keep their buildings solvent if this trend continues.

With all this vacancy, you would not expect much new construction, but that is not the case either. Williams Gaming is building a new 50,000 sf office building on Technology Way. It will have a small warehouse component representing about 15% of the building. The GSA is building 18,000 sf on Sandhill and Templeton Development is building a 10,000 sf medical office at the end of Kietzke Lane.

When all the factors are combined, we have a new total vacancy of 21.6%. This is slightly higher than the 21.0% we had at the end of the year and a new record for our market.



Have we hit bottom? Perhaps, but don't expect a recovery anytime soon. There is still a great deal of shadow space that won't be recognized until the current leases expire and we suspect that there will still be more business closings.

In the long term, we have great expectations for our office market and community in general. In the short run, it may be a little bumpy. This is not a time to deal with amateurs.



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VACANCY RATES:

The vacancy rate for the market hit an all time end of quarter high of 21.6%. We are thankful for the federal government activity or the rate would have been higher. The downtown submarket rate increased to 25.2%, also a new record high. The only bright spot in the report was the reduction in vacancy in the South Reno Corridor, which fell from 25.1% to 24.4%. This submarket has seen the greatest activity as tenants take advantage of attractive lease rates.

LEASE RATES:

With the exception of sublease space, rents have generally leveled off and stopped falling precipitously. In South Meadows effective rents between \$1.50 and \$1.60 per sf full service, is the general area where most leases are inked. There are some teaser rates for the first year, but rents must increase in subsequent years or the banks will own the buildings. In marquee building locations, rents are not down as far. The exception being South Meadows, where there is simply too much competing space.

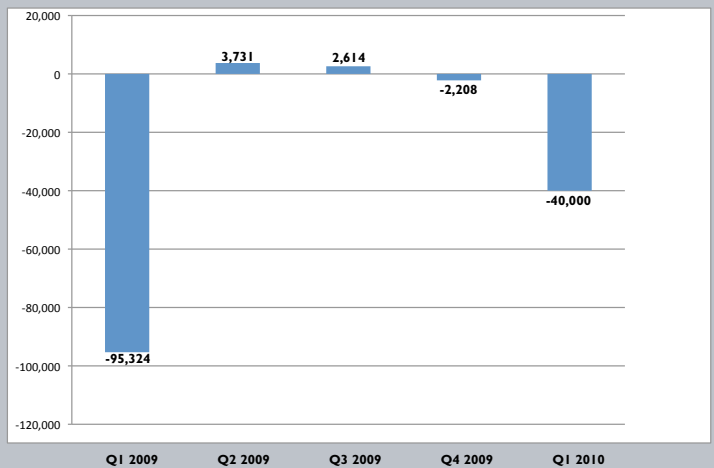
Significant Lease Transactions 1Q 2010

Address	Tenant	SF
6999 Sierra Center Pkwy.	US Immigration and Customs Enforcement	35,692
980 Sandhill Rd	FBI	20,000
Sandhill Rd & Double R Blvd	CIS (Customs and Immigration Services)	18,000
100 W Liberty St	GSA	5,938

CONSTRUCTION:

As expected there is no new speculative construction. The buildings being constructed are all build to suits (BTS). There is about 80,000 sf of new BTS construction in the market at this time. This is great news for general contractors who are scrambling for work.

Reno Office 4Q 2009 - 1Q 2010 Net Absorption Comparison



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The Colliers International Office Properties Group is comprised of two licensed real estate professionals. Tim R. Ruffin, SIOR, CCIM, Senior Vice President and Managing Partner, specializes in the leasing and sales of class "A" office buildings. Melissa J. Molyneux, CCIM, Associate, specializes in professional garden office and medical office leasing and sales. If you would like more information on the commercial real estate market in Northern Nevada, please visit: www.NevadaOffice.com.