Colliers International

Greater Reno-Tahoe Market

office

Reno, Nevada

2nd Quarter 2009

OVERVIEW

We would like to report that the Northern Nevada office market has hit bottom for this cycle, however our crystal ball is still fairly murky. There are some "green shoots" to indicate this may be the bottom.

First, the vacancy rate did not increase from last quarter's 21.2%. However, it did not fall either. The good news is that we had positive net absorption of 3,731 square feet. This is the first positive absorption for a quarter in about two years.

Second, California Company, Copart, purchased the 25,000 square foot Thomas Creek Office Building number Two, on Double R Blvd. helping to reduce the vacancy in the South Reno Corridor, which has been the hardest hit submarket. The vacancy rate in this submarket fell from 32.3% to 28.3%.

Third, the vacancy rate reduction in the South Reno Corridor submarket also portends the beginning of a trend for tenants in class "B" and "C" office buildings in the older Reno and Sparks submarkets to upgrade to newer class "A" office buildings in the South Reno Corridor. In support of this theory, the vacancy rate in the Central Reno submarket jumped from 15.3% last quarter to 19.9% this quarter. Those tenants with expiring leases in older building can move to a true class "A" office building for little to no difference in rent. This shows confidence by those businesses willing to sign new leases to upgrade their offices.

Fourth, we believe that Copart moving to Reno from California is the beginning of a larger overall trend of firms exiting California for the quality of life and favorable tax treatment in Northern Nevada. As the housing market in California starts to recover, look for an increase of firms moving to Nevada.

FIGURE 1

2Q 2009 Reno Office Average Rents By Submarket

RENTS

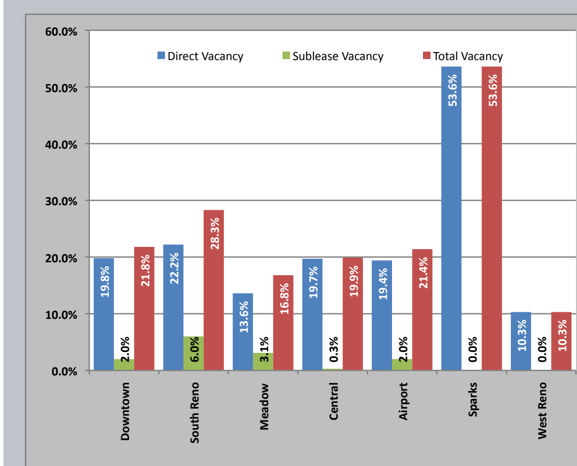
It appears rents have leveled out. Tenants are still demanding and getting "turnkey" office space and some free rent to offset moving costs. This will probably continue for the remainder of this year. Sublease offerings still have the best quoted rates, but will lack the total package a direct landlord will offer, such as term and TI's.

VACANCY RATE

As mentioned in the previous paragraphs, the overall vacancy rate remained flat at 21.2%. This is still the record for the overall market. The Downtown submarket vacancy rate dropped slightly from 22% to 21.8%. The Meadowood submarket increased slightly from 16.6% to 16.8%. The largest moves were previously mentioned, the four point six basis point jump in the Central submarket and the four basis point decrease in the South Reno Corridor submarket.

FIGURE 2

2Q 2009 Vacancy Rates Reno Submarkets



CONSTRUCTION

No new construction was completed by the end of the second quarter. However, Northern Nevada does have one spec building underway in the Downtown submarket, State Street Plaza at 140 S. Virginia Street. This 16,000 square foot two story mixed use building should be ready for office and retail tenants in the third quarter. This will be the first new office building in downtown Reno in many years. This may also be the last spec office building built for the foreseeable future.

GARDEN OFFICE

The Garden Office Market worsened in the second quarter as vacancy rose from 19.7% to 21.8%. This quarter marks a shift of the buildings over 10,000 square feet fairing better than the garden office sector. Despite our prediction of a peak in the vacancy rate in the first quarter 2009, vacancy increased two basis points from 19.7% to 21.8%.

COLLIERS INTERNATIONAL

www.NevadaOffice.com

Colliers International
10765 Double R Blvd.
Suite 100
Reno, NV 89521
TEL: (775) 823-9666
FAX: (775) 823-4699

Colliers International
Greater Reno-Tahoe Market
office

Reno, Nevada

2nd Quarter 2009

While vacancy rose, we did see stabilization of rents as they held steady at an average of $1.54 per square foot modified gross. At the height of the market, garden office rents were $1.95 per square foot modified gross. Today's rents represent a 20% reduction bringing the Northern Nevada garden office market back to pricing seen in the early 2000's. Although rent rates have decreased, we do anticipate rents to hold in the $1.55 per square foot modified gross range with a steady increase in 2010.

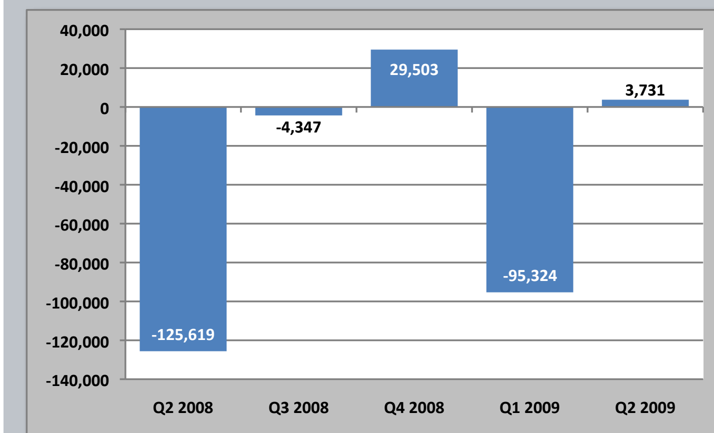
We expect to see a trend of owner-users purchasing buildings as favorable SBA loan programs and low financing costs make it a better long term solution for users to purchase versus lease. We are seeing opportunities for owner users to purchase fully built out buildings below $200 per sf for the first time.

In the first quarter we predicted investment sales would not pencil, but as prices continue to deteriorate, investment sale inquiries have increased. We've seen an uptick in investors looking for property as rumors of commercial foreclosures are the topic of the headlines. We believe we will start to see an influx of cash buyers seeking these types of properties, however, we don't think prices will fall as much as residential properties since commercial property did not have prices increase as significantly as residential real estate did.

As of mid-year 2009, the garden office market has not seen the completion of any additional new construction, which will help the vacancy rate stabilize by the third quarter of 2009. We anticipate additional space will be given back as companies evaluate their office needs for 2010. Second quarter registered a negative net absorption of 14,812 square feet. Although absorption was not positive, it was half of the space returned in the first quarter and perhaps a sign of the market hitting a bottom and slowly rebounding.

FIGURE 3

Reno Office
2Q 2008 - 2Q 2009
Net Absorption Comparison



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. Molyneaux, 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.

Significant Lease Transactions 2Q 2009

Tenant	Address	SF
Bally Technologies Inc	900 Sandhill Rd	41,000
National Council of Juvenile and Family Court Judges	50 W Liberty St	9,651
National Council of Juvenile and Family Court Judges	245 E Liberty St	9,500
Wachovia Securities LLC	100 W Liberty St, Suite 100	7,171
Gussell Gallagher & Fuller LTD	100 W Liberty	6,247

Tim Ruffin, SIOR, CCIM
TRuffin@colliersreno.com

Melissa Molyneaux, CCIM
MMolyneaux@colliersreno.com

COLLIERS INTERNATIONAL

www.NevadaOffice.com

Colliers International
10765 Double R Blvd.
Suite 100
Reno, NV 89521
TEL: (775) 823-9666
FAX: (775) 823-4699