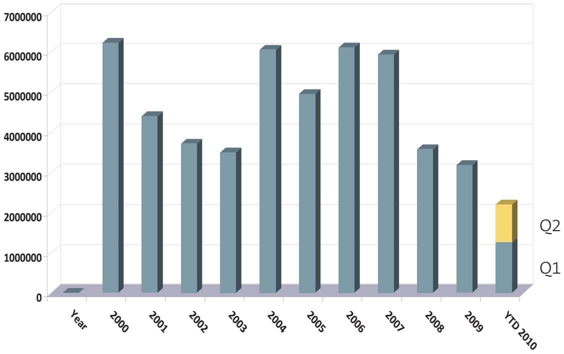
SECOND QUARTER 2010 - INDUSTRIAL MARKET TRENDS

Gross Absorption



Q2 Absorption Saved By One Large Transaction

Gross Absorption for the Quarter Totaled 958,201 Square Feet

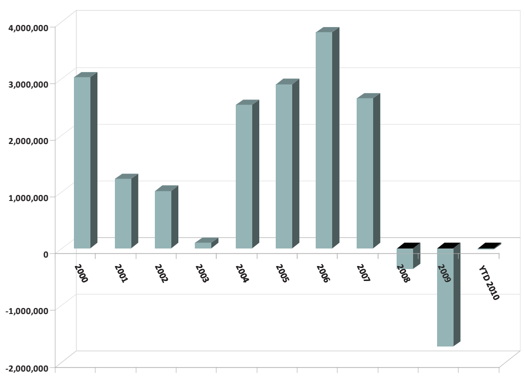
After the flurry of activity in Q1, the second quarter of 2010 withdrew back to 2009 quarterly averages. While overall activity in the market wasn't as fruitful as some hoped, it did fall in line with predictions for a slow steady year. Ryder Logistics receives the MVP award, taking down 390,550 square feet in Stead. The next largest transaction was 61,000 square feet with the lion's share of activity taking place in the smaller flex properties, transaction in the 5,000 to 20,000 square foot ranges.

Key Transactions

Zone	Lessee	Property	Size (SF)
1	Ryder Logistics	12035 Moya Blvd	390,550
1	Russell Stover	13085 Mount Anderson	61,123
2	Massimo Zanetti Beverage USA	46 Isidor	50,900
2	Store Supply	870 E Glendale	45,792
2	Castelli Diaries	2080 Brierly Way	34,560

Zones: 1 = North Valleys, 2 = Sparks/Spanish Springs, 3 = Airport, 4 = South Meadows, 5 = West Reno, 6 = Tahoe Reno/Fernley

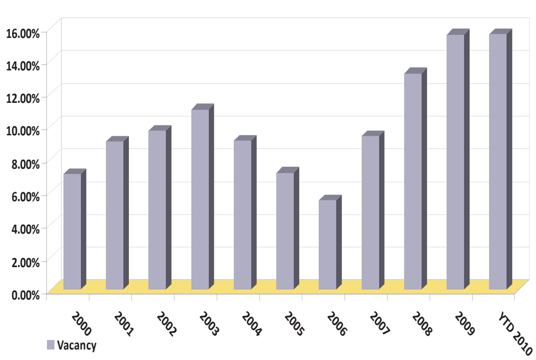
Net Absorption



Year to Date Net Absorption: (-20,542) Square Feet

After a mini-exodus of companies in Q1, Caterpillar was the only large company to leave a 110,000sf vacancy in our market this quarter. To date, the market has been holding its own by absorbing space almost as fast as existing space comes back on the market. The upcoming quarter may not follow the trend, with a significant number of large tenants vacating space and not many new companies on the horizon to pick-up the new vacancies as fast as they come to market. As indicated by the last ten quarters, attrition will continue to be the biggest opponent facing our industry.

Vacancy



Vacancy: Decreases from 16.33% to 15.62%

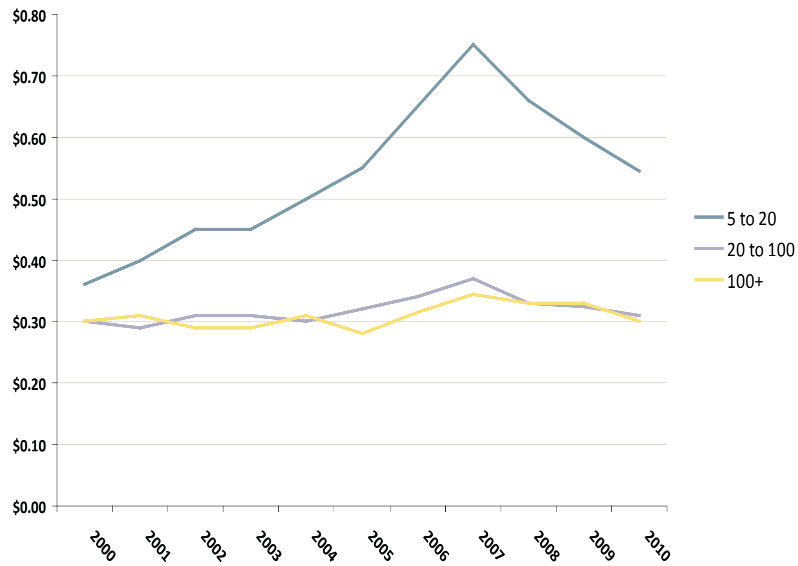
After combining the first and second quarter vacancy for 2010, we find ourselves back to where we started at the beginning of the year (15.58%). In the first quarter, our market fell victim to several large spaces given back (over a million SF). Luckily, we got about half of that space leased before the 1st quarter ended. In the 2nd quarter of this year thanks to one larger deal (390,550 SF) and a few mid-size deals, we have absorbed most of the losses in the 1st quarter. The forecast for the 3rd quarter is similar to the 1st quarter. Expect to hear about more space being available with a few mid-range deals to soften the blow.

"Market" Asking Rates

After charting the past ten year history of asking industrial rates, accurate pictures of not only fundamentals of industrial investment (supply and demand) emerge, but the ebb and flow of our economy is also illuminated. Industrial properties include incubator space, flex space, high cube space and manufacturing facilities. Typically start-up businesses occupy incubator space, which is usually 1,000 to 5,000 square feet. Flex space is defined as space between 5,000 and 30,000 square feet, and high cube space can be 30,000 to 1,000,000 square feet. Manufacturing space has no defined square footage since the process being done will dictate the size of the space needed. The graph tracks flex and high cube space. The difference between flex and high cube space rates tells us something about product types.

Median Rental Rates

Square Feet in Thousands



Source: Grubb & Ellis|NCG

Flex properties experienced dramatic asking rate growth from 2003 to 2007. Increases in rates during this four year period averaged almost 14% per year. Historically, this type of accelerated growth is unsustainable and significant corrections have occurred from 2007 to the present. The smaller companies who occupy these spaces are nimble and responsive to the market. Thus if there is a limited supply for the product type the price will increase accordingly. Flex product pricing is more sensitive to demand and pricing is more transparent.

High cube industrial product asking rates have not tracked with the economy varying only three cents over the past ten years. Owners of high cube space chose to leave their asking rates alone and in some cases asking rates are not posted or posted as "negotiable". This marketing strategy is to get a prospect to the table and respond to tenants inquires with a variety of incentives that have included rent reductions, free rent, tenant improvements, moving expenses and building upgrades such as T-5 lighting.

High cube industrial facilities are obviously a different beast entirely. These buildings are occupied by large manufactures or distributors. Given the size and scope of these operations, sensitivity to geographic location is paramount. Transportation costs, labor, lease rates and local economic incentives are a large factor in the decision making process.

Effective Rates

Effective rates, the agreed upon rate over the term of the lease, less any free or abated rent spread out over the term, are obviously the real story. Sometimes we only consider how the concessions affect the first year of the lease (first year effective). As asking rates have chased effective rates down in the current market, effective rates for flex space are roughly 80% to 90% of the asking. Landlords are more inclined to offer abated rent over tenant improvements. This is because with smaller spaces, it is harder to absorb the cost of the improvement. In addition the landlord does not have to come out of pocket with cash (unless the space is in shell condition).

For high cube spaces, we estimate that after incentives are accounted for, landlords are receiving 70% to 80% of their current asking rates in the current market setting. Whether a landlord abates rent, contributes to moving expenses, or directly reduces the rate, it is easy calculate how much the overall rate can be impacted.

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