



Q2 2010 RENO/SPARKS OFFICE MARKET REPORT

Market Barometer

	Q2	Q3*
Total Vacancy:	↑	↓
Demand:	↓	↑
Rents:	↔	↔
Concessions:	↔	↔
Sale Prices:	↔	↔
Cap Rates:	↔	↔
Construction:	↔	↔

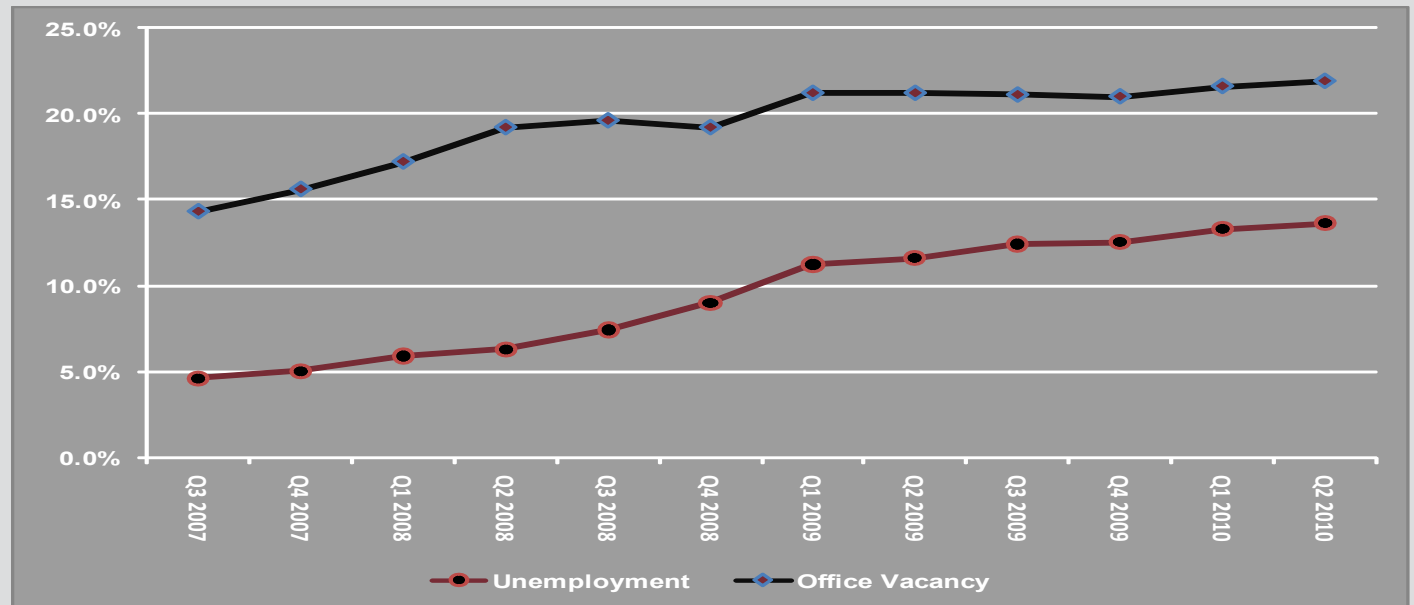
*projected

Market Overview

Fundamentals in the office market are stabilizing nationally according to real estate tracking company CoStar. Eight of the twenty largest office markets reported positive absorption in the second quarter, and several others were flat. Even markets with the highest vacancy rates, such as Detroit, Phoenix, and Dallas, declined only a tenth of a percent. Nationally office employment growth has been on the rise all year as 650,000 new office jobs have been created to date.

In Northern Nevada, like all secondary markets, we are behind the curve. Unemployment continues to rise,

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Submarket	# Bldgs.	Total Inventory	Direct Vacancy	Direct Vacancy Rate	Sublease Vacancy	Sublease Vacancy Rate	Total Vacancy	Total Vacancy Rate	Current Occupied	Q2 Net Absorption
Downtown	33	1,318,856	360,862	27.4%	23,255	1.8%	384,117	29.1%	934,739	-58,838
South Reno	40	1,353,600	227,237	16.8%	92,104	6.8%	319,341	23.6%	1,034,259	186
Meadowood	55	2,150,146	287,865	13.4%	47,913	2.2%	335,778	15.6%	1,814,368	-13,024
Central Reno	39	924,449	200,199	21.7%	2,550	0.3%	202,749	21.9%	721,700	11,275
Airport	27	788,449	202,683	25.7%	0	0	202,683	25.7%	585,788	-858
Sparks	3	45,711	17,962	39.3%	0	0	17,962	39.3%	27,749	
West Reno	10	154,165	14,255	9.2%	0	0	14,255	9.2%	139,910	-3,420
Market Totals:	207	6,735,376	1,311,063	19.5%	165,822	2.5%	1,476,885	21.9%	5,258,491	-64,679

with the jobless rate in Northern Nevada now at 13.6%, a new record for our area. With net absorption posting negative 64,679 in the second quarter, the unemployment jump comes as no surprise.

Downtown was hardest hit with vacancy skyrocketing to 29.1%. This is due to the former 60,000 square foot Woolworth's building at 101 North Virginia Street hitting the market, not to mention an 8,000 square foot sublease space was also given back at 50 West Liberty Street.

Tenants that are looking for space are looking to move from class "B" or "C" to class "A" space for the same price. For example; law firm Jones Vargas moved at a huge cost savings into 30,000 square feet at Basin Street's 300 East 2nd Street building.

The South Meadows submarket is looking like a huge winner in these moves with its newer buildings and aggressive owners; going from a vacancy high of nearly 33% at this time last year to 23.6% at the end of the second quarter 2010. The Landmark building at 985 Damonte has filled 26,000 square feet in new tenants in the past six months.

Rents

Asking rents remained flat throughout the second quarter averaging \$1.55 to \$1.65 per square foot full service. Even with these low asking rates, landlords are still sweetening the pot by offering concessions of \$15 tenant improvement allowances, one month free rent for every year leased or help with moving costs. Because most of the activity emanates from existing tenants moving to upgrade or lower costs, these concessions come at a time where landlords are trying to capture tenants moving within our market. It's an aggressive market and aggressive landlords are sure to be front and center.



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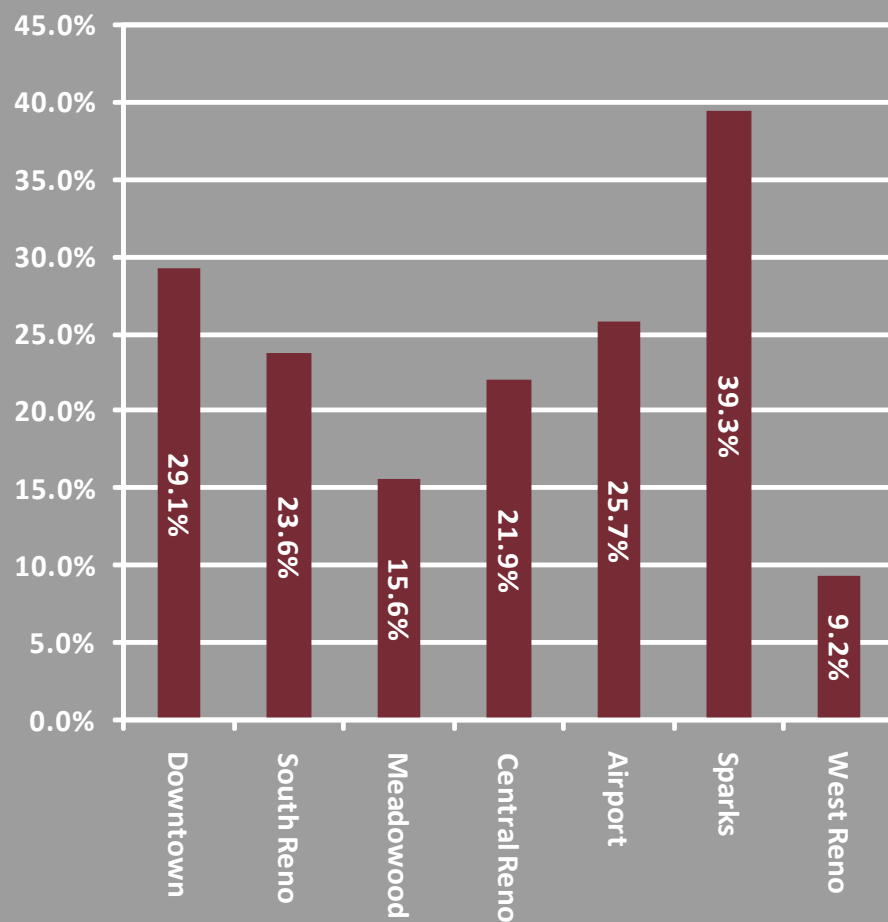
Vacancy

Vacancy in the second quarter saw an increase to 21.9% up from the first quarter's 21.1%. Central Reno fared the best as vacancy fell from 23.9% to 21.9% as tenants leased space in this less expensive submarket. Meadowood posted a little over a half a point increase to 15.6%, continuing the trend of tenants moving from their spaces as their leases expire to secure a more reasonable rate and help lower occupancy cost. Downtown was hit the hardest with vacancy increasing to 29.1%. As stated earlier, this was largely due to the 60,000 square feet at 101 North Virginia Street, and the 8,000 square feet of sublease space that came online in 50 West Liberty Street.

Construction

The trend of no new speculative construction continues as the market clearly can not support new inventory at this time. With vacancy being 21.9%, there is enough existing inventory on the market to fill almost any user requirement or the existing spaces can be modified to the prospects needs. Currently, there is an 18,000 square foot pre-committed build-to-suit on Sandhill Road, and a 10,000 square foot build-to-suit for a medical user on Kietzke Lane. As we had anticipated, any construction that does occur in our market will be built-to-suit in nature as opposed to speculative. This situation will prevail until the existing inventory is absorbed to market equilibrium and credit returns to the developer market.

Vacancy by Submarket





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Trends

There are a few small beams of light that shine through now and again. During the second quarter, Northern Nevada has seen 85 residential land lots slated for future development sold, and 807 acres in June alone. What does this all mean? Basically, developers are buying land at wholesale pricing to prepare for the eventual market rebound. We do not anticipate recovery to pick up speed anytime in the immediate future. However, through the remainder of 2010, we expect the Northern Nevada office market will see a slight decline in the vacancy rate, but nothing too exciting. The key to the Northern Nevada office market will be patience. As it always has, the market will rebound. A key factor to this occurring will be job creation, a stabilized housing market and the return of consumer confidence.

Lee & Associates Office Team

Lee and Associates is pleased to announce the listing of 550 E. Plumb, 1525 Los Altos, 65 Regency, 1865 Plumas, as well as a 8,600 sub-lease in 50 West Liberty. Lee and Associates would like to congratulate Leap Forward Gaming on their lease of 8,000sf in the South Meadows. At this time we are offering free building valuations and strategy plans for office buildings. Please feel free to contact us with any questions.

Featured Listing:

Our featured listing is a medical office building at 1525 Los Altos in Sparks. This wonderful opportunity will be built out to your specifications for only \$1.00 for your first year. Lush landscaping, amazing parking custom build outs, and limited medical competition in the area are some of the many advantages of leasing in the Los Altos facility.

For additional information on 1525 Los Altos Parkway, please visit the property website at: <http://sites.google.com/site/1525losaltospkwynowavailable/>



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