

# Market Research

INDUSTRIAL | FIRST QUARTER REPORT | 2009

MARKET INDICATORS

| | 1Q 2009 | 2Q 2009* |
|---|---|---|
| DIRECT VACANCY | ↑ | ↔ |
| SUBLEASE VACANCY | ↑ | ↓ |
| TOTAL VACANCY | ↑ | ↓ |
| NET ABSORPTION | ↓ | ↔ |
| CONSTRUCTION | ↔ | ↔ |
| RENTAL RATE | ↔ | ↔ |

*PROJECTED

## Industrial Velocity Continues to Slow

*Text by Aaron Somer*

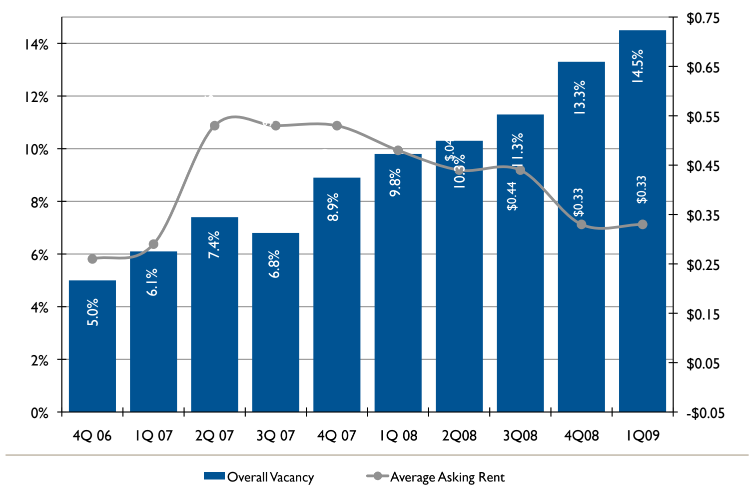
### Overview

The overall velocity of the industrial real estate market continued to slow in the first quarter of 2009. We experienced another significant increase in the direct vacancy rate, an increase in the sublease vacancy rate, negative net absorption, and the announcement of more industrial tenants leaving our market. We continue to experience weakening demand, market contraction, downward pressure on market rents and values, and an oversupply of almost every industrial product type. Despite this disheartening news, the current market is, and will continue to provide unprecedented opportunities for industrial tenants and buyers.

### Vacancy

Of the 71,253,090 square feet of industrial property tracked by the Colliers research department, 14.5% is currently vacant. This represents an overall increase in vacancy since the fourth quarter of 2008 (13.3%). Of the 14.5%, 2.2% of these properties are being offered for sublease. This sublease vacancy increased from 1.8% last quarter. This data is indicative of industrial tenants contracting into smaller spaces and, in some cases, closing down operations and offering their facilities for sublease for the remainder of their term. Several significant industrial tenants have recently discontinued local operations including BMC West, Alcon Laboratories (78,605 square feet), BrightPoint (159,500 square feet), and Entertainment Distribution Co. (100,276 square feet). While OHL is still an active industrial tenant in our market, they recently put 383,380 square feet at 475 Lillard Drive back onto the market.

VACANCY VS RENTAL RATE

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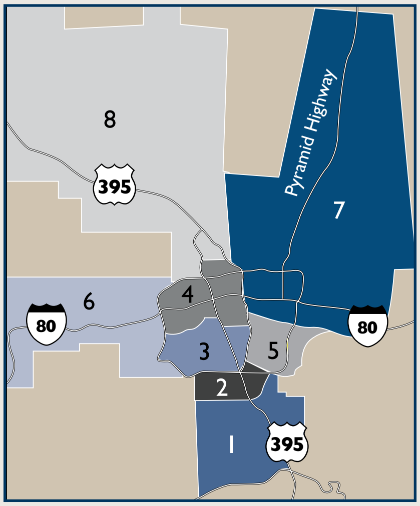


**SUBMARKET MAP KEY**

| ID | SUBMARKET |
|---|---|
| 1 | South Meadows |
| 2 | Meadowood |
| 3 | Southwest Reno |
| 4 | Downtown |
| 5 | Airport |
| 6 | West Reno |
| 7 | Sparks |
| 8 | Northwest Reno |

## Demand

Net absorption registered a negative 1,000,859 square feet this past quarter. Despite seventeen completed lease transactions totaling 566,582 square feet and five sale transactions totaling 119,989 square feet, the first quarter of 2009 continued a trend of strong market contraction which started in the fourth quarter of 2008 (negative net absorbtion of 904,683 square feet).

One bright-spot in the market is an increase in activity from third-party logistics providers. Companies recently active in the market are Jacobsen Companies, ITS Logistics, NewGistics, new to our market, and Kuehne + Nagel Logistics. In addition to these companies who recently executed new leases, there are more logistics companies currently considering moves and expansions in our market. It would seem that, in a down economy, companies consider outsourcing their warehousing, trucking, and overall distribution functions to reduce operating costs.

## Development

Only 32,000 square feet of industrial construction was completed this past quarter in the Tahoe Reno Industrial Center (TRIC) at the Riverview Commerce Center (Phase 2), a multi-tenant, office/warehouse, flex project. Given current market conditions, our industrial construction pipeline is currently empty. While there remains a significant number of industrial developers with land and speculative development plans, none are moving forward with construction plans at this time. This is true despite the significant decreases in construction costs that we are seeing.

## Rents

One of the most dynamic areas of the industrial market has been market lease rates. Given a strong desire for cash flow, landlords are working hard to attract and retain tenants. This translates to leasing incentives, in the form of abated rent and tenant improvements, a willingness to accept short-term leases, and deep discounts to advertised lease rates. A strong focus is now on net-effective rental rates as the water-line for our leasing market, given the significant amount of leasing incentives being offered by landlords. Also, landlords are, more-often-than-not, offering a full commission to the procuring broker, again representing the value of the tenant in today's market.

## Trends

Our forecast for the foreseeable future includes much of the same market activity. We expect market leasing activity to remain significant, but that the resulting market impact will be flat or negative. Industrial tenants will continue to take advantage of favorable leasing conditions to either trade-up into like-sized spaces or contract into smaller spaces. We expect a continued stream of industrial properties sold as more properties become available for sale. Overall vacancy may increase slightly, but the large jumps from new speculative construction completions are over for the time being. Construction starts will remain flat until market fundamentals change.

## MARKET ACTIVITY

SIGNIFICANT FIRST QUARTER END TRANSACTIONS

### SIGNIFICANT LEASES

| ADDRESS | DATE | SQUARE FOOTAGE | TENANT | PROPERTY TYPE |
|---|---|---|---|---|
| 2555 USA Pkwy | 03/09 | 85,875 | Bush | Warehouse/Dist |
| 360 Lillard Dr | 02/09 | 85,566 | Diapers.com | Warehouse/Dist |
| 46 Isidor Ct | 03/09 | 72,500 | NewGistics | Warehouse/Dist |

### SIGNIFICANT LEASES

| ADDRESS | DATE | SQUARE FOOTAGE | BUYER/SELLER | PROPERTY TYPE |
|---|---|---|---|---|
| 1745 Kuenzli St | 01/09 | 31,325 | Buyer - Dauenhauer Properperties LTD ETAL TTEE<br>Seller - Dauenhauer Properties LTD | Light Industrial |
| 380 S. Rock Blvd | 01/09 | 30,000 | Buyer - Fuchs Investments LLC<br>Seller - Passco RPI LLC etal | Warehouse |
| 400 Edison Way | 02/09 | 24,240 | Regional Emerge Med Serv Author | Light Industrial |

# INDUSTRIAL MARKET STATISTICS

FIRST QUARTER 2009

| EXISTING PROPERTIES | | | DIRECT VACANCY | | SUBLEASE VACANCY | | TOTAL VACANCY | | | | NET ABSORPTION | | CONSTRUCTION | | RENT |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| TYPE | BLDGS | TOTAL INVENTORY SQUARE FEET | SQUARE FEET | RATE | SQUARE FEET | RATE | SQUARE FEET | RATE 1Q-2009 | RATE PRIOR QUARTER | CURRENT OCCUPIED SQUARE FEET | 1Q-2009 | YEAR TO DATE | COMPLETED THIS QUARTER | UNDER CONST | AVERAGE ASKING |
| **SUBMARKETS** | | | | | | | | | | | | | | | |
| Airport | | | | | | | | | | | | | | | |
| Industrial | 199 | 7,279,193 | 526,147 | 7.2% | 41,923 | 0.6% | 568,070 | 7.8% | 6.8% | 6,711,123 | (79,503) | (79,503) | - | - | $0.62 |
| R/&D/Flex | 2 | 69,685 | - | - | - | - | - | - | - | 69,685 | - | - | - | - | - |
| W/D | 37 | 2,460,120 | 337,662 | 13.7% | 163,800 | 6.7% | 501,462 | 20.4% | 13.7% | 1,958,658 | (176,116) | (176,116) | - | - | $0.34 |
| TOTAL | 238 | 9,808,998 | 863,809 | 8.8% | 205,723 | 2.1% | 1,069,532 | 10.9% | 8.5% | 8,739,466 | (255,619) | (255,619) | - | - | $0.49 |
| Downtown | | | | | | | | | | | | | | | |
| Industrial | 55 | 1,128,269 | 287,721 | 25.5% | - | - | 287,721 | 25.5% | 17.2% | 840,548 | (91,864) | (91,864) | - | | $0.66 |
| R/&D/Flex | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| W/D | 10 | 498,017 | 74,000 | 14.9% | - | - | 74,000 | 14.9% | 15.7% | 424,017 | 26,997 | 26,997 | - | - | $0.38 |
| Total | 65 | 1,626,286 | 361,721 | 22.2% | - | - | 361,721 | 22.2% | 16.7% | 1,264,565 | (64,867) | (64,867) | - | - | $0.60 |
| McCarran | | | | | | | | | | | | | | | |
| Industrial | 20 | 1,451,828 | 147,159 | 10.1% | - | - | 147,159 | 10.1% | 8.6% | 1,304,669 | 6,880 | 6,880 | 32,000 | - | $0.59 |
| R&D/Flex | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| W/D | 7 | 4,085,923 | 2,176,280 | 53.3% | - | - | 2,176,280 | 53.3% | 55.4% | 1,909,643 | 86,643 | 86,643 | - | - | $0.33 |
| Total | 27 | 5,537,751 | 2,323,439 | 42.0% | - | - | 2,323,439 | 42.0% | 43.3% | 3,214,312 | 93,523 | 93,523 | 32,000 | - | $0.35 |
| Meadowood | | | | | | | | | | | | | | | |
| Industrial | 36 | 1,447,547 | 35,216 | 2.4% | 24,480 | 1.7% | 59,696 | 4.1% | 6.2% | 1,387,851 | 26,040 | 26,040 | - | - | $0.78 |
| R&D/Flex | 4 | 65,680 | 19,070 | 29.0% | - | - | 19,070 | 29.0% | 10- | 46,610 | 8,810 | 8,810 | - | - | $1.01 |
| W/D | 14 | 1,854,516 | 58,999 | 3.2% | 126,012 | 6.8% | 185,011 | 1- | 10.9% | 1,669,505 | 16,727 | 16,727 | - | - | $0.48 |
| Total | 54 | 3,367,743 | 113,285 | 3.4% | 150,492 | 4.5% | 263,777 | 7.8% | 9.4% | 3,103,966 | 51,577 | 51,577 | - | - | $0.59 |
| Northwest | | | | | | | | | | | | | | | |
| Industrial | 54 | 2,659,939 | 94,000 | 3.5% | - | - | 94,000 | 3.5% | 3.5% | 2,565,939 | - | - | - | - | $0.56 |
| R&D/Flex | 0 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| W/D | 19 | 2,258,100 | 170,905 | 7.6% | - | - | 170,905 | 7.6% | 5.9% | 2,087,195 | (37,000) | (37,000) | - | - | $0.31 |
| Total | 73 | 4,918,039 | 264,905 | 5.4% | - | - | 264,905 | 5.4% | 4.6% | 4,653,134 | (37,000) | (37,000) | - | - | $0.40 |
| South Reno Corridor | | | | | | | | | | | | | | | |
| Industrial | 36 | 2,776,709 | 195,371 | 7.0% | 17,866 | 0.6% | 213,237 | 7.7% | 6.8% | 2,563,472 | (112,070) | (112,070) | - | - | $0.76 |
| R&D/Flex | | | - | - | - | - | - | - | - | - | - | - | - | - | - |
| W/D | 14 | 2,355,485 | 30,440 | 1.3% | 64,812 | 2.8% | 95,252 | 4.0% | - | 2,260,233 | (95,252) | (95,252) | - | - | $0.31 |
| Total | 50 | 5,132,194 | 225,811 | 4.4% | 82,678 | 1.6% | 308,489 | 6.0% | 4.0% | 4,823,705 | (207,322) | (207,322) | - | - | $0.62 |
| Southwest | | | | | | | | | | | | | | | |
| Industrial | 11 | 273,414 | 27,452 | 1- | - | - | 27,452 | 1- | 17.0% | 245,962 | 10,298 | 10,298 | - | - | $0.35 |
| R&D/Flex | 1 | 33,307 | 6,712 | 20.2% | - | - | 6,712 | 20.2% | 20.2% | 26,595 | - | - | - | - | $0.74 |
| W/D | 2 | 44,258 | 25,250 | 57.1% | - | - | 25,250 | 57.1% | 52.4% | 19,008 | - | - | - | - | $0.68 |
| Total | 14 | 350,979 | 59,414 | 16.9% | - | - | 59,414 | 16.9% | 23.5% | 291,565 | 10,298 | 10,298 | - | - | $0.53 |
| Sparks | | | | | | | | | | | | | | | |
| Industrial | 357 | 12,589,265 | 742,265 | 5.9% | 117,871 | 0.9% | 860,136 | 6.8% | 5.8% | 11,729,129 | (314,287) | (314,287) | - | - | $0.55 |
| R&D/Flex | 4 | 100,214 | - | - | 7,500 | - | 7,500 | 7.5% | 7.5% | 92,714 | - | - | - | - | $0.52 |
| W/D | 132 | 15,893,044 | 2,247,782 | 14.1% | 631,418 | 4.0% | 2,879,200 | 18.1% | 17.2% | 13,013,844 | (148,996) | (148,996) | - | - | $0.30 |
| Total | 493 | 28,582,523 | 2,990,047 | 10.5% | 756,789 | 2.6% | 3,746,836 | 13.1% | 12.1% | 24,835,687 | (463,283) | (463,283) | - | - | $0.36 |
| Stead | | | | | | | | | | | | | | | |
| Industrial | 32 | 3,130,076 | 379,000 | 12.1% | - | - | 379,000 | 12.1% | 13.4% | 2,751,076 | 41,700 | 41,700 | - | - | $0.33 |
| R&D/Flex | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| W/D | 28 | 6,939,748 | 1,125,820 | 16.2% | 346,870 | 5.0% | 1,472,690 | 21.2% | 19.0% | 5,467,058 | (154,545) | (154,545) | - | - | $0.27 |
| Total | 60 | 10,069,824 | 1,504,820 | 14.9% | 346,870 | 3.4% | 1,851,690 | 18.4% | 17.3% | 8,218,134 | (112,845) | (112,845) | - | - | $0.28 |
| West Reno | | | | | | | | | | | | | | | |
| Industrial | 74 | 1,759,873 | 26,065 | 1.5% | 4,375 | 0.2% | 30,440 | 1.7% | 0.6% | 1,729,433 | (15,321) | (15,321) | - | - | $0.57 |
| R&D/Flex | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| W/D | 3 | 98,880 | 33,650 | 34.0% | - | - | 33,650 | 34.0% | 34.0% | 65,230 | - | - | - | - | $0.42 |
| Total | 77 | 1,858,753 | 59,715 | 3.2% | 4,375 | 0.2% | 64,090 | 3.4% | 2.4% | 1,794,663 | (15,321) | (15,321) | - | - | $0.49 |

# INDUSTRIAL MARKET STATISTICS
FIRST QUARTER 2009

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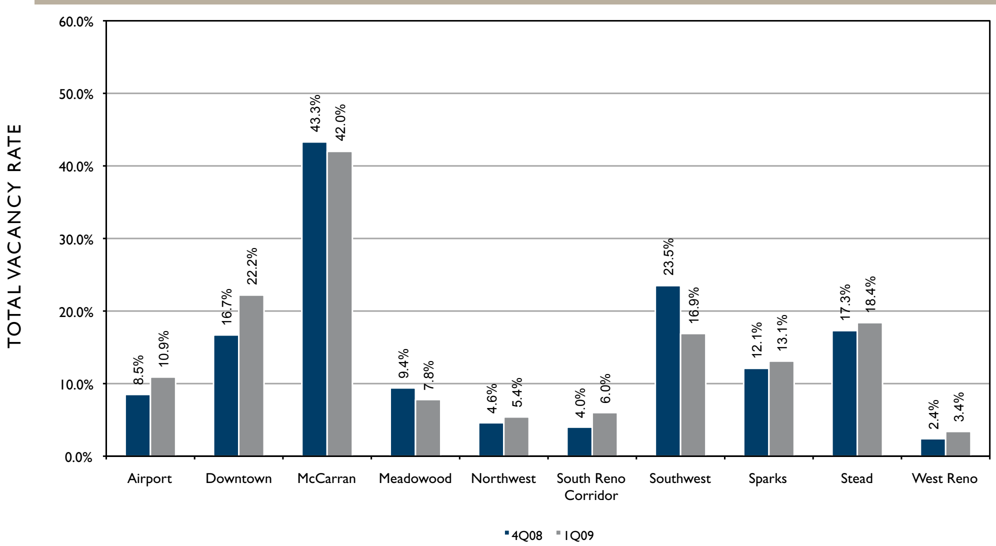
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| TYPE | BLDGS | TOTAL INVENTORY SQUARE FEET | SQUARE FEET | RATE | SQUARE FEET | RATE | SQUARE FEET | RATE 1Q-2009 | RATE PRIOR QUARTER | CURRENT OCCUPIED SQUARE FEET | 1Q-2009 | YEAR TO DATE | COMPLETED THIS QUARTER | UNDER CONST | AVERAGE ASKING |
| **MARKET TOTAL** | | | | | | | | | | | | | | | |
| Industrial | 874 | 34,496,113 | 2,460,396 | 7.1% | 206,515 | 0.6% | 2,666,911 | 7.7% | 6.8% | 31,829,202 | (528,127) | (528,127) | 32,000 | - | $0.57 |
| R&D/Flex | 11 | 268,886 | 25,782 | 9.6% | 7,500 | 2.8% | 33,282 | 12.4% | 11.6% | 235,604 | 8,810 | 8,810 | - | - | $0.85 |
| W/D | 266 | 36,488,091 | 6,280,788 | 17.2% | 1,332,912 | 3.7% | 7,613,700 | 20.9% | 19.5% | 28,874,391 | (481,542) | (481,542) | - | - | $0.31 |
| Total | 1,151 | 71,253,090 | 8,766,966 | 12.3% | 1,546,927 | 2.2% | 10,313,893 | 14.5% | 13.3% | 60,939,197 | (1,000,859) | (1,000,859) | 32,000 | - | $0.38 |
| **QUARTERLY COMPARISON AND TOTALS** | | | | | | | | | | | | | | | |
| Q1-09 | 1,151 | 71,253,090 | 8,766,966 | 12.3% | 1,546,927 | 2.2% | 10,313,893 | 14.5% | 13.3% | 60,939,197 | (1,000,859) | (1,000,859) | 32,000 | 0 | $0.33 |
| Q4-08 | 1,149 | 71,355,490 | 8,223,293 | 11.5% | 1,259,789 | 1.8% | 9,483,082 | 13.3% | 11.3% | 61,872,408 | (904,683) | 206,717 | 565,550 | 536,000 | $0.33 |
| Q3-08 | 1,143 | 70,561,347 | 7,245,147 | 10.3% | 741,862 | 1.1% | 7,987,009 | 11.3% | 10.2% | 62,574,338 | 329,788 | 1,111,400 | 797,825 | 1,101,550 | $0.44 |
| Q2-08 | 1,138 | 69,298,382 | 6,250,327 | 9.0% | 803,505 | 1.2% | 7,053,832 | 10.2% | 9.8% | 62,244,550 | 274,839 | 781,612 | 566,875 | 1,887,375 | $0.44 |
| Q1-08 | 1,134 | 68,445,543 | 6,030,979 | 8.8% | 708,729 | 1.0% | 6,739,708 | 9.8% | 8.9% | 61,705,835 | 506,773 | 506,773 | 993,000 | 2,377,250 | $0.48 |

TOTAL VACANCY RATES BY SUBMARKET
3Q2008 VS 4Q2008




293 OFFICES IN 61 COUNTRIES ON 6 CONTINENTS

USA 99
Canada & Latin America 37
Greater Asia 62
EMEA 95

$73 billion in annual transaction volume

868 million square feet under management

11,000 Professionals

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