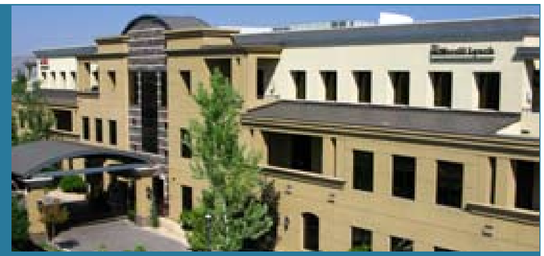
office

Colliers International GREATER RENO-TAHOE MARKET

Reno, Nevada



1st Quarter 2009

OVERVIEW

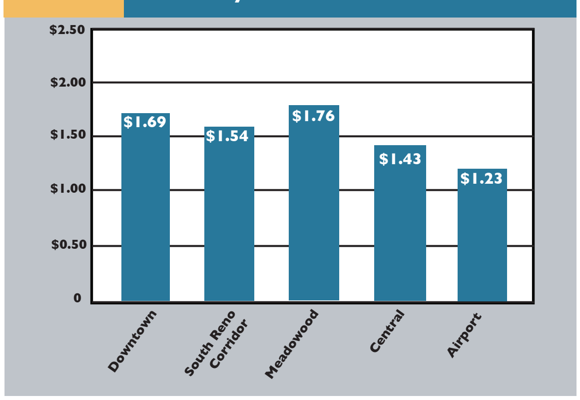
It appears we were premature in predicting the bottom of the market in the third quarter of 2008. We were hit with a slew of companies vacating space and sublease offerings in the first quarter, which pushed the overall vacancy up to 21.2%. We had negative net absorption of 95,324 square feet in the first quarter, which pushed us to the highest vacancy rate recorded since we began tracking vacancy in the Northern Nevada office market.

The South Reno Corridor, with includes South Meadows, recorded the largest jump in vacant space. The vacancy rate jumped from 26.9% in the fourth quarter of 2008 to a current rate of 32.3%. This means roughly one out of every three offices is vacant in this submarket. Downtown also jumped a percentage point to 22%. The area fairing the best was Meadowood, which actually dropped in vacancy from 16.7% to 16.6%.

This has not gone unnoticed by tenants, who have pushed lease rates down by about 20% from their highs two years ago. Most transactions are consummated in turn key condition, with some level of free rent to offset moving costs. Most of the tenants in the market are looking to improve their overall real estate costs by taking advantage of the soft market. There are a few out of town prospects, but they too are looking for bargains.

Landlords with well maintained buildings in good locations are fairing much better. While rents are clearly being pushed down, the good landlords are able to retain their tenants without having to give the same concessions as new tenants are seeing in vacant space. Rents for most renewals are down about 10% in contrast to the 20% to 25% seen in new leases. Terms for most new lease and renewals are also shorter than in the past. Many are doing two and three year terms.

FIGURE 1 **1Q 2009 Reno Office Average Rents By Submarket**



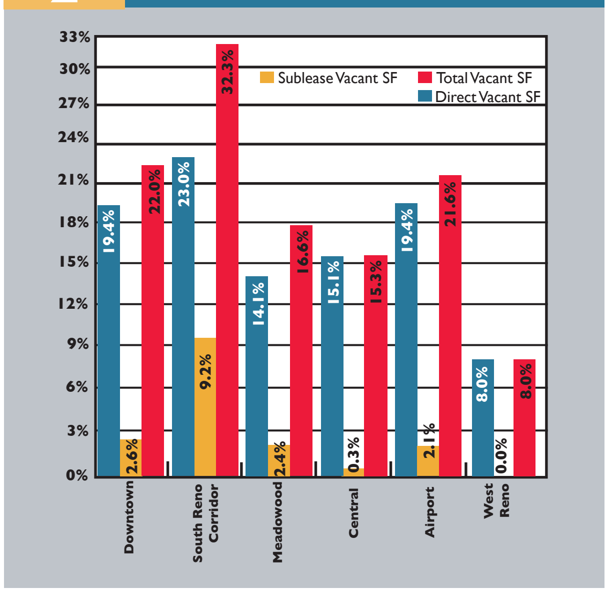
RENTS

We project that rents have bottomed out. This is based upon the cost to maintain a building and still be able to service a reasonable amount of debt. If rents were to fall further, we could see a rash of defaults as owners would not have sufficient cash flow to service existing debt. Sublease space will continue to drop as they do not have the same economic constraints. The South Reno Corridor continues to be the submarket offering the largest amount of concessions which is directly correlated to it's abundance of available space.

VACANCY RATE

The first quarter overall market vacancy increased from 19.2% at the close of 2008 to 21.2%. Unfortunately, we were not able to continue the trend of sublease space decreasing as it did in fourth quarter of 2008; in fact, we increased the sublease vacancy from 2.3% to 3.4%. The direct vacancy rate increased from 16.8% at the end

FIGURE 2 **1Q 2009 Vacancy Rates Reno Submarkets**



of 2008 to 17.9%. We continue to believe it will take approximately three to four years to work through the vacant space and come back to market equilibrium.

CONSTRUCTION

The only new construction in the first quarter was the completion of a 17,000 square foot build-to-suit for Wood Rogers by Tanamera Commercial Development on Reno Corporate Drive. Unfortunately, Wood Rogers will be vacating approximately 20,300 square feet in their current building at 575 Double Eagle in South Reno.

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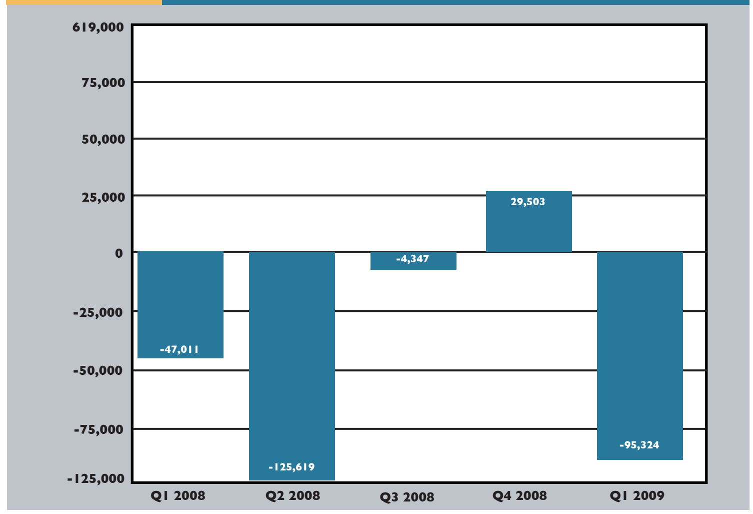
GARDEN OFFICE

The Garden Office market mirrors the negative trend of buildings over 10,000 square feet. We predicted the vacancy rate would peak at 19% in the third quarter 2009. We reached our prediction a bit earlier than anticipated as the first quarter ended with a vacancy rate of 19.7%, which is up from 18.2% in the fourth quarter of 2008. Albeit, it is still a weak market, but we are fairing slightly better than buildings over 10,000 square feet.

Rents continued to decrease with the average rental rate down to $1.54 per square foot modified gross from $1.62 per square foot at the end of 2008. We anticipate rental rates will continue to drop through the second quarter of 2009. Garden Office sales are down and we expect to see only owner-occupied purchases in 2009 as investment sales will not pencil.

We anticipate the vacancy rate will continue to rise and will peak in the third quarter 2009. We forecast additional space will be given back as companies evaluate their office needs heading into 2009. Despite ending 2008 with positive net absorption, the first quarter 2009 registered a negative net absorption of 28,665 square feet. The decrease in demand was due to tenants vacating buildings as no new construction was completed. We anticipate developers will forego speculative construction throughout 2009 until the existing new construction is absorbed which we anticipate market recovery to start in the later part of 2009 into 2010.

FIGURE 3
Reno Office
1Q 2008 - 1Q 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 1Q 2009

Tenant	Address	SF
GSA - Renewal	100 W. Liberty	11,646
Miller Heiman	10509 Professional Cir	11,500
Census Bureau	639 Isbell Rd	7,000
Guild, Russell Gallagher & Fuller LTD - Renewal	100 W. Liberty	6,247
JBR Consulting	595 Double Eagle Ct	5,214

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