



**OVERVIEW**

The overall vacancy rate dropped from 21.2% to 21.1%, which is probably not statistically significant since it is less than a half of one percent difference. The good news is that it did not jump up significantly. Because of the rapid deterioration of our local economy we suspect most of the surplus office space was given back to the market in the first quarter of 2009.

We did continue to see the trend of tenants in older buildings move into nicer and newer buildings in Meadowood and the South Reno Corridor. This will put pressure on landlords of older buildings. If they drop rents much more, they will not cover operating expenses. You cannot blame tenants for upgrading to class A buildings for the same or lower rents, not to mention safer neighborhoods.

We are just beginning to be contacted by banks needing to sell foreclosed office buildings. Most office building buyers in the last three years that took out mortgages in the 75% loan to value range are probably upside down. With many small businesses closing up or downsizing, we expect to see more buildings sold out of foreclosure in the next twelve to eighteen months.

So where do we see the market heading? With office occupancy being a lagging indicator, and unemployment in Northern Nevada rising, we expect to see a slight up-tick in vacancy between now and next summer. We forecast vacancy will start falling a year from now. Rents won't fall much further, as to do so would force most landlords to lose their buildings to their lenders. Construction will cease except for the occasional build to suit. Land sales will be very slow with little demand for ground up building.

**RENTS**

Rents overall are down between 10% and 30% depending on the submarket. Rents in the South Reno Corridor have been hit the hardest. There is simply too much competing space for the few tenants in this submarket. Some select buildings in high demand areas are fairing well with rents only down about 10%. The lack of new buildings will help keep rents from falling further.

**VACANCY RATE**

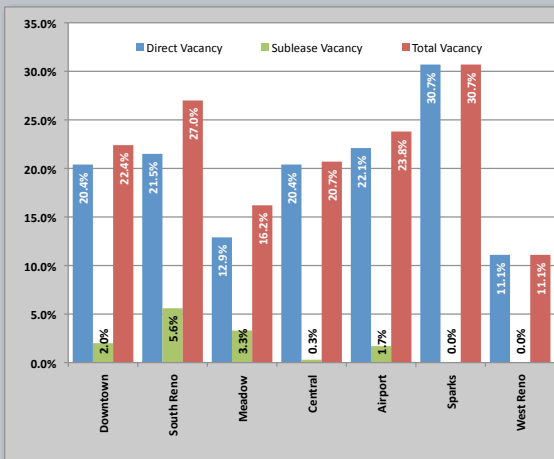
As stated above, the overall vacancy rates decreased from 21.2% to 21.1%. The amount of sublease space in the market remained constant at 2.8%. We expect the amount of sublease space to start dropping as leases expire and the space becomes a direct lease.

There was very little adjustment in the various submarkets. As a general rule, the older submarkets had a 1% increase in vacancy and the newer submarkets had a 1% decrease in vacancy.

**FIGURE 1**  
 3Q 2009  
 Reno Office Average  
 Rents By Submarket



**FIGURE 2**  
 3Q 2009 Vacancy Rates  
 Reno Submarkets



**CONSTRUCTION**

The new two story 16,000 square foot mixed use building downtown on State Street was completed in the third quarter. This could easily be the last spec building for the next five years. There was talk of some build to suit buildings for the GSA, but they appear to be focusing on existing structures for the time being.



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# Colliers International GREATER RENO-TAHOE MARKET Reno, Nevada



3rd Quarter 2009

## ABSORPTION

Net absorption was positive for the second consecutive quarter, but was only 2,614 square feet which, like the change in vacancy, is not significant. For the year we are still down 112,000 square feet. We expect the fourth quarter to look much like the second and third quarter with the only activity being tenants moving between existing buildings.

## GARDEN OFFICE

The Garden Office Market in the third quarter mirrored buildings over 10,000 square feet with the vacancy rate slightly down from 21.8% in the second quarter to 21.4%. In addition, net absorption for the third quarter was up with 18,091 square feet of positive net absorption which is a sign of stabilization. Even with the prospect of stabilization, the year to date net absorption remains a negative 25,386 square feet.

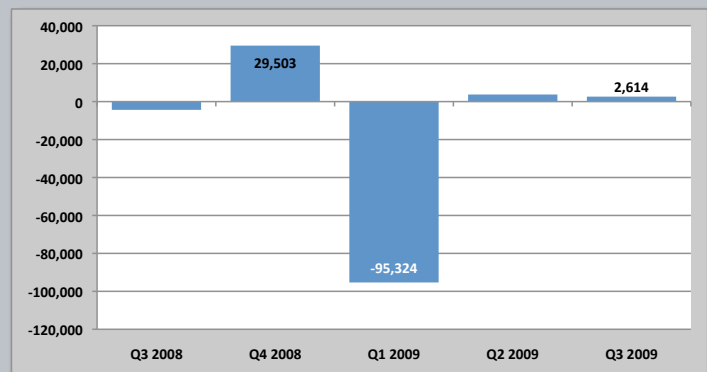
While the numbers would indicate there are not many transactions taking place, it is apparent that a reverse is taking place. We have seen a number of existing tenants moving from one location to another, usually to save on operating costs and upgrade to a higher class of building or location for the same rental rate. In addition, it appears rents have also reached bottom and are beginning to stabilize. The average rental rate held steady for the third quarter in a row at \$1.55 per square foot modified gross.

Garden Office construction is at a standstill with no new construction planned as developers try to absorb the standing inventory. In fact, developers have begun to drop

the asking prices of building shells to compete with asking sales prices for existing space. Villaggio in the east part of South Meadows is currently asking \$130 per square foot, in addition Tanamera has reduced the price of shell space by 20% across all projects. This is indicative of falling building values as the predicted commercial foreclosures are coming on the market.

FIGURE  
3

Reno Office  
2Q 2008 - 3Q 2009  
Net Absorption Comparison



### Significant Lease Transactions 3Q 2009

Tenant	Address	SF
Cisco Systems	9850 Double R Blvd	10,719
Whittier Trust	100 W Liberty St	6,824
Mann Mortgage	160 W. Huffaker	5,700
Real Estate Group	6900 S McCarran	4,280



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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](http://www.NevadaOffice.com).