

### VACANCY

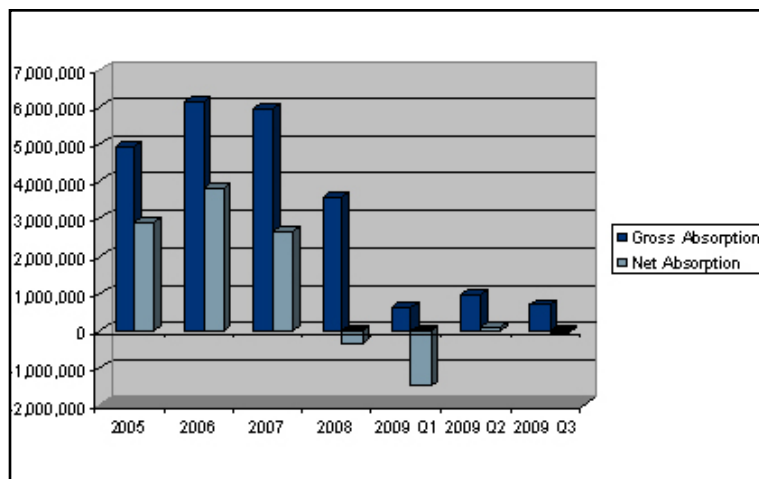
For the third straight quarter, the overall vacancy rate has remained virtually the same at just over 15%. Several large tenants we thought would make commitments on space, remain on the sideline. Should they pull the trigger and take down the space they have shown interest in, the vacancy rate may start moving down. The question is, what space will become available during the 4th quarter due to business closures and downsizing

### GROSS ABSORPTION

Gross absorption for the quarter was predictably lower in light of our challenging economy. The Reno-Sparks market posted a gross absorption of 688,502 sf. for the Q3 2009, which was comparable to the low first quarter posted this year. The second quarter was close to normal with 963,546 sf. of activity and was the only quarter to have positive net absorption. We predict the 4th quarter will close out the year with less than normal absorption.

Gross absorption is defined as the total activity within the marketplace, not including renewals of existing leases.

- Absorption for Q3 2009 was 688,005 sf.
- This was similar to Q1 2009 which was a paltry 621,563 sf.
- Q2 2009 represents the healthiest quarter for the year at 963,546 sf.
- Our predictions are that Q4 will be within this range of numbers.
- This will put our 2009 total absorption between 12% and 18% below 2008.
- Thus the hypothetical 2009 total will trail 2007 total absorption by 49% to 53% .



### NET ABSORPTION

The negative net absorption trend remains with us even though no new speculative space has been built in almost a year. The first quarter logged in at negative 1.4 million sf., the second quarter a positive 93,000 sf. and third quarter a negative 55,000 sf. It looks as though by end of year, we will remain in the negative column.

*For Further Information:*

**David Schuster, SIOR, CCIM**  
dave.schuster@grubb-ellis.com  
775.332.7308

**Greg Shutt, SIOR**  
greg.shutt@grubb-ellis.com  
775.332.7315

**Chris Fairchild**  
chris.fairchild@grubb-ellis.com  
775.332.7308



### BUILD-TO-SUIT DYNAMICS/SPECULATIVE CONSTRUCTION

This marks my first entry into the Grubb & Ellis|NCG newsletter. As an industrial developer for the past eleven years I can tell you first hand that there are very few people in the industry that have experienced this kind of financial/economic situation. Banking relationships have traditionally been about just that....relationships and track records. As of the past twenty four to eighteen months, there has been a shift from a relationship based business, to managing risk. The banker a developer used to do business with is no longer the decision maker and lending decisions are no longer based on a borrower's track record, rather, they are based on a set of criteria.

While banks are at a point where they are ready to lend on a build to suit (BTS) with a signed lease and a good credit tenant, the terms of a loan are less than attractive mainly due to a higher loan to value ratio (LTV 50% to 70%). The rental rates and concessions being given by landlords in the market are typically less (about 30% to 40%) than what a developer can provide to a user on new construction. Since the banks are managing risk, they will value the project at current market rates....and so goes the LTV.



As a result, more equity is typically required to get a project underway. If a developer or an owner is lacking equity to provide for the higher LTV, they are faced with the decision to bring on a partner or joint venture of some sort. The money is out there, but the return expectations are high. So high, that in the end, the developer maybe looking at developing for only a development fee. That fee will help keep the lights on and hopefully cover some overhead, but that is about it. Only until more of this so called "sideline money" gets disbursed into the market (probably through the investment in distressed properties) will we see more favorable terms from the private equity side of things. One positive note is that if a developer does have the financial ability to get a project off of the ground, land prices and constructions costs are way down.

Speculative construction is non-existent. At this point, even if lending was both available and favorable, our market would not see much development. With an overall vacancy of roughly 15% and lease rates/concessions being what they are, developers will wait until the time is right.

On the very bright side of things....it's a great time to be a tenant! Keep in mind, "This is just a test, not the final".

### GRUBB & ELLIS|NCG INDUSTRIAL TEAM:

Welcomes Greg Shutt, SIOR, LEED-AP to the industrial team as vice president. Shutt comes to Grubb & Ellis|NCG from DP Partners where he spent the last 11 years leasing millions of square feet of warehousing, distribution and manufacturing facilities in the Reno/Sparks area and in 2007, was named Partner and responsible for all aspects of development in northern Nevada.



"Greg's expertise and notable reputation will be a tremendous asset to our continued growth efforts," said John Pinjuv, president of Grubb & Ellis|NCG. "We are excited to have him as part of our team."