

Office Market Report

Compared to the Previous Quarter:

Vacancy



UP

Net Absorption

NEGATIVE



Lease Rates

DOWN



Transactions

FLAT



Deliveries

FLAT



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Market Highlights

- Market Status** - The Reno office market continued to struggle in the first quarter of 2012, though showed some signs that improvement might be on the horizon. Vacancy increased only slightly from the previous quarter, an indication of stabilization. Net absorption posted only a small negative number, and availability dropped significantly, which is likely to positively affect net absorption in the future. However, employment and overall economic recovery will need to be sustained in coming quarters for the Reno office market to continue to improve.
- Construction** - There were no office properties under construction in the Reno market at the end of the first quarter of 2012. However, there was still 424,446 square feet of proposed projects. Other than possible build-to-suits, don't look for those proposed projects to come to fruition anytime soon.
- Vacancy** - The market's vacancy rate increased minimally, 8 basis points, to finish the first quarter of 2012 at 16.73%. The Central/Airport and South Meadows submarket's vacancy rates remained very high during the first quarter at 18.91% and 18.7%, respectively, and contributed greatly to the overall high vacancy rate in the market. Meanwhile, the Meadowood submarket posted the lowest rate at 11.55%.
- Availability** - The percentage of direct/sublease space being marketed came in at 20.64% in the first quarter of 2012 — a decrease of 20 basis points compared to the previous quarter. The South Meadows area posted a very high availability rate of 27.08% during the first quarter, while the Meadowood and Caron City County submarkets looked good at 15.22% and 15.68%, respectively.
- Lease Rates** - At the end of the first quarter, the average asking full-service lease rate across all 3 building classes and 14 submarkets came in at \$1.49 per square foot per month, a drop from the \$1.53 seen in the previous quarter and the \$1.57 seen the prior year. The region's highest average asking rate (within the major submarkets) was \$1.70 in the Downtown area, while the lowest was \$0.79 in the Sparks submarket.
- Absorption** - The Reno office market posted a small amount of negative net absorption, 14,023 square feet, in the first quarter of 2012 — still an improvement from the 40,710 square feet of negative net absorption in fourth quarter of 2011. Prior to the fourth quarter of 2011, the Reno office recorded four straight quarters of positive net absorption. With the dramatic level of supply, expect net absorption to be flat or positive, but only in small increments.
- Transaction Activity** - Total square footage of lease and sale transaction volume has remained fairly steady for the past two quarters at approximately 250,000 square feet. Expect possible increases due to vast, cheap supply and owner/user opportunities. Details of the largest transactions for the first quarter of 2012 can be found on the back page of this report.
- Employment** - The unemployment rate for Washoe County was 13.0%, up from approximately 12% at year-end 2011. Nevada's unemployment rate decreased to 12.7% during the first quarter and was 1.1% lower than the previous year. Within the state, the construction industry gained 1,400 jobs in January, with professional and business services gaining 1,000 jobs and leisure and hospitality adding another 400 jobs.
- Overall** - In the near future, Reno's office market will likely become complacent and stay at its current weak level. However, Reno does offer a couple major draws for prospective tenants: lower taxes rates for businesses, in comparison to neighboring states, and numerous opportunities move up in quality as class A buildings remain at over 18% vacant. Look for the office market in Reno to continue to be a struggle from an owner/seller's standpoint but present great opportunity for tenants and buyers.

Prepared by:

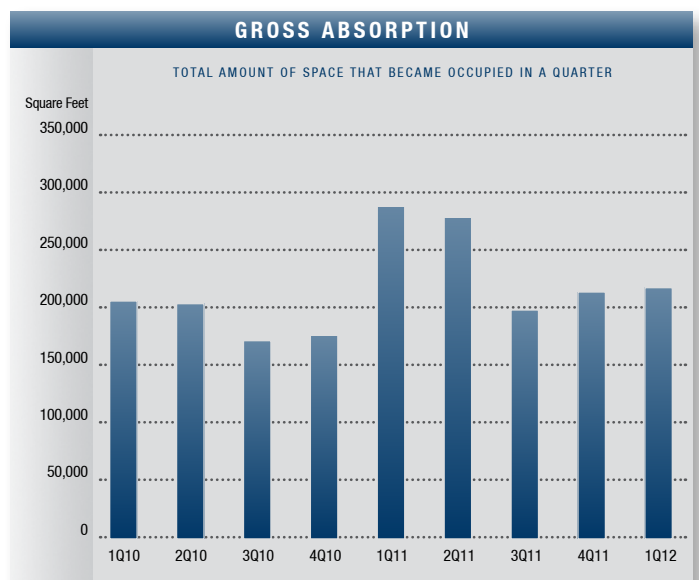
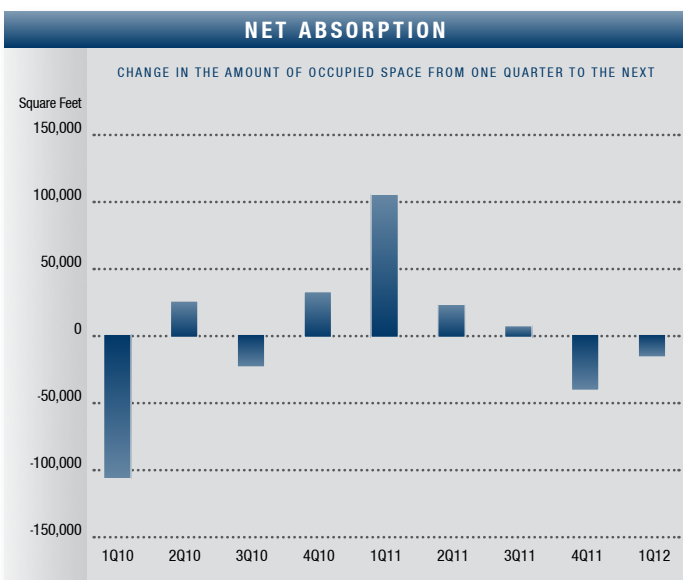
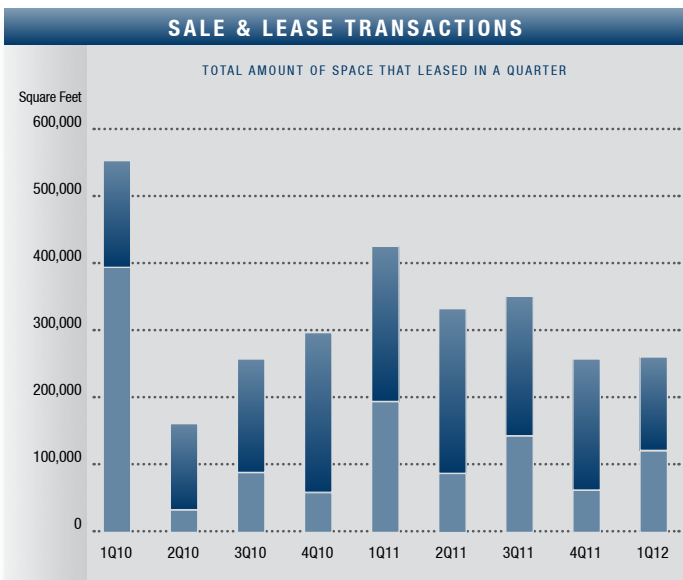
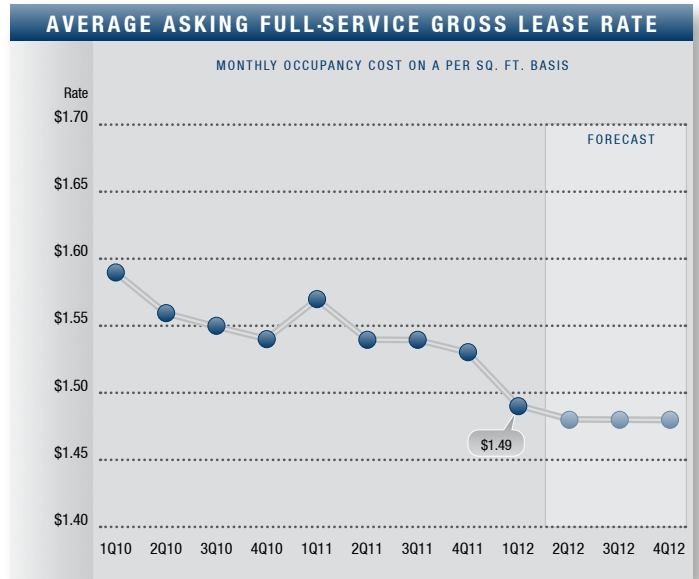
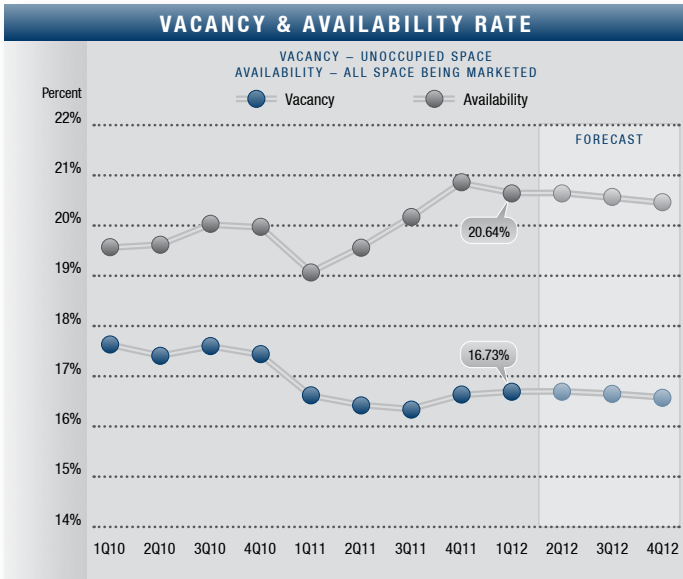
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OFFICE MARKET OVERVIEW

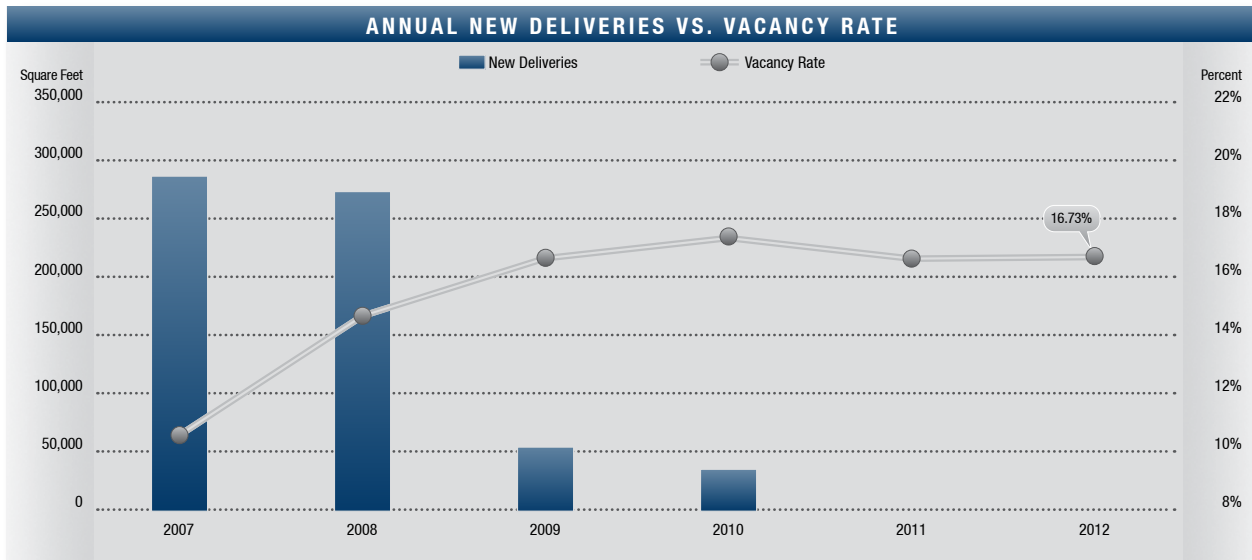
	1Q12	4Q11	1Q11	% of Change vs. 1Q2011
Total Vacancy Rate	16.73%	16.65%	16.62%	0.66%
Availability Rate	20.64%	20.84%	19.06%	8.29%
Average Asking Lease Rate	\$1.49	\$1.53	\$1.57	(5.10%)
Sale & Lease Transactions	257,419	256,211	423,566	(39.23%)
Gross Absorption	216,630	212,196	287,359	(24.61%)
Net Absorption	(14,023)	(40,710)	104,236	N/A



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2012	Square Feet Available	Availability Rate 1Q2012	Average Asking Lease Rate	Net Absorption 1Q2012	Net Absorption 2012	Gross Absorption 1Q2012	Gross Absorption 2012
Reno Market Total													
Carson City County	60	1,669,124	0	25,892	268,729	16.10%	261,689	15.68%	\$1.00	(4,259)	(4,259)	11,758	11,758
Central/Airport	81	1,922,174	0	0	363,552	18.91%	461,145	23.99%	\$1.13	20,336	20,336	74,510	74,510
Douglas County	12	263,807	0	0	32,769	12.42%	32,769	12.42%	\$0.00	5,425	5,425	5,425	5,425
Downtown	71	3,097,761	0	0	516,853	16.68%	672,149	21.70%	\$1.70	(20,238)	(20,238)	38,661	38,661
Incline Village	10	167,210	0	0	20,545	12.29%	26,188	15.66%	\$0.00	3,209	3,209	4,465	4,465
Lyon County	5	79,989	0	12,000	39,623	49.54%	39,623	49.54%	\$0.00	0	0	0	0
Meadowood	78	2,578,302	0	267,000	297,732	11.55%	392,362	15.22%	\$1.51	(4,019)	(4,019)	42,933	42,933
North Outlying Washoe County	2	95,595	0	0	29,575	30.94%	26,718	27.95%	\$1.80	(1,760)	(1,760)	0	0
North Valleys	1	13,027	0	0	13,027	100.00%	13,027	100.00%	\$0.00	0	0	0	0
South Outlying Washoe County	4	55,374	0	24,054	0	0.00%	0	0.00%	\$0.00	0	0	0	0
South Meadows	57	1,677,827	0	56,500	313,677	18.70%	454,348	27.08%	\$1.55	(6,755)	(6,755)	26,518	26,518
Sparks	27	631,347	0	0	128,408	20.34%	128,408	20.34%	\$0.79	(9,481)	(9,481)	8,841	8,841
Storey County	1	41,201	0	39,000	0	0.00%	0	0.00%	\$0.00	0	0	0	0
West Reno	12	188,282	0	0	64,081	34.03%	68,122	36.18%	\$1.05	3,519	3,519	3,519	3,519
Reno Market Total	421	12,481,020	0	424,446	2,088,571	16.73%	2,576,548	20.64%	\$1.49	(14,023)	(14,023)	216,630	216,630

Class A	22	1,657,481	0	102000	309,642	18.68%	428,191	25.83%	\$1.76	(3,791)	(3,791)	9,068	9,068
Class B	266	7,512,838	0	322446	1,296,740	17.26%	1,479,456	19.69%	\$1.51	(12,160)	(12,160)	169,322	169,322
Class C	133	3,310,701	0	0	482,189	14.56%	668,901	20.20%	\$1.25	1,928	1,928	38,240	38,240
Reno Market Total	421	12,481,020	0	424,446	2,088,571	16.73%	2,576,548	20.64%	\$1.49	(14,023)	(14,023)	216,630	216,630

This survey consists of properties 10,000 square feet and larger in size, representing both single tenant and multi-tenant buildings. The lease rates are based on a full-service gross basis.



RECENT TRANSACTIONS

Sale Transactions

Property Address	Submarket	Class	Square Feet	Sale Price PSF	Buyer	Seller
1285 Financial Blvd.	Central/Airport	C	39,345	\$76.25	Renown Health, Inc.	Evergreen Capital, LLC
455 Somersett Pkwy.	West Reno	B	8,161	\$300.21	Massie Family Trust	Banaszak Heuer, LLC
6570 S. McCarran Blvd.	Meadowood	B	5,892	\$186.69	Renown Health, Inc.	James Christensen MD
6548 S. McCarran Blvd.	Meadowood	B	3,484	\$214.41	Roland Gysen	Pulmonary Medicine Associates
8610 Technology Way	South Reno	B	6,482	\$83.31	Northern Nevada Allergy Clinic, Ltd.	Huskers Nevada, LLC

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
961 Matley Ln.	Airport	C	23,891	Feb-12	AMEC	City News Service, Inc.
100 W. Liberty St.	Downtown	A	11,800	Feb-12	Gordon Silver	Chawin Property, Inc.
5390 Kietzke Ln.	Meadowood	B	9,950	Jan-12	Video Gaming Technologies, Inc.	NevDex Properties
100 W. Liberty St.	Downtown	A	7,128	Feb-12	Downey Brand	Chawin Property, Inc.
9120 Double Diamond Pkwy.	South Meadows	B	4,836	Jan-12	Laughlin USA	Creekside-Double Diamond, LLC

Product Type

CLASS A

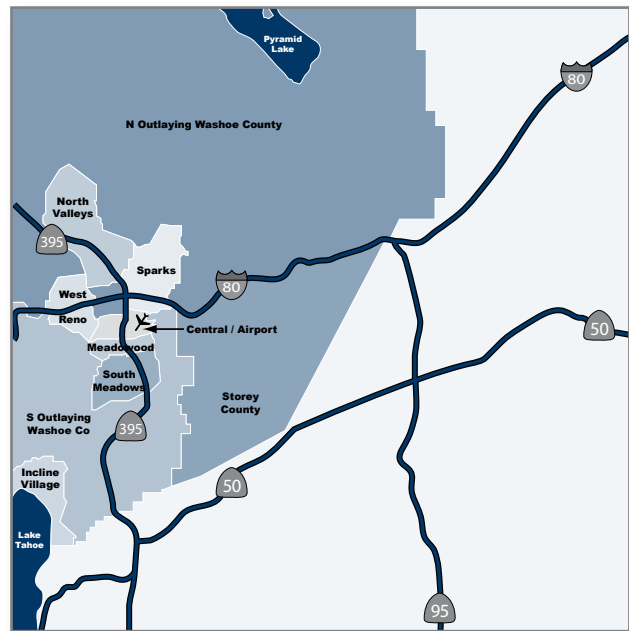
Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

CLASS B

Buildings competing for a wide range of users with rents in the average range for the area. Building finishes are fair to good for the area, and systems are adequate. However, Class B buildings cannot compete with Class A buildings of the same price.

CLASS C

Buildings competing for tenants requiring functional space at rents below the area average.



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