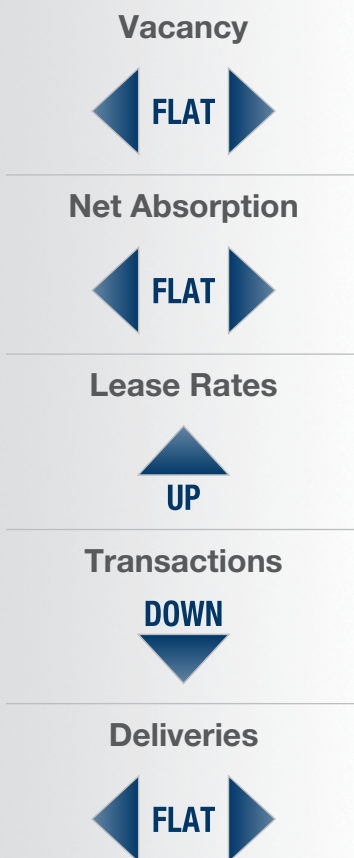


Office Market Report

Compared to the Previous Quarter:



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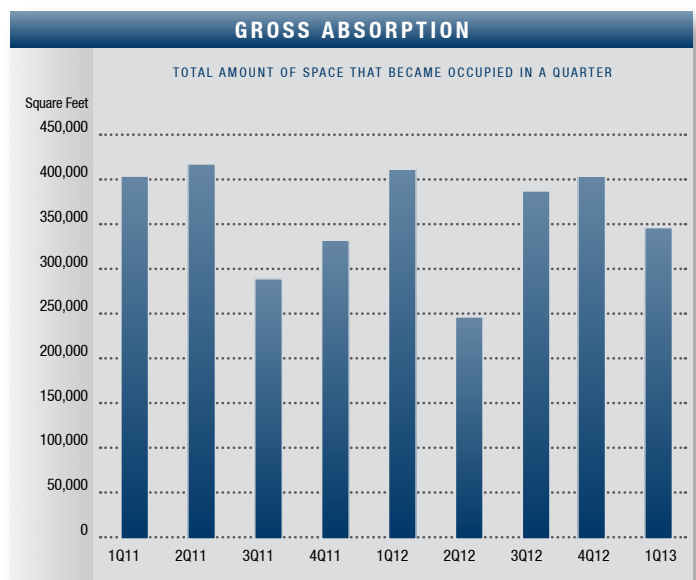
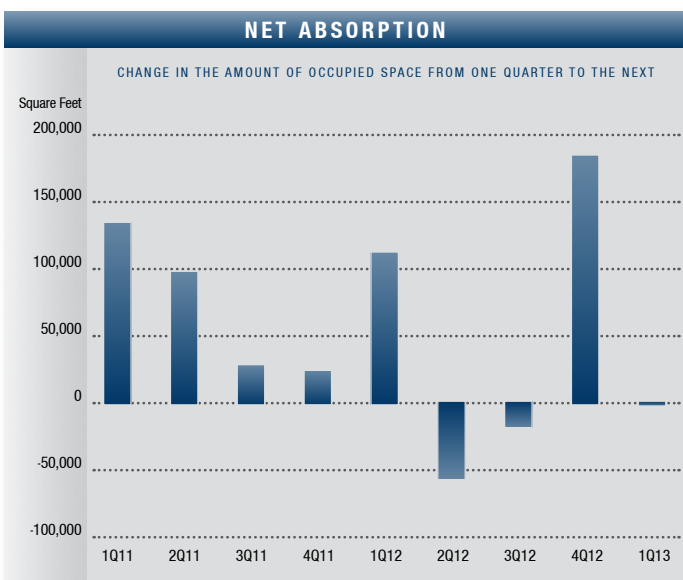
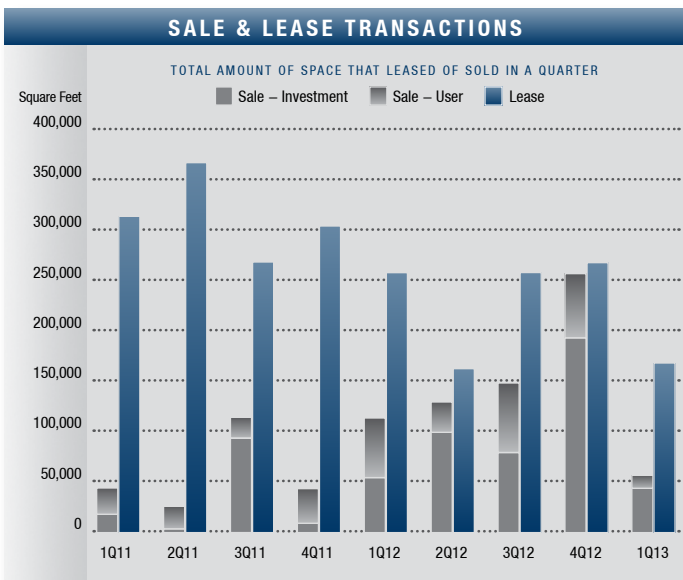
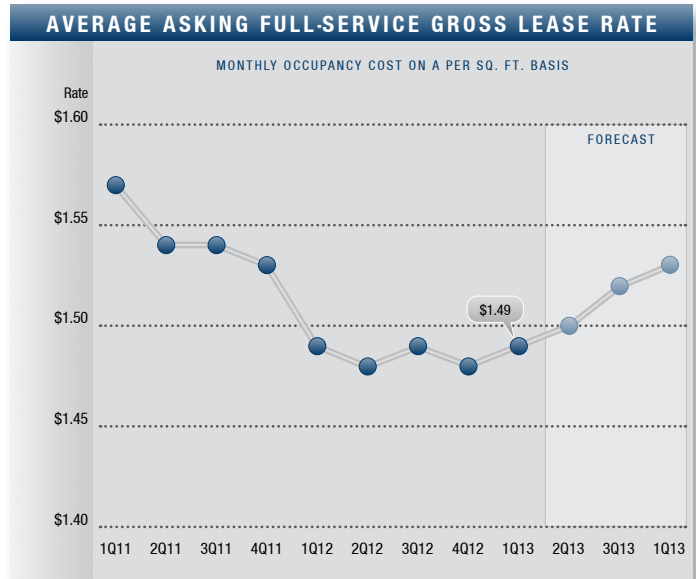
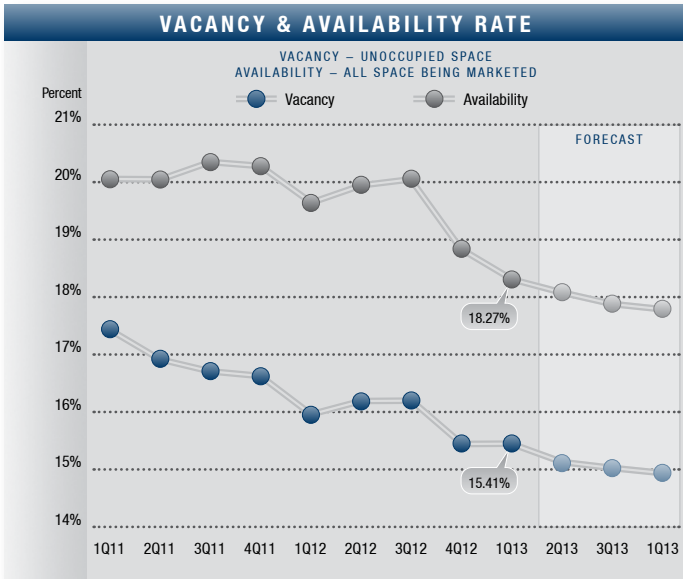
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Market Highlights

- Market Status** - The first quarter of 2013 reflected stability as it struggled to follow up the huge fourth quarter of 2012. Vacancy and net absorption remained flat, which isn't always bad in the nascent stages of recovery. More excitably, the market saw an increase in asking rent. The past few years this market has been like a yo-yo, and we expect a long-term recovery in this market to be moderate and slow moving.
- Construction** - One office property was under construction in the Reno market at the end of the first quarter — a 5,468 class B project in the North Valleys submarket. There was still 1.4 million square feet of proposed projects. However, 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 for the first quarter remained at the same level as the previous quarter at 15.41%. Within the major submarkets, Sparks and Carson City submarkets remained very high at 18.65% and 15.88%, respectively, while the Meadowood submarket posted the lowest rate at 12.58%.
- Availability** - The percentage of total space being marketed at the end of the first quarter was 18.27% — a decrease of 56 basis points from the previous quarter. Within the major submarkets, the Sparks and South Meadows submarkets remained very high at 22.80% and 20.50%, respectively, while the Meadowood submarket looked best at 14.42%.
- Lease Rates** - At the end of the first quarter, the average asking full-service gross lease rate across all 3 building classes and 14 submarkets came in at \$1.49 per square foot per month, a rise from the \$1.48 seen in the previous quarter. The region's highest average asking rate, within the major submarkets, was \$1.67 in the Downtown area, while the lowest was \$0.65 in the Sparks submarket.
- Absorption** - The Reno office market posted negative net absorption of 895 square feet during the first quarter. Other than this quarter and the second and third quarters of 2012, every quarter since the third quarter of 2010 has posted some figure of positive absorption.
- Transaction Activity** - Total square footage of lease and sale transaction volume has remained fairly steady over the past nine quarters with a peak during the fourth quarter of 2012. Final numbers for this statistic typically have some lag time, so look for the first quarter to post around 275,000 square feet of total volume. Details of the largest transactions for the first quarter of 2013 can be found on the back page of this report.
- Employment** - The unemployment rate in the Reno-Sparks MSA was 9.6% in December 2012, down from 10.8% in September 2012. This compares with an unemployment rate of 9.8% for Nevada and 8.1% for the nation during the same period.
- Overall** - In the near future, Reno's office market will likely continue to fluctuate some as it continues on its gradual path to recovery. However, Reno does offer a few major draws for prospective tenants: lower tax rates for businesses (in comparison to neighboring states) and numerous opportunities to move up in quality (as class A buildings remain at 19.6% vacancy). Some large companies such as Apple and Urban Outfitters are moving their distribution centers into the area — which in the long term could raise the level of Reno's attractiveness.

OFFICE MARKET OVERVIEW

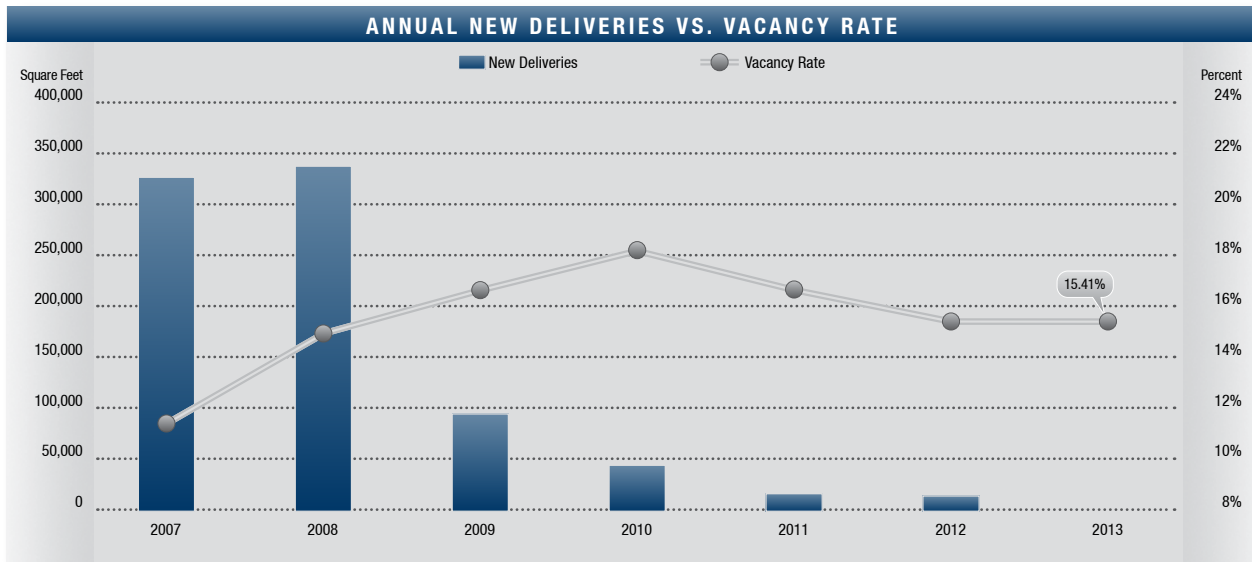
	1Q13	4Q12	1Q12	% of Change vs. 1Q12
Total Vacancy Rate	15.41%	15.41%	15.99%	(3.63%)
Availability Rate	18.27%	18.83%	19.65%	(7.02%)
Average Asking Lease Rate	\$1.49	\$1.48	\$1.49	0.00%
Sale & Lease Transactions	222,506	522,360	367,060	(39.38%)
Gross Absorption	345,532	400,358	410,401	(15.81%)
Net Absorption	(895)	184,922	111,515	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 1Q2013	Square Feet Available	Availability Rate 1Q2013	Average Asking Lease Rate	Net Absorption 1Q2013	Net Absorption 2012	Gross Absorption 1Q2013	Gross Absorption 2012
Reno Market Total													
Carson City County	172	2,245,584	0	3,000	356,566	15.88%	379,261	16.89%	\$1.09	(17,366)	54,340	10,128	148,254
Central/Airport	246	2,810,762	0	14,392	443,528	15.78%	536,543	19.09%	\$1.12	54,602	5,400	88,825	198,296
Douglas County	58	519,014	0	6,545	56,820	10.95%	61,423	11.83%	\$1.79	(4,562)	26,587	4,819	38,297
Downtown	314	4,070,674	0	0	600,522	14.75%	732,858	18.00%	\$1.67	(14,539)	26,852	45,983	259,488
Incline Village	29	315,521	0	0	59,293	18.79%	70,534	22.35%	\$1.78	(865)	(19,005)	4,800	62,479
Lyon County	38	186,902	0	12,000	45,642	24.42%	54,442	29.13%	\$0.00	16,307	12,665	16,307	17,065
Meadowood	190	3,179,333	0	289,036	399,897	12.58%	458,537	14.42%	\$1.58	(36,422)	31,050	37,102	198,181
North Outlying Washoe County	6	112,026	0	0	34,297	30.62%	34,297	30.62%	\$1.70	(4,415)	928	6,381	5,688
North Valleys	16	109,841	5,468	0	19,660	17.90%	19,660	17.90%	\$0.00	10,076	(8,073)	10,076	3,440
South Outlying Washoe County	21	201,082	0	24,054	10,353	5.15%	15,380	7.65%	\$0.00	1,690	1,117	1,898	10,699
South Meadows	175	2,257,488	0	196,239	358,072	15.86%	462,755	20.50%	\$1.58	(8,348)	57,851	93,126	255,551
Sparks	162	1,196,724	0	0	223,194	18.65%	272,829	22.80%	\$0.65	6,680	(7,796)	20,966	84,814
Storey County	2	23,730	0	881,162	0	0.00%	0	0.00%	\$0.00	0	0	0	0
West Reno	40	352,886	0	0	102,255	28.98%	113,124	32.06%	\$0.00	(3,733)	14,636	5,121	45,024
Reno Market Total	1,469	17,581,567	5,468	1,426,428	2,710,099	15.41%	3,211,643	18.27%	\$1.49	(895)	196,552	345,532	1,327,276

Class A	20	1,583,765	0	102,000	310,568	19.61%	324,306	20.48%	\$1.74	(32,561)	13,644	67,742	78,973
Class B	720	10,017,228	5,468	1,324,428	1,550,386	15.48%	1,828,361	18.25%	\$1.53	1,903	224,516	163,406	916,102
Class C	729	5,980,574	0	0	849,145	14.20%	1,058,976	17.71%	\$1.24	29,763	(41,608)	114,384	332,201
Reno Market Total	1,469	17,581,567	5,468	1,426,428	2,710,099	15.41%	3,211,643	18.27%	\$1.49	(895)	196,552	345,532	1,327,276

The lease rates are based on a full-service gross basis.



RECENT TRANSACTIONS

Sale Transactions

Property Address	Submarket	Class	Square Feet	Sale Price Per SF	Buyer	Seller
5905 S. Virginia St.	Meadowood	B	29,000	\$56.03	Cypress Management	KBS Realty Advisors
401 Court St.	Downtown	B	6,441	\$182.43	McCarran Mansion, LLC	401 Court St., LLC
1130-1190 Selmi Dr.	North Valleys	B	23,116	\$37.85	Orchard Terrace Estates, LLC	University Hills Professional Center, LLC
525-527 Plumas St.	Downtown	C	2,880	\$127.43	Serendipitous, LLC	Gonzalez Family Trust
85 Continental Dr.	Central / Airport	C	3,858	\$93.31	Aland Family Trust	Kabour Family Trust

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
9805 Double R Blvd.	South Meadows	A	13,979	Jan-13	N/A	Incline Capital Group
6995 Sierra Center Pkwy.	Meadowood	B	9,200	Mar-13	N/A	Equilibrium, LLC
10345 Professional Cir.	South Meadows	A	7,952	Jan-13	N/A	Chance Family Properties
6995 Sierra Center Pkwy.	Meadowood	B	7,745	Mar-13	N/A	Equilibrium, LLC
50 W. Liberty St.	Downtown	A	6,614	Mar-13	N/A	Basin Street Properties

Product Type

CLASS A

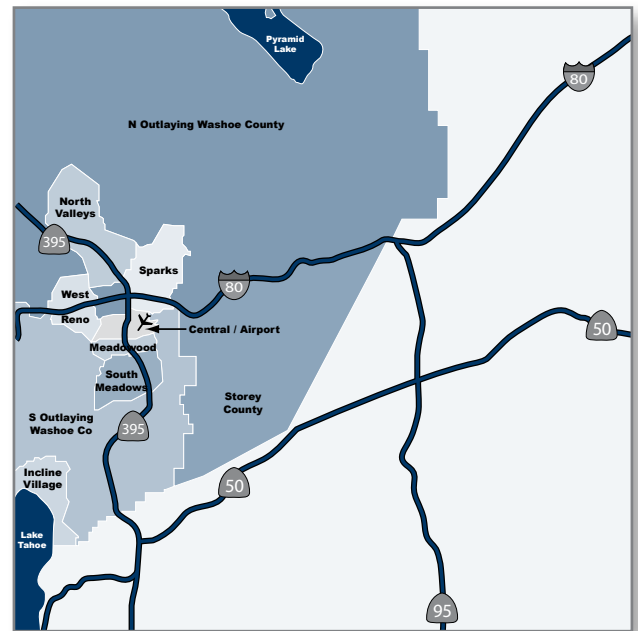
Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

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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