

## Office Market Report

Compared to the Previous Quarter:

Vacancy



UP

Net Absorption

NEGATIVE



Lease Rates

DOWN



Transactions

DOWN



Deliveries

DOWN



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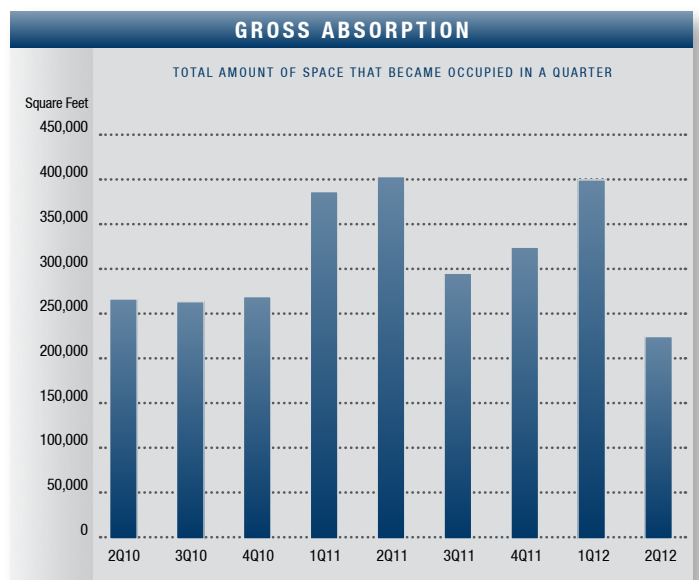
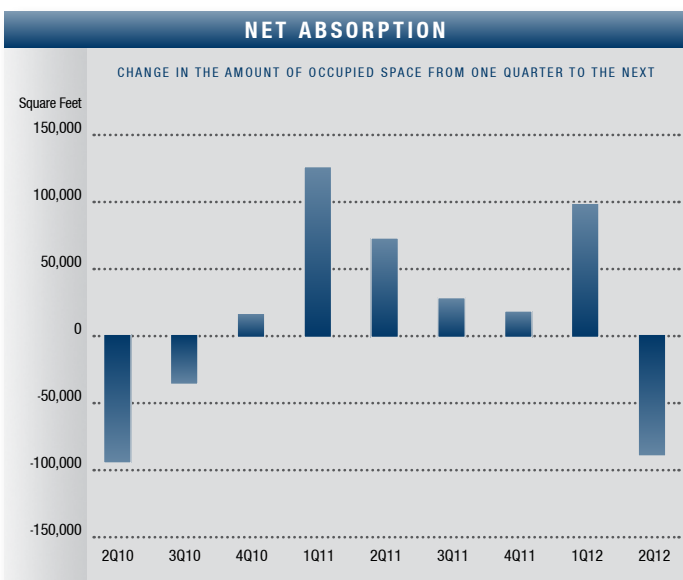
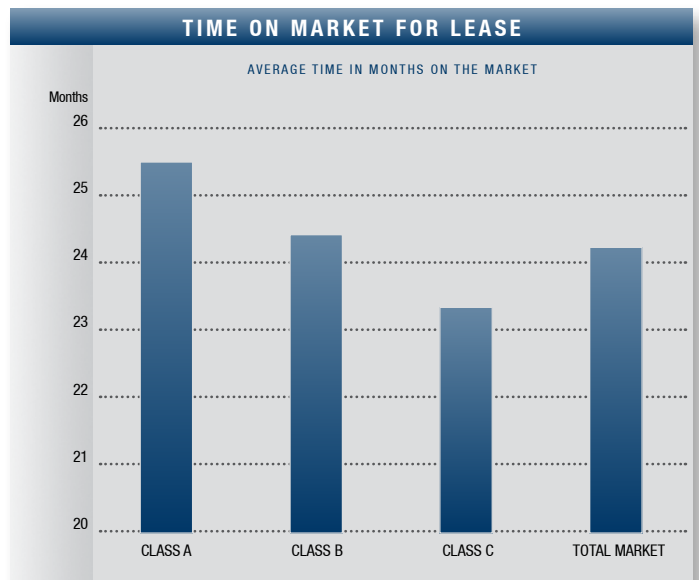
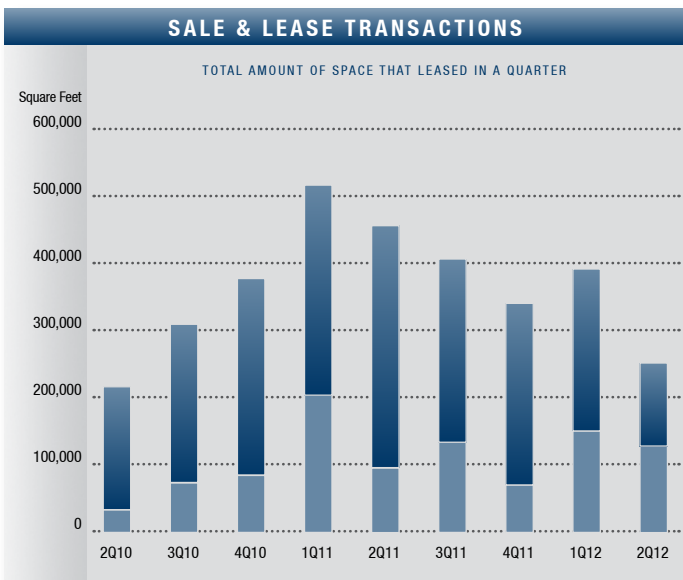
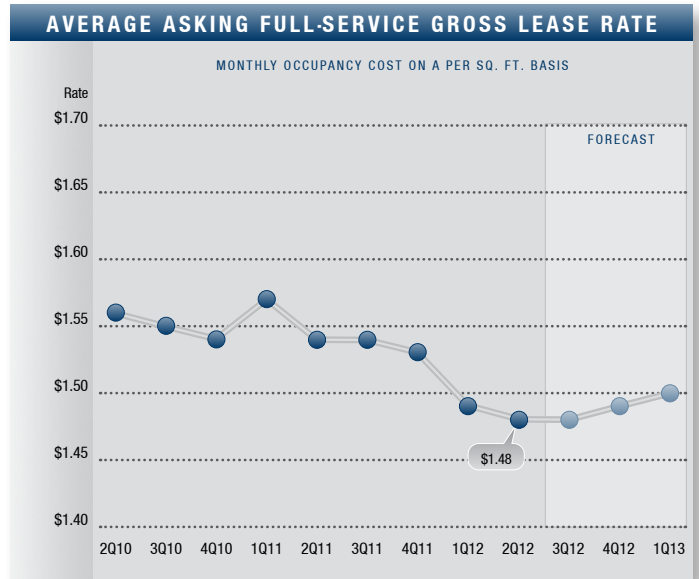
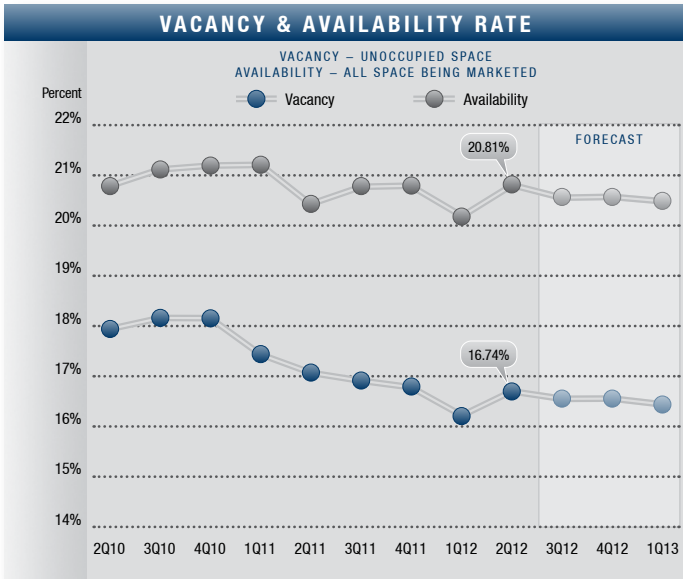
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### Market Highlights

- Market Status** - The Reno office market took a step backwards in the second quarter of 2012. Though it showed signs of improvement during the previous five quarters, the second quarter showed that the Reno's office market remains volatile. Vacancy and availability both bounced up slightly, absorption posted a negative number, and lease rates continued to fall. However, none of these negative changes were extreme, which may indicate that the changes were just fluctuations of the market on its path to recovery.
- Construction** - There were no office properties under construction in the Reno market at the end of the second quarter of 2012. However, there is still 1.3 million 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 by 51 basis points to finish the second quarter of 2012 at 16.74%. Within the major submarkets, Sparks and South Meadows submarkets remained very high at 19.24% and 18.90%, respectively, while the Meadowood submarket posted the lowest rate at 11.77%.
- Availability** - The percentage of total space being marketed came in at 20.81% in the second quarter of 2012 — an increase of 59 basis points compared to the previous quarter. Within the major submarkets, the South Meadows, Sparks, and Central/Airport submarkets remained very high at 24–26%, while the Meadowood submarket looked better at 15.75%.
- Lease Rates** - At the end of the second quarter, the average asking full-service gross lease rate across all 3 building classes and 14 submarkets came in at \$1.48 per square foot per month, a drop from both the \$1.49 seen in the previous quarter and \$1.57 seen one year ago. The region's highest average asking rate (within the major submarkets) was \$1.70 in the Downtown area, while the lowest was \$0.80 in the Sparks submarket.
- Absorption** - The Reno office market posted a solid amount of negative net absorption of 89,565 square feet during the second quarter — the first negative quarter since the third quarter of 2010.
- Transaction Activity** - Total square footage of lease and sale transaction volume has remained fairly steady for the past seven quarters. Final numbers for this statistic typically have some lag time, so look for the second quarter of 2012 to post around 350,000 square feet of total volume. Details of the largest transactions for the second quarter of 2012 can be found on the back page of this report.
- Employment** - The unemployment rate in the Reno-Sparks MSA was 11.5% in May 2012, up from 11.4% in April 2012 and down from 12.9% in May 2011. This compares with an unemployment rate of 11.6% for Nevada and 7.9% for the nation during the same period.
- Overall** - In the near future, Reno's office market will likely remain complacent and at its current weak level. However, Reno does offer a few major draws for prospective tenants: lower taxes rates for businesses (in comparison to neighboring states) and numerous opportunities to move up in quality, as class A buildings remain at about 18% vacancy. Look for the office market in Reno to continue be a struggle from an owner/seller's standpoint but present a great opportunity for tenants and buyers.

### OFFICE MARKET OVERVIEW

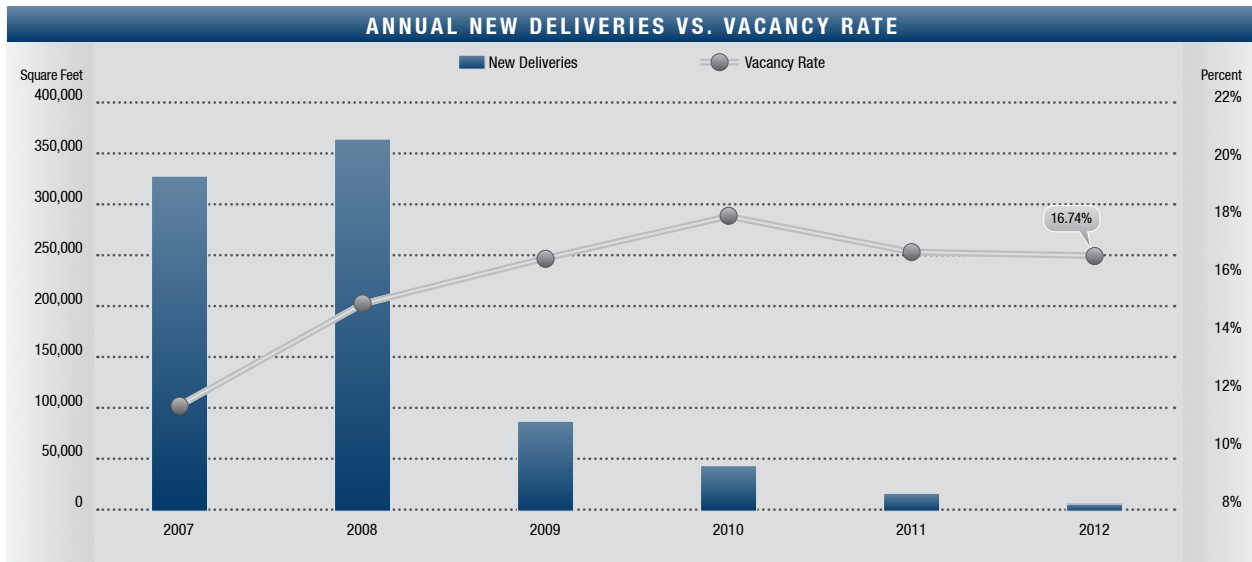
	2Q12	1Q12	2Q11	% of Change vs. 2Q11
Total Vacancy Rate	16.74%	16.23%	17.07%	(1.93%)
Availability Rate	20.81%	20.21%	20.41%	1.96%
Average Asking Lease Rate	\$1.48	\$1.49	\$1.54	(3.90%)
Sale & Lease Transactions	247,805	390,278	455,626	(45.61%)
Gross Absorption	224,272	397,065	402,693	(44.31%)
Net Absorption	(89,565)	98,740	72,096	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 2Q2012	Square Feet Available	Availability Rate 2Q2012	Average Asking Lease Rate	Net Absorption 2Q2012	Net Absorption 2012	Gross Absorption 2Q2012	Gross Absorption 2012
<b>Reno Market Total</b>													
Carson City County	151	2,055,989	0	3,000	336,717	16.38%	356,956	17.36%	\$1.09	(23,627)	23,986	15,496	75,191
Central/Airport	241	2,697,457	0	27,292	477,779	17.71%	645,180	23.92%	\$1.14	(18,629)	15,953	23,042	116,865
Douglas County	48	423,758	0	14,990	55,130	13.01%	56,248	13.27%	\$1.79	3,667	18,065	4,898	19,296
Downtown	302	3,959,051	0	0	621,285	15.69%	742,971	18.77%	\$1.70	(26,510)	(27,176)	38,523	103,161
Incline Village	23	271,287	0	0	84,245	31.05%	95,936	35.36%	\$1.87	(47,466)	(50,522)	3,622	8,087
Lyon County	34	178,467	0	20,202	70,995	39.78%	70,995	39.78%	\$0.00	3,163	219	3,163	4,219
Meadowood	189	3,165,939	0	287,282	372,615	11.77%	498,736	15.75%	\$1.54	22,768	21,210	46,871	105,436
North Outlying Washoe County	6	112,026	0	0	28,562	25.50%	28,562	25.50%	\$1.80	4,008	2,248	4,008	4,008
North Valleys	16	109,841	0	0	22,463	20.45%	22,463	20.45%	\$0.00	(3,600)	(800)	0	2,800
South Outlying Washoe County	18	130,339	0	24,054	9,642	7.40%	16,216	12.44%	\$1.35	0	(1,282)	0	1,200
South Meadows	172	2,203,776	0	201,707	416,508	18.90%	586,713	26.62%	\$1.56	(6,407)	(4,793)	52,629	106,394
Sparks	161	1,196,946	0	0	230,286	19.24%	291,793	24.38%	\$0.80	(7,585)	(3,680)	15,550	47,491
Storey County	2	42,681	0	715,162	0	0.00%	0	0.00%	\$0.00	0	0	0	0
West Reno	39	344,210	0	0	101,013	29.35%	102,531	29.79%	\$0.00	10,653	15,747	16,470	27,189
<b>Reno Market Total</b>	<b>1,402</b>	<b>16,891,767</b>	<b>0</b>	<b>1,293,689</b>	<b>2,827,240</b>	<b>16.74%</b>	<b>3,515,300</b>	<b>20.81%</b>	<b>\$1.48</b>	<b>(89,565)</b>	<b>9,175</b>	<b>224,272</b>	<b>621,337</b>

Class A	20	1,583,765	0	102,000	283,923	17.93%	423,511	26.74%	\$1.74	13,851	7,728	45,727	54,795
Class B	700	9,824,239	0	1,191,689	1,769,653	18.01%	2,004,566	20.40%	\$1.50	(61,690)	11,792	129,592	417,905
Class C	682	5,483,763	0	0	773,664	14.11%	1,087,223	19.83%	\$1.25	(41,726)	(10,345)	48,953	148,637
<b>Reno Market Total</b>	<b>1,402</b>	<b>16,891,767</b>	<b>0</b>	<b>1,293,689</b>	<b>2,827,240</b>	<b>16.74%</b>	<b>3,515,300</b>	<b>20.81%</b>	<b>\$1.48</b>	<b>(89,565)</b>	<b>9,175</b>	<b>224,272</b>	<b>621,337</b>

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
10345 Professional Cir.	South Meadows	A	64,360	\$117.31	Chance Family Properties, LLC	South Meadows Commercial Property, LLC
120 & 196 S. Wells Ave.	Downtown	C	23,894	\$62.78	Bristlecone Family Resources	DePaoli Income Trust
7655 Somerset Pkwy.	West Reno	B	17,712	\$59.28	Cav Strategies, Ltd.	Branch Banking & Trust Company
500 Ryland St.	Downtown	C	15,689	\$54.50	PET Family Trust	Madison Properties, LLC
5480 Reno Corporate Dr.	Meadowood	B	6,104	\$122.87	Barrett Lynn, LLC	Interim Holdings, LLC

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
300 E. 2nd St.	Downtown	B	12,036	May-12	N/A	Basin Street Properties
343 Elm St.	Downtown	B	6,827	Apr-12	University of Nevada-Reno Pediatrics	Health Care REIT, Inc.
1 E. Liberty St.	Downtown	B	5,138	May-12	Navellier & Associates, Inc.	US Bancorp
932-936 Southwood Blvd.	Incline Village	B	4,812	Apr-12	PDL BioPharma, Inc.	932936, LLC
1070 Caughlin Crossing	West Reno	C	4,584	May-12	DeCollin Kaid HOA	1070 Caughlin, Ltd.

Product Type

CLASS A

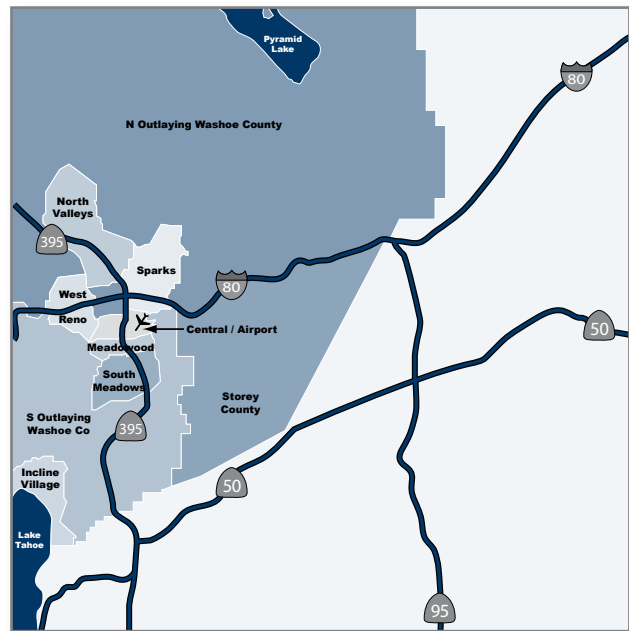
Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

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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