



SECOND QUARTER 2014

RENO

RETAIL

MARKET CHANGE

Compared to the Previous Quarter:

Vacancy



UP

Net Absorption

NEGATIVE



Lease Rates

DOWN



Transactions

DOWN



Deliveries

DOWN



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HIGHLIGHTS

- **Market Status** - Reno's retail market retreated slightly the second quarter of this year, but previous quarters experienced positive net absorption and consecutive periods of vacancy decreases, normal in this stage of recovery. The Reno retail market will see significant improvements once the housing market and job growth trend upward.
- **Construction** - During the second quarter, no new projects were under construction; however, there is 1.8 million square feet of proposed retail space. At the close of the second quarter there were no new deliveries, which should continue to put downward pressure on vacancy rates.
- **Vacancy** - The overall vacancy rate for the second quarter came in at 12.78%, a decrease of 60 basis points compared to the previous year. Within the major submarkets, the South Virginia and the Northwest Reno submarkets performed best with vacancy rates of 5.80% and 6.69%, respectively. The West Sparks submarket came in with the highest vacancy rate at 22.54%.
- **Availability** - The percentage of all space being marketed during the second quarter was 13.55%, a decrease of 16 basis points from the previous quarter and a decrease of 131 basis points compared to the previous year. Of the major submarkets, the South Reno and the Northwest Reno submarkets remained strongest at 7.90% and 8.39%, respectively, while West Sparks came in as the weakest of all major submarkets at 23.11% availability.
- **Lease Rates** - The average asking triple-net lease rate in the Reno retail market for the second quarter of 2014 was \$1.19 per square foot per month, which was a \$0.01 decrease from the previous quarter. Nonetheless, lease rates have remained relatively flat and are projected to increase three percent to \$1.22 by 2015.
- **Absorption** - The Reno retail market recorded 3,915 square feet of negative net absorption for the second quarter, which was the first quarter of negative absorption since 2012. Of the major submarkets, the Spanish Springs submarket and the Meadowood submarkets posted positive net absorption at 20,037 square feet and 18,714 square feet, respectively. The Carson City County submarket, however, posted 28,533 square feet of negative net absorption.
- **Transaction Activity** - Sale and leasing transaction volume totaled 275,881 square feet for the second quarter. This statistic can have some lag time in being reported, so look for second quarter figures to end up somewhat higher in the next report. Details of the largest transactions for the second quarter can be found on the back page of this report.
- **Employment** - The unemployment rate in the Reno-Sparks MSA was 7.4% in May 2014, down from 8.3% in January 2014. This compares with an unemployment rate of 7.9% for Nevada and 6.3% for the nation during the same period.
- **Overall** - We expect vacancy to continue to decrease throughout 2014 since new deliveries have slowed. The spread between vacancy and availability has tightened, a good indicator that the market is beginning to reflect its true state and that less shadow space is available. If Reno's retail market can continue to post positive statistics such as low vacancy and positive net absorption figures, lease rates will continually rise. This may take a few quarters, and it relies heavily upon improvement in the housing market and employment trends.

FORECAST

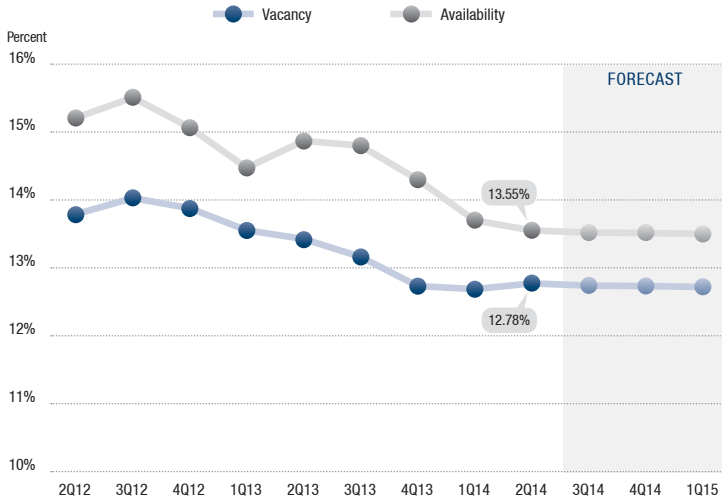
- **Employment** - We anticipate job growth of around 1.2%, or 2,100 jobs, in the Reno/Sparks area by 2015. The occupational groups with the fastest growth rate are education administrators, engineering managers, business operations specialists, and wholesale and retail buyers.
- **Lease Rates** - Expect average asking lease rates to increase by 2%–4% by 2015.
- **Vacancy** - We anticipate the vacancy rate continuing to decrease, albeit minimally, dropping to around 12.73% by 2015.

OVERVIEW

	2Q14	1Q14	2Q13	% of Change vs. 2Q13
Vacancy Rate	12.78%	12.69%	13.38%	(4.48%)
Availability Rate	13.55%	13.71%	14.86%	(8.82%)
Average Asking Lease Rate	\$1.19	\$1.20	\$1.19	0.00%
Sale & Lease Transactions	275,881	336,797	331,425	(16.76%)
Gross Absorption	251,118	232,404	334,612	(24.95%)
Net Absorption	(3,915)	42,072	58,967	N/A

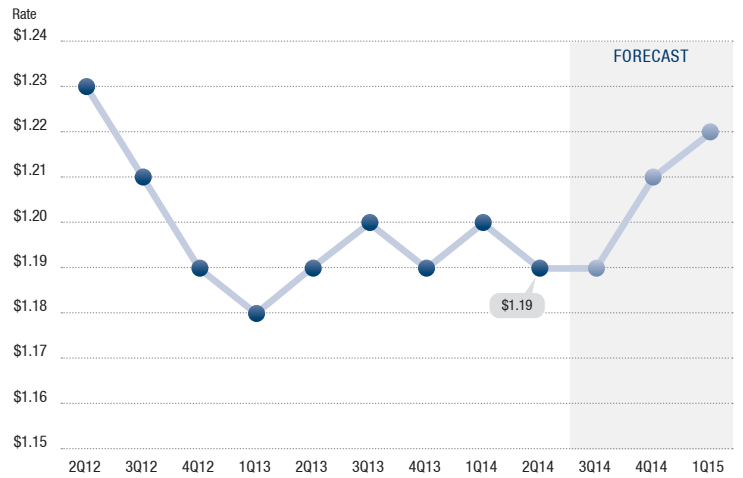
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



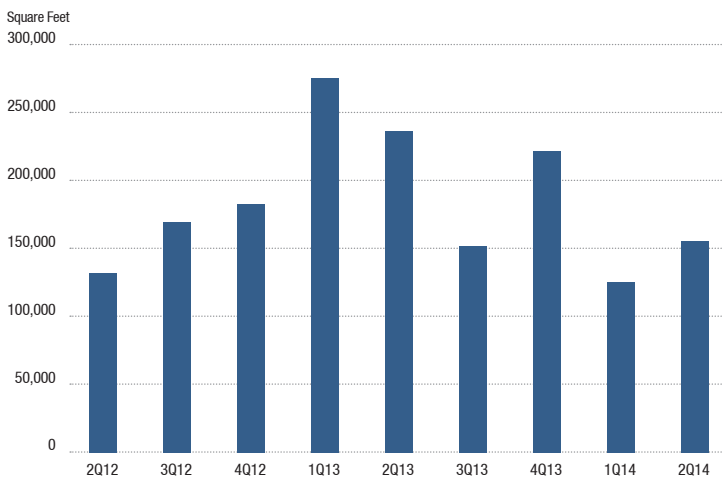
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



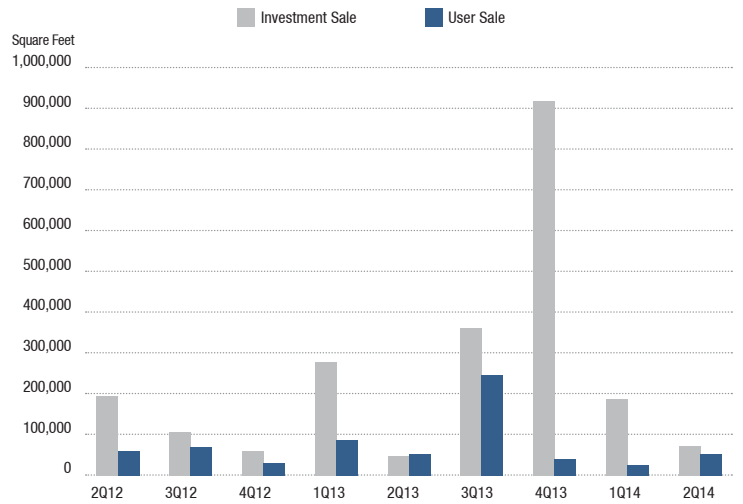
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



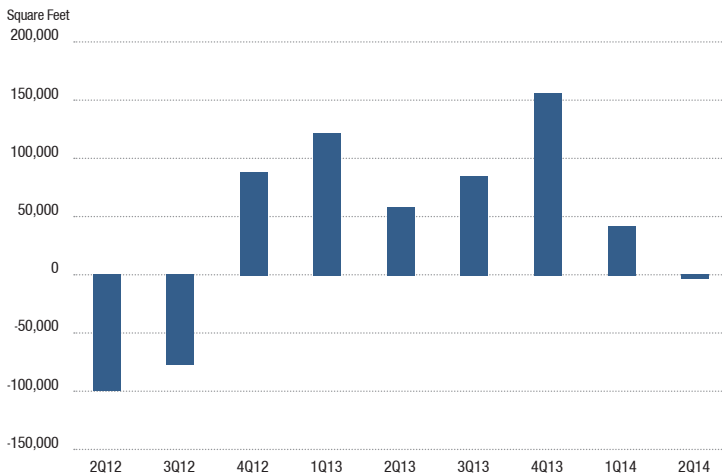
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



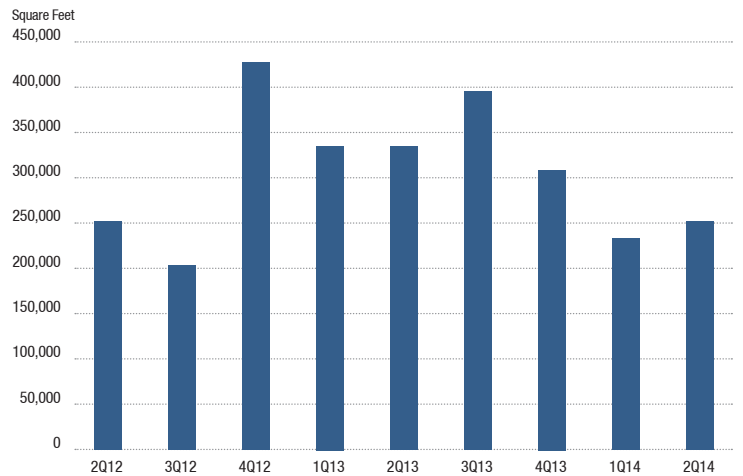
NET ABSORPTION

CHANGE IN THE AMOUNT OF OCCUPIED SPACE FROM ONE QUARTER TO THE NEXT



GROSS ABSORPTION

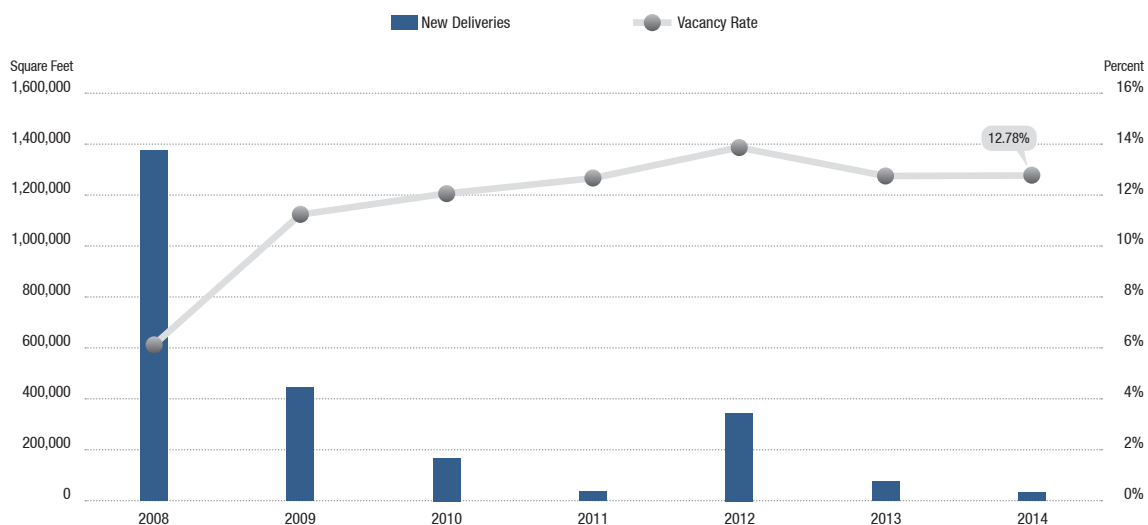
TOTAL AMOUNT OF SPACE THAT BECAME OCCUPIED IN A QUARTER



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 2Q2014	Square Feet Available	Availability Rate 2Q2014	Average Asking Lease Rate	Net Absorption 2Q2014	Net Absorption 2014	Gross Absorption 2Q2014	Gross Absorption 2014
Reno Market													
Airport Ret	31	408,387	0	53,723	51,102	12.51%	51,102	12.51%	\$1.13	9,819	8,980	3,976	5,275
Carson City County Ret	204	3,903,931	0	20,000	769,870	19.72%	795,868	20.39%	\$0.94	(28,533)	(18,865)	25,462	39,647
Douglas County Ret	142	2,232,419	0	136,000	233,841	10.47%	275,430	12.34%	\$1.20	(7,094)	(9,418)	13,594	50,165
Incline Village Ret	21	392,674	0	0	14,810	3.77%	14,810	3.77%	\$2.00	845	(2,755)	3,475	3,475
Kietzke Ret	138	2,206,904	0	15,000	223,622	10.13%	226,871	10.28%	\$0.96	(14,989)	(14,744)	12,654	18,704
Lyon County Ret	105	1,318,089	0	116,474	122,038	9.26%	145,816	11.06%	\$0.85	(626)	(434)	7,579	32,010
Meadowood Ret	163	4,387,535	0	250,000	480,548	10.95%	511,248	11.65%	\$1.24	18,714	49,593	63,887	103,608
N Outlying Washoe Cty Ret	2	7,203	0	0	2,368	32.88%	2,368	32.88%	\$0.00	(2,368)	(2,368)	0	0
North Valleys Ret	76	924,230	0	220,904	49,728	5.38%	56,793	6.14%	\$1.28	(2,066)	5,532	2,202	14,823
Northeast Reno Ret	97	556,295	0	45,000	48,415	8.70%	52,695	9.47%	\$1.64	4,249	3,503	9,349	11,099
Northeast Sparks Ret	132	2,381,722	0	152,677	359,437	15.09%	348,086	14.61%	\$1.81	(3,411)	6,289	8,711	19,211
Northwest Reno Ret	129	1,730,626	0	0	115,793	6.69%	145,137	8.39%	\$1.52	2,069	11,036	16,675	29,683
Park Lane Ret	174	1,809,394	0	337,866	365,163	20.18%	388,815	21.49%	\$0.99	9,358	8,992	15,381	22,062
Reno Redevelopment Ret	67	834,637	0	0	138,458	16.59%	148,674	17.81%	\$1.55	11,999	24,490	12,555	28,546
S Outlying Washoe Cty Ret	15	188,334	0	0	13,213	7.02%	13,213	7.02%	\$1.53	0	(4,990)	0	0
South Reno Ret	147	2,622,339	0	248,606	183,974	7.02%	207,161	7.90%	\$1.49	(11,992)	(7,564)	3,786	17,520
South Virginia Ret	219	1,184,906	0	73,424	68,773	5.80%	74,242	6.27%	\$1.22	(3,883)	2,528	5,424	16,477
Southwest Reno Ret	41	460,087	0	0	59,846	13.01%	62,700	13.63%	\$1.28	(878)	(2,808)	4,595	6,582
Spanish Springs Ret	89	1,732,329	0	89,379	322,359	18.61%	323,079	18.65%	\$1.27	20,037	4,744	22,577	22,617
Sparks Industrial Ret	44	444,740	0	3,343	44,619	10.03%	49,269	11.08%	\$0.59	(500)	(29,274)	0	3,426
Sparks Redevelopment Ret	104	452,098	0	0	25,962	5.74%	28,962	6.41%	\$1.11	4,662	2,482	4,662	6,518
Storey County Ret	17	84,149	0	13,000	1,076	1.28%	11,628	13.82%	\$0.00	1,600	6,100	1,600	6,100
West Sparks Ret	80	1,752,355	0	29,120	395,035	22.54%	404,988	23.11%	\$1.01	(10,927)	(8,970)	12,974	21,574
Reno Market Total	2,237	32,015,383	0	1,804,516	4,090,050	12.78%	4,338,955	13.55%	\$1.19	(3,915)	32,079	251,118	479,122
Malls	40	2,501,870	0	189,832	216,786	8.66%	226,920	9.07%	\$2.61	(11,201)	3,449	4,577	19,227
Power Centers	81	3,056,231	0	379,648	678,449	22.20%	701,581	22.96%	\$1.03	602	25,616	5,802	36,160
Shopping Centers	706	14,303,157	0	274,969	2,054,466	14.36%	2,166,055	15.14%	\$1.18	(41,395)	(49,793)	144,162	222,259
Specialty Centers	3	91,631	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
General Retail	1,407	12,062,494	0	960,067	1,140,349	9.45%	1,244,399	10.32%	\$1.12	48,079	52,807	96,577	201,476
Reno Market Total	2,237	32,015,383	0	1,804,516	4,090,050	12.78%	4,338,955	13.55%	\$1.19	(3,915)	32,079	251,118	479,122

Lease rates are on a triple-net basis.

ANNUAL NEW DELIVERIES VS. VACANCY RATE



MAJOR TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
7175 S. Virginia St.	Meadowood	38,373	\$117.27	Td South Virginia Street Prope	Snider Family Trust
Texaco Gas Station 1365 Baring Blvd.	Northeast Sparks	2,560	\$1,210.94	Richard Wray Family Trust	Edward C. & Judith A. Wooley
Starbucks Coffee 690 Keystone Ave.	Northwest Reno	1,684	\$852.14	Owen H & Sandra A. O'Neil	Handke Darrell
777 S. Center St.	South Virginia	39,204	\$35.71	Johnson Family Revocable Trust	Steve & Iris Maytan Family Trust
1663 US Highway 395	Douglas County	16,000	\$81.25	Edward James Bischofberger Trust	Teb, LLC

Lease Transactions

Property Address	Submarket	Square Feet	Projected Opening Date	Tenant	Owner
1537 S. Virginia Street	South Virginia	9,435	Aug-14	Undisclosed	Desiderio Properties
5 S. Main Street	Lyon County	8,205	Aug-14	Undisclosed	5 South Main Street, LLC
1901 Silverada Blvd.	West Sparks	8,000	Jul-14	Undisclosed	Brentwood Developments
6900 S. McCarran Blvd.	Meadowood	5,866	Jun-14	Moxies	Magnolia Village, LLC
550-560 Gentry Way	Park Lane	5,500	Jul-14	Undisclosed	Living Brennan

General Retail: Typically single-tenant freestanding general purpose commercial buildings with parking. Many single retail buildings fall into this use code, especially when they don't meet any of the more detailed use code descriptions.

Mall: Retail centers which provide shopping goods, general merchandise, apparel, furniture, and home furnishings in full depth and variety. Malls are generally built around one or more full-line department stores as the major drawing powers. However, some malls, such as lifestyle centers, lack major anchors and instead rely on trendier, upscale retail to draw business from nearby affluent neighborhoods.

Power Center: The center typically consists of several freestanding anchors and only a minimum amount of small specialty tenants. 250,000–600,000 SF and is dominated by several large anchors, including discount department stores, off-price stores, and warehouse clubs.

Shopping Center: Combination of the following retail types:

Strip Center: An attached row of stores or service outlets managed as a coherent retail entity. May be configured in a straight line, L, or U shape. On-site parking usually in front of stores.

Neighborhood Center: Centers providing convenience goods (food, drugs, etc.) and personal services (laundry, dry cleaning, etc.) for day-to-day needs of surrounding neighborhood. Generally 30,000–100,000 square feet in size.

Community Center: Centers offering a wider range of apparel and goods than community centers. Often anchored by supermarkets, super drugstores, or discount department stores. Usually configured in a straight line or L or U shape. Generally 100,000–350,000 square feet in size.

Specialty Center: Centers focused on a particular specialty or theme. Examples include Airport Retail (a center using an airport as its main draw), Outlet Center (a center of bigger chain stores often found in malls selling their own merchandise at a discount), and Theme / Festival Center (centers built around a unifying theme, often appealing most to tourists).

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