

Office Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

UP

Transactions

DOWN

Deliveries

FLAT

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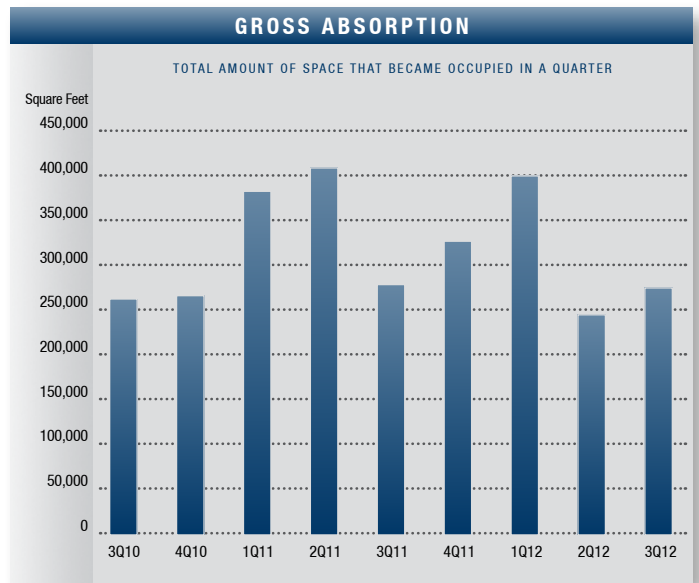
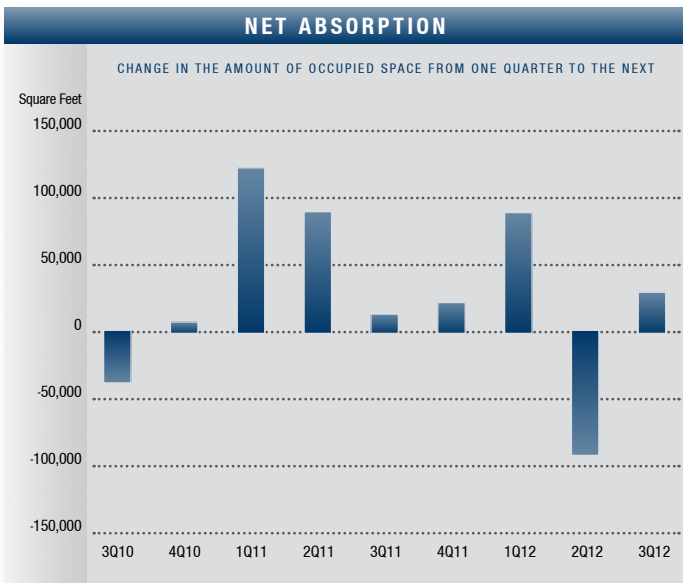
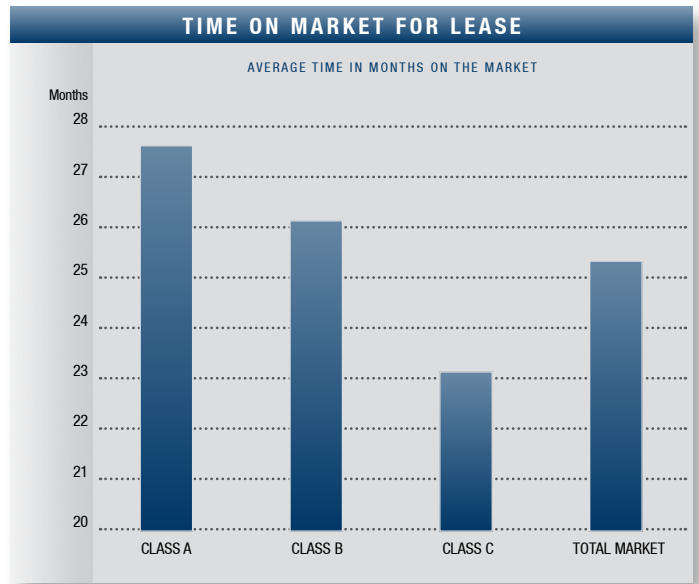
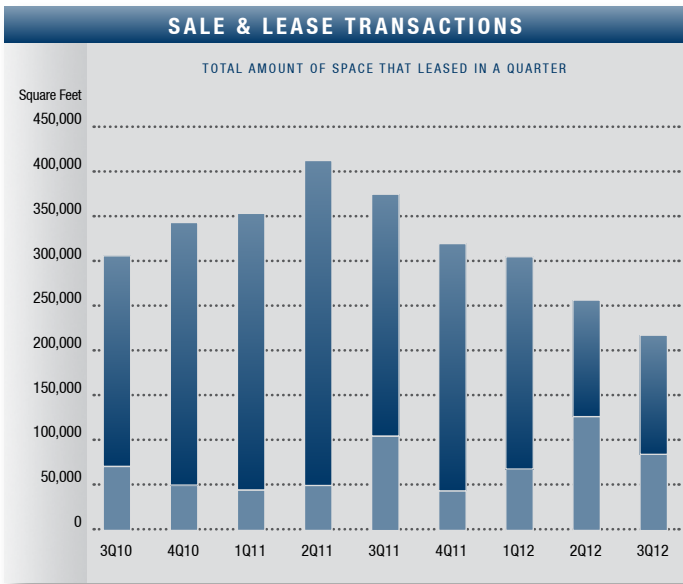
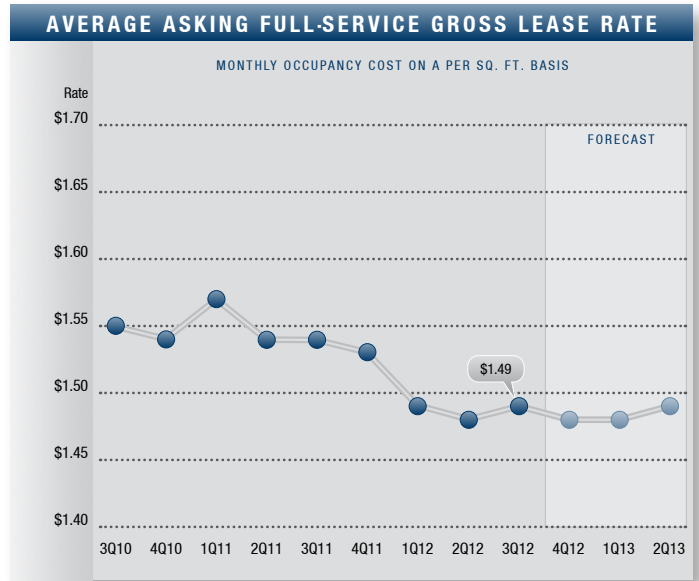
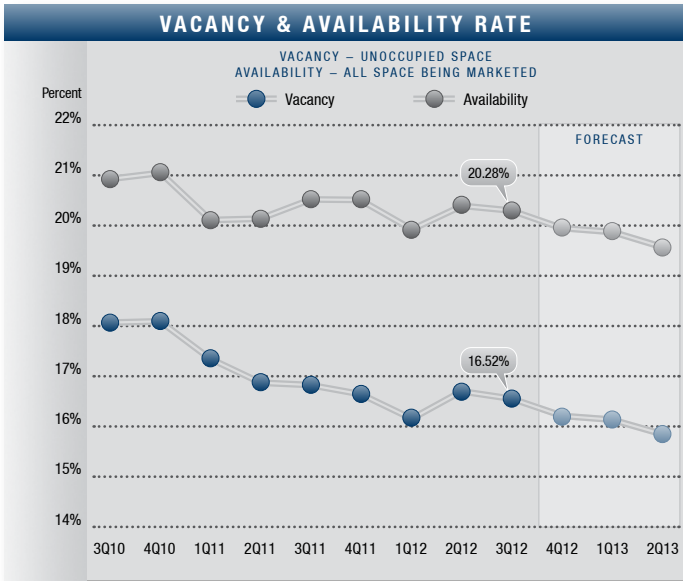
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Market Highlights

- Market Status** - The Reno office market bounced back positively in the third quarter of 2012. Though it posted negative figures during the second quarter of 2012, the third quarter showed that Reno's office market is beginning to stabilize. Vacancy and availability both dropped slightly, absorption posted a positive number, and average asking lease rates rose for the first time in years. However, these positive changes were not very significant, 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 third quarter of 2012. However, there was 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 decreased by 19 basis points to finish the third quarter of 2012 at 16.52%. Within the major submarkets, Sparks and South Meadows submarkets remained very high at 20.51% and 18.32%, respectively, while the Meadowood submarket posted the lowest rate at 11.71%.
- Availability** - The percentage of total space being marketed came in at 20.28% in the third quarter of 2012 — a decrease of 15 basis points. Within the major submarkets, the South Meadows and Sparks submarkets remained very high at 26.58% and 25.42%, respectively, while the Meadowood submarket looked better at 15.33%.
- Lease Rates** - At the end of the third 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 but still a drop from the \$1.54 seen a year ago. 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 positive net absorption of 29,839 square feet during the third quarter. The second quarter of 2012 was the only quarter out of the last 8 quarters to post a negative figure.
- Transaction Activity** - Total square footage of lease and sale transaction volume remained fairly steady over the past nine quarters with a slight peak in the middle of 2011. Final numbers for this statistic typically have some lag time, so look for the third quarter of 2012 to post around 275,000 square feet of total volume. Details of the largest transactions for the third quarter of 2012 can be found on the back page of this report.
- Employment** - The unemployment rate in the Reno-Sparks MSA was 12% in July 2012, up from 11.4% in April 2012 and down from 12.9% in May 2011. This compares with an unemployment rate of 12% for Nevada and 8.2% for the nation during the same period.
- Overall** - In the near future, Reno's office market will likely continue to fluctuate as it finds its footing. 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). 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

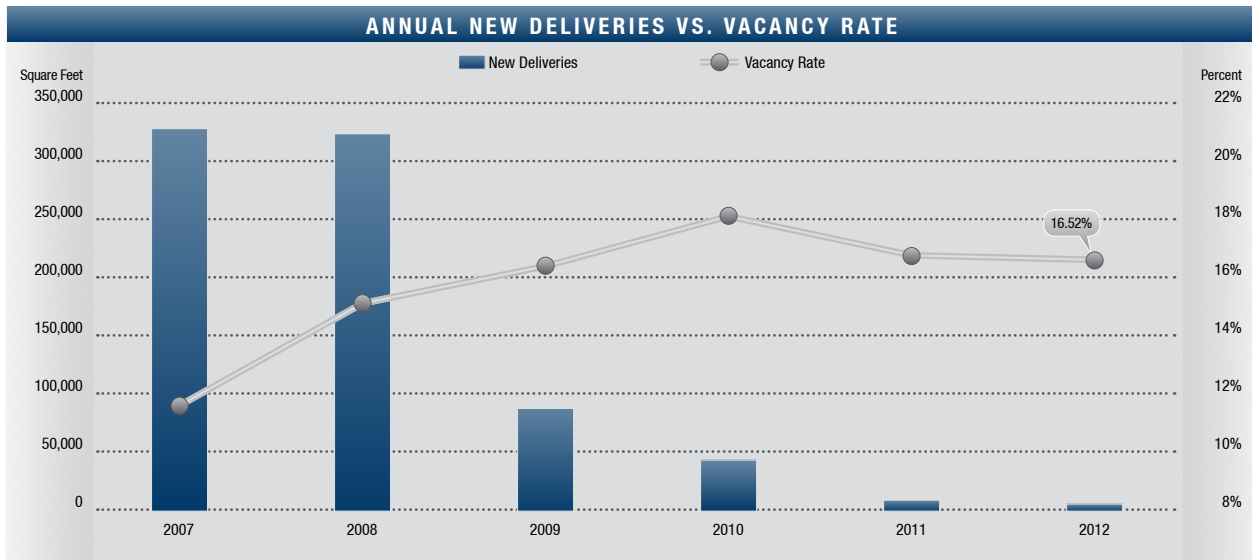
	3Q12	2Q12	3Q11	% of Change vs. 3Q11
Total Vacancy Rate	16.52%	16.71%	16.80%	(1.67%)
Availability Rate	20.28%	20.43%	20.51%	(1.12%)
Average Asking Lease Rate	\$1.49	\$1.48	\$1.54	(3.25%)
Sale & Lease Transactions	216,579	255,960	373,480	(42.01%)
Gross Absorption	273,642	243,543	277,616	(1.43%)
Net Absorption	29,839	(90,188)	12,097	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 3Q2012	Square Feet Available	Availability Rate 3Q2012	Average Asking Lease Rate	Net Absorption 3Q2012	Net Absorption 2012	Gross Absorption 3Q2012	Gross Absorption 2012
Reno Market Total													
Carson City County	155	2,064,664	0	3,000	344,083	16.67%	377,628	18.29%	\$1.10	(6,189)	22,697	14,072	89,563
Central/Airport	238	2,734,729	0	15,792	495,967	18.14%	597,006	21.83%	\$1.15	(2,446)	123	29,466	143,906
Douglas County	50	442,378	0	6,545	55,698	12.59%	56,816	12.84%	\$1.79	1,051	20,016	8,076	28,272
Downtown	308	4,062,277	0	0	609,828	15.01%	715,995	17.63%	\$1.67	34,225	481	83,816	190,827
Incline Village	29	316,638	0	0	69,984	22.10%	89,742	28.34%	\$2.78	22,661	(30,561)	38,386	46,873
Lyon County	37	185,626	0	12,000	68,706	37.01%	73,506	39.60%	\$0.00	4,689	4,808	4,789	9,108
Meadowood	185	3,140,130	0	289,036	367,754	11.71%	481,254	15.33%	\$1.57	(13,036)	9,806	14,871	121,939
North Outlying Washoe County	6	112,026	0	0	28,562	25.50%	26,882	24.00%	\$1.80	0	2,248	0	4,008
North Valleys	16	109,841	0	0	22,463	20.45%	22,463	20.45%	\$0.00	0	(800)	0	2,800
South Outlying Washoe County	19	148,339	0	24,054	9,525	6.42%	13,617	9.18%	\$1.35	2,017	(65)	2,017	3,217
South Meadows	174	2,242,274	0	201,707	410,764	18.32%	595,996	26.58%	\$1.56	(1,523)	1,551	45,828	155,154
Sparks	161	1,207,269	0	0	247,671	20.51%	306,828	25.42%	\$0.65	(19,608)	(19,865)	14,712	69,919
Storey County	2	42,681	0	715,162	0	0.00%	0	0.00%	\$0.00	0	0	0	0
West Reno	39	349,386	0	0	103,472	29.62%	112,495	32.20%	\$0.00	7,998	17,462	17,609	45,024
Reno Market Total	1,419	17,158,258	0	1,267,296	2,834,477	16.52%	3,470,228	20.28%	\$1.49	29,839	27,901	273,642	910,610

Class A	20	1,583,765	0	102,000	291,133	18.38%	430,895	27.21%	\$1.74	(7,210)	518	4,972	59,767
Class B	700	9,871,315	0	1,165,296	1,688,028	17.10%	1,927,877	19.53%	\$1.51	76,220	78,263	195,132	618,811
Class C	699	5,703,178	0	0	855,316	15.00%	1,111,456	19.49%	\$1.24	(39,171)	(50,880)	73,538	232,032
Reno Market Total	1,419	17,158,258	0	1,267,296	2,834,477	16.52%	3,470,228	20.28%	\$1.49	29,839	27,901	273,642	910,610

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
900 Sandhill Rd.	South Meadows	B	40,746	\$147.25	Solus Industrial Innovations, LLC	Panattoni
609 Sierra Rose Dr.	Meadowood	B	9,098	\$236.32	CNM, Inc.	609 Sierra Rose Drive Holdings
10381 Double R Blvd.	South Meadows	C	7,850	\$252.10	Massie Family Trust	John Enloe
630, 670 & 690 Sierra Rose Dr.	Meadowood	B	21,091	\$77.05	CWCapital Asset Management, LLC	QS LLC Series 4
9110 Double Diamond Pkwy.	South Meadows	B	7,360	\$55.51	Aulakh Investments, LLC	Kolodge Living Trust

Lease Transactions

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
5390 Kietzke Ln.	Meadowood	B	8,050	Aug-12	Video Gaming Technologies, Inc.	NevDex Properties
419 W Plumb Ln.	Central / Airport	C	6,010	Sep-12	N/A	Courage Sans Peur Trust
5575 Kietzke Ln.	Meadowood	B	5,750	Sep-12	N/A	ArchCrest Commercial Partners
1500 E. 2nd St.	Downtown	B	5,465	Aug-12	N/A	PMB Real Estate Services
5370 Kietzke Ln.	Meadowood	B	5,035	Sep-12	N/A	NevDex Properties

Product Type

CLASS A

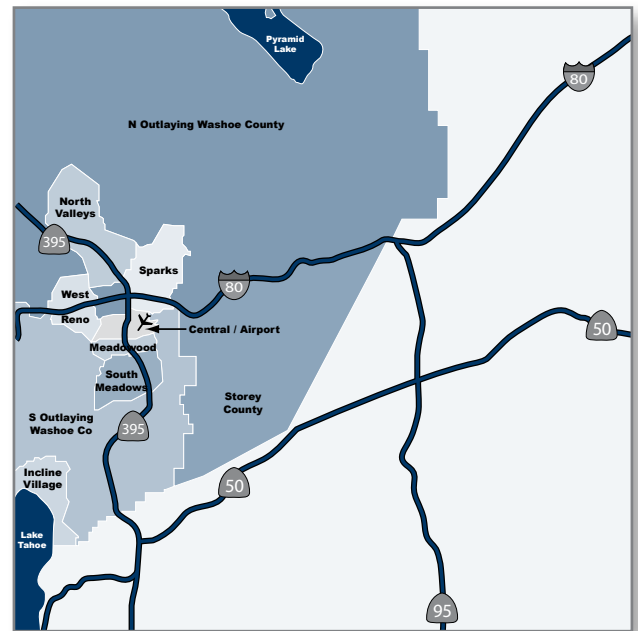
Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

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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