

Office Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

FLAT

Deliveries

FLAT

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Market Highlights

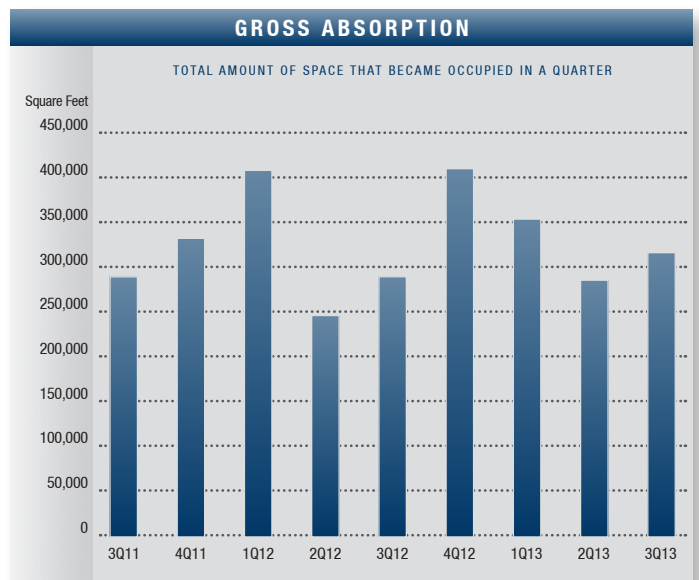
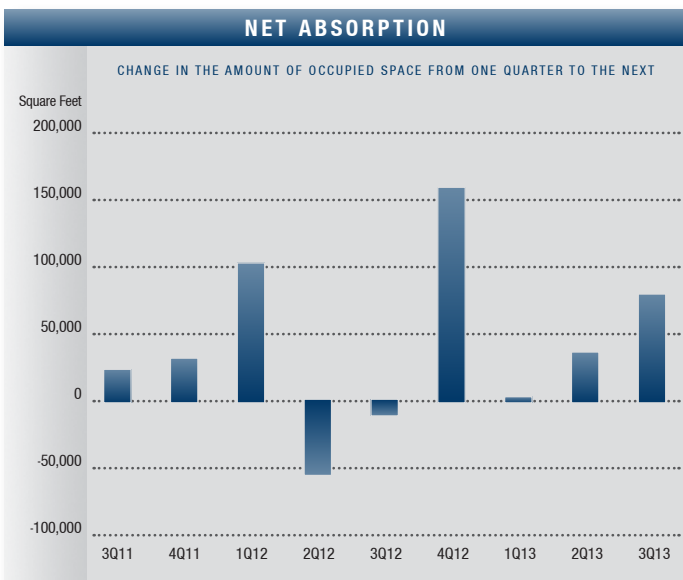
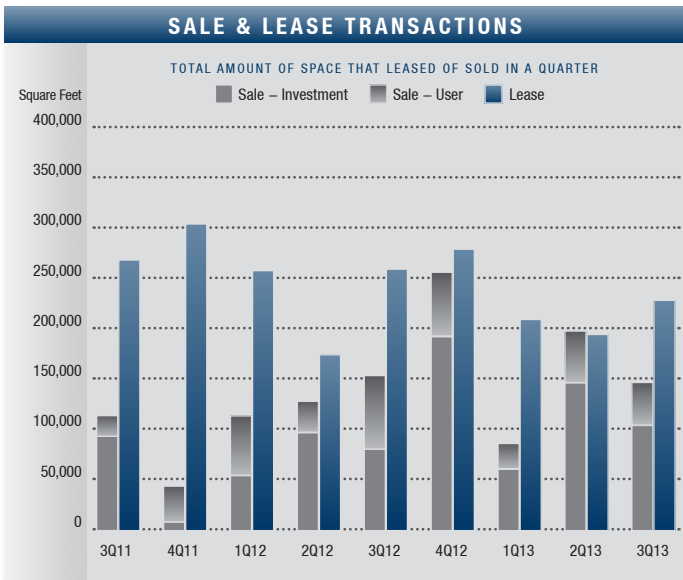
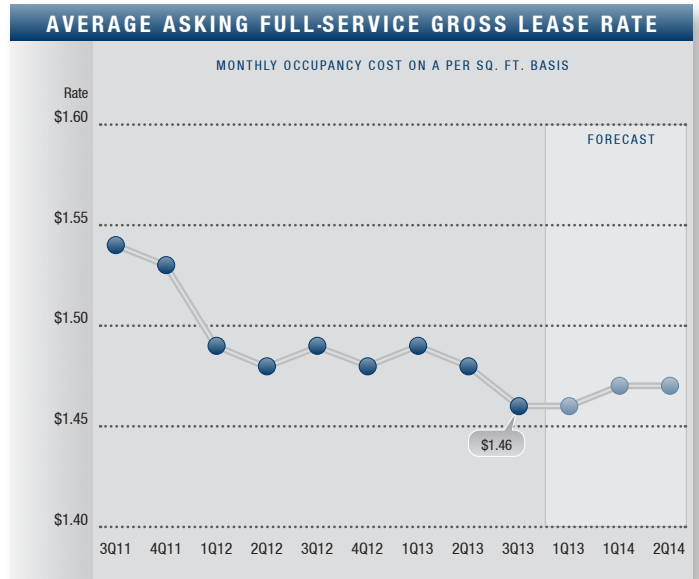
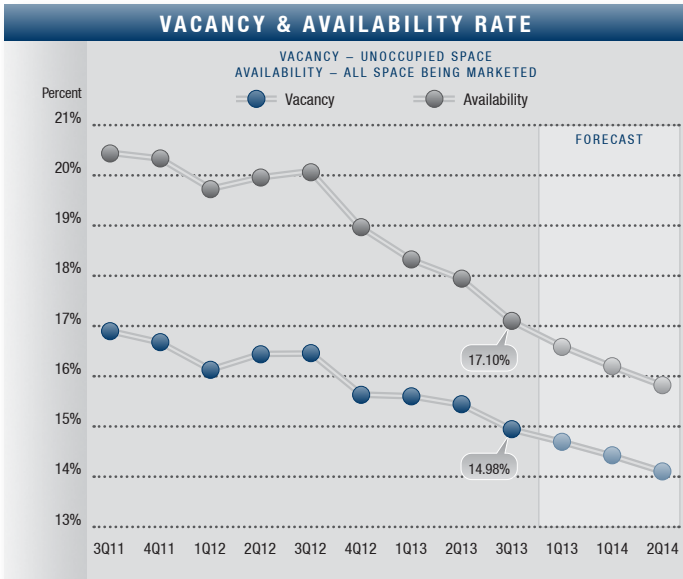
- Market Status** - The third quarter of 2013 reflected stability and showed that Reno's office market is slowly improving. Because this market has been fluctuating over the past several years, we expect the long-term recovery in this market to be tempered, with lease rates continuing to stabilize and beginning to gradual increase 2014.
- Construction** - One office property was under construction in the Reno market at the end of the third quarter — a 5,468 class B project in the South Meadows 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 third quarter dropped by 47 basis points to finish the quarter at 14.98%, marking the first time the vacancy rate has dropped below 15% since 2008. Within the major submarkets, the Sparks and South Meadows submarkets remained very high at 18.99% and 17.15%, respectively, while the Meadowood submarket looked best at 12.83%.
- Availability** - The percentage of total space being marketed at the end of the third quarter was 17.10% — a decrease of 82 basis points from the previous quarter. Within the major submarkets, the Sparks and South Meadows submarkets remained very high at 22.75% and 18.42%, respectively, while the Meadowood submarket looked best at 14.34%.
- 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 \$1.46 per square foot per month, a drop from the \$1.48 seen in the previous quarter. While this is an area of concern for the landlords in the region, we do predict this rate to be at or near rock bottom. The region's highest average asking rate, within the major submarkets, was \$1.64 in the Downtown area, while the lowest was \$0.55 in the Sparks submarket.

Lease rates in Class A buildings did rise by \$0.07 from the previous quarter.

- Absorption** - The Reno office market posted positive net absorption of 79,696 square feet during the third quarter. The second and third quarters of 2012 withstanding, 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 third quarter to post over 400,000 square feet of total volume — marking only the third quarter out of the last nine to top 400,000 square feet of activity. Details of the largest transactions for the third quarter of 2013 can be found on the back page of this report.
- Employment** - The unemployment rate in the Reno-Sparks MSA was 9.3% in July 2013, down from 10.5% in Jan. 2013. This compares with an unemployment rate of 9.5% for Nevada and 7.7% for the nation during the same period.
- Overall** - Reno's office market has been gradually moving towards recovery, with sustained decreases in vacancy and availability rates and positive net absorption, which will lead to eventual rent increases. While these are good signs, continued job growth will be needed to allow further stability. 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 18.94% 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

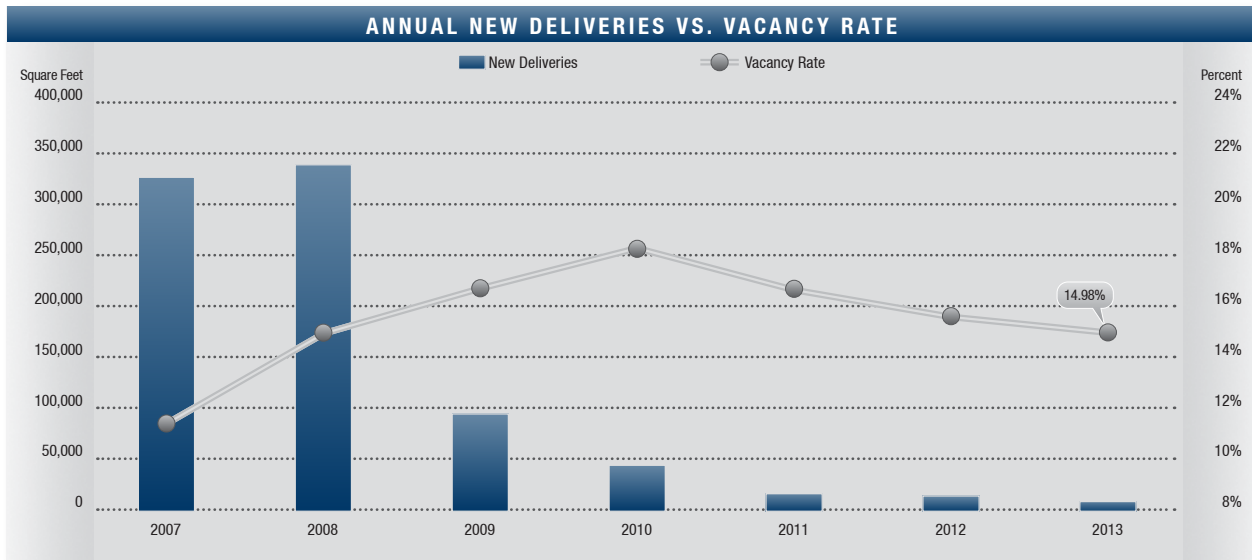
| | 3Q13 | 2Q13 | 3Q12 | % of Change vs. 3Q12 |
|---------------------------|---------|---------|----------|----------------------|
| Total Vacancy Rate | 14.98% | 15.45% | 16.49% | (9.16%) |
| Availability Rate | 17.10% | 17.92% | 20.07% | (14.80%) |
| Average Asking Lease Rate | \$1.46 | \$1.48 | \$1.49 | (2.01%) |
| Sale & Lease Transactions | 373,410 | 389,548 | 409,110 | (8.73%) |
| Gross Absorption | 315,007 | 284,166 | 289,603 | 8.77% |
| Net Absorption | 79,696 | 36,626 | (10,061) | 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 3Q2013 | Square Feet Available | Availability Rate 3Q2013 | Average Asking Lease Rate | Net Absorption 3Q2013 | Net Absorption 2013 | Gross Absorption 3Q2013 | Gross Absorption 2013 |
| Reno Market Total | | | | | | | | | | | | | |
| Carson City County | 181 | 2,244,622 | 0 | 16,000 | 338,194 | 15.07% | 352,215 | 15.69% | \$1.07 | 1,687 | 8,706 | 28,648 | 80,356 |
| Central/Airport | 246 | 2,797,159 | 0 | 14,392 | 372,100 | 13.30% | 449,829 | 16.08% | \$1.10 | 49,937 | 117,020 | 67,409 | 183,767 |
| Douglas County | 57 | 518,252 | 0 | 6,545 | 66,115 | 12.76% | 69,083 | 13.33% | \$1.79 | (2,431) | (13,857) | 1,645 | 11,391 |
| Downtown | 322 | 4,107,488 | 0 | 0 | 602,412 | 14.67% | 731,297 | 17.80% | \$1.64 | 3,867 | (5,729) | 56,814 | 151,584 |
| Incline Village | 31 | 338,423 | 0 | 0 | 43,751 | 12.93% | 55,092 | 16.28% | \$2.00 | 1,500 | 18,877 | 6,566 | 31,511 |
| Lyon County | 38 | 186,902 | 0 | 12,000 | 43,571 | 23.31% | 52,371 | 28.02% | \$0.00 | 490 | 18,378 | 4,221 | 22,109 |
| Meadowood | 189 | 3,183,740 | 0 | 279,036 | 408,497 | 12.83% | 456,404 | 14.34% | \$1.51 | 32,018 | (19,505) | 69,071 | 142,307 |
| North Outlying Washoe County | 4 | 107,679 | 0 | 0 | 40,088 | 37.23% | 40,088 | 37.23% | \$0.00 | 4,114 | (10,206) | 4,114 | 12,082 |
| North Valleys | 19 | 119,981 | 0 | 0 | 14,402 | 12.00% | 14,402 | 12.00% | \$0.00 | 7,385 | 23,634 | 8,400 | 26,389 |
| South Outlying Washoe County | 21 | 209,063 | 0 | 24,054 | 14,237 | 6.81% | 14,237 | 6.81% | \$1.38 | (5,431) | (2,194) | 0 | 6,037 |
| South Meadows | 177 | 2,258,088 | 5,468 | 200,195 | 387,331 | 17.15% | 415,914 | 18.42% | \$1.59 | (17,469) | (29,101) | 46,446 | 214,719 |
| Sparks | 165 | 1,206,136 | 0 | 0 | 229,091 | 18.99% | 274,374 | 22.75% | \$0.55 | (2,786) | 6,611 | 14,858 | 50,753 |
| Storey County | 2 | 23,730 | 0 | 881,162 | 0 | 0.00% | 0 | 0.00% | \$0.00 | 0 | 0 | 0 | 0 |
| West Reno | 41 | 353,800 | 0 | 0 | 85,172 | 24.07% | 94,207 | 26.63% | \$0.00 | 6,815 | 6,724 | 6,815 | 17,025 |
| Reno Market Total | 1,493 | 17,655,063 | 5,468 | 1,433,384 | 2,644,961 | 14.98% | 3,019,513 | 17.10% | \$1.46 | 79,696 | 119,358 | 315,007 | 950,030 |

| | | | | | | | | | | | | | |
|--------------------------|--------------|-------------------|--------------|------------------|------------------|---------------|------------------|---------------|---------------|---------------|----------------|----------------|----------------|
| Class A | 19 | 1,496,319 | 0 | 102,000 | 283,355 | 18.94% | 248,834 | 16.63% | \$1.85 | (11,297) | (44,093) | 19,748 | 129,368 |
| Class B | 730 | 10,149,209 | 5,468 | 1,331,384 | 1,492,097 | 14.70% | 1,726,205 | 17.01% | \$1.50 | 45,351 | 94,039 | 169,834 | 507,624 |
| Class C | 744 | 6,009,535 | 0 | 0 | 869,509 | 14.47% | 1,044,474 | 17.38% | \$1.22 | 45,642 | 69,412 | 125,425 | 313,038 |
| Reno Market Total | 1,493 | 17,655,063 | 5,468 | 1,433,384 | 2,644,961 | 14.98% | 3,019,513 | 17.10% | \$1.46 | 79,696 | 119,358 | 315,007 | 950,030 |

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 |
|-------------------------|----------------|-------|-------------|-------------------|-----------------------------|--------------------------------|
| 601 Sierra Rose Dr. | Meadowood | B | 18,348 | \$147.16 | Sierra Nevada Nephrology | Branch Banking & Trust Company |
| 610 Waltham Way | Storey County | B | 22,250 | \$95.80 | Q & R, LLC | David Imburgia |
| 101-119 N. Virginia St. | Downtown | B | 90,560 | \$18.77 | Battle Born Properties, LLC | 119 North Virginia, LLC |
| 4871 Summit Ridge Dr. | West Reno | B | 5,372 | \$260.61 | Elisa Bandelin | Connelly & Koehm, LLC |
| 1644 US Highway 395 | Douglas County | C | 14,190 | \$98.66 | Carmen & Susan Del Nostro | 1644 Minden, LLC |

Lease Transactions

| Property Address | Submarket | Class | Square Feet | Transaction Date | Tenant | Owner |
|--------------------------|---------------|-------|-------------|------------------|-------------------------------------|-------------------------------------|
| 9390 Gateway Dr. | South Meadows | A | 51,280 | Sep-13 | Customink | Reno Technology Center 1, LLC |
| 6980 Sierra Center Pkwy. | Meadowood | B | 11,539 | Jul-13 | Undisclosed | Washington Capital Management, Inc. |
| 5955 Tyrone Rd. | Meadowood | C | 9,450 | Jul-13 | Christian Fellowship Church of Reno | Ami Partners, LLC |
| 730 Sandhill Rd. | South Meadows | B | 4,439 | Jul-13 | Apex Performance | Flocchini-Magnolia Properties |
| 100 W. Liberty St. | Downtown | A | 4,339 | Jul-13 | Prime Lending | Chawin Property, Inc. |

Product Type

CLASS A

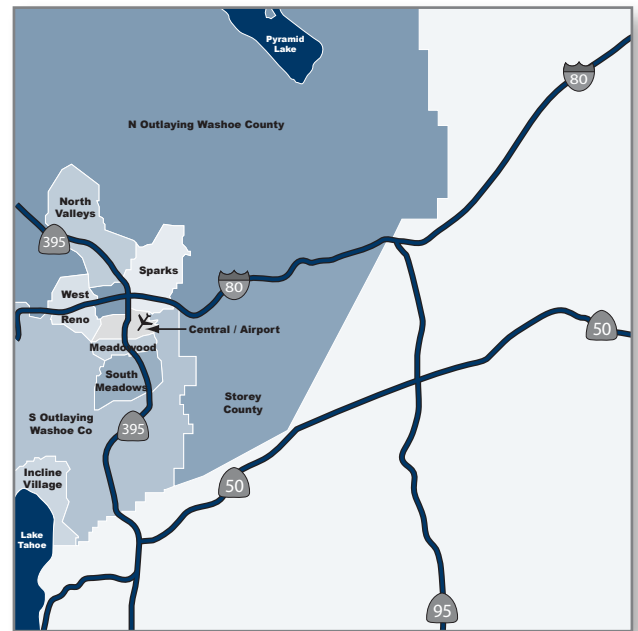
Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

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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