



THIRD QUARTER 2014

RENO

RETAIL

MARKET CHANGE

Compared to the Previous Quarter:

Vacancy

DOWN



Net Absorption

POSITIVE



Lease Rates

UP



Transactions

DOWN



Deliveries

UP



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HIGHLIGHTS

- **Market Status** - Reno's retail market is stabilizing as vacancy rates have gone down and lease rates have increased during the third quarter of this year. Among other noteworthy factors, net absorption has been positive for eight quarters now. Thus, the Reno retail market is slowly and steadily moving toward a strong recovery, which will be even more apparent as the housing market and job growth continue to trend upward.
- **Construction** - During the third quarter, two new retail projects were under construction. The larger of the two projects is a 39,466 square foot auto dealership in the South Reno retail submarket. There is still, however, 1.8 million square feet of proposed retail space. At the close of the third quarter, there was only 2,350 square feet delivered, which should continue to put downward pressure on vacancy rates as new construction has been minimal.
- **Vacancy** - The overall vacancy rate for the third quarter came in at 12.40%, a decrease of 76 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 5.89% and 6.36%, respectively. The West Parks submarket came in with the highest vacancy rate at 22.46%.
- **Availability** - The percentage of all space being marketed during the third quarter was 13.32%, a decrease of 137 basis points from the previous year. Of the major submarkets, the South Virginia and the Northwest Reno submarkets remained strongest at 7.42% and 8.05%, respectively, while West Sparks came in as the weakest of all major submarkets at 23.03% availability.
- **Lease Rates** - The average asking triple-net lease rate in the Reno retail market for the third quarter of 2014 was \$1.20 per square foot per month, which was a \$0.01 increase from the previous quarter. Nonetheless, lease rates have remained relatively flat and the average asking triple net lease rate is projected to increase one percent to \$1.21 by 2015.
- **Absorption** - The Reno retail market recorded 38,758 square feet of positive net absorption for the third quarter, which marked eight quarters of positive net absorption since 2012. Of the major submarkets, the Carson City County submarket and the Northeast Sparks submarkets posted positive net absorption at 25,215 square feet and 23,417 square feet, respectively. The South Reno submarket, however, posted 37,044 square feet of negative net absorption.
- **Transaction Activity** - Sale and leasing transaction volume totaled 256,453 square feet for the third quarter. This statistic can have some lag time in being reported, so look for third quarter figures to end up somewhat higher in the next report. Details of the largest transactions for the third quarter can be found on the back page of this report.
- **Employment** - The unemployment rate in the Reno-Sparks MSA was 7.3% in July 2014, down from 8.3% in January 2014. This compares with an unemployment rate of 7.7% for Nevada and 6.2% for the nation during the same period.
- **Overall** - We expect vacancy to continually drop throughout 2014 since new deliveries have been kept at a minimum. The spread between vacancy and availability has tightened, which is 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 continues to post positive statistics such as drops in vacancy and positive net absorption figures, lease rates will continually rise as well. This may take a few quarters, and it relies heavily upon improvement in the housing market and employment trends.

FORECAST

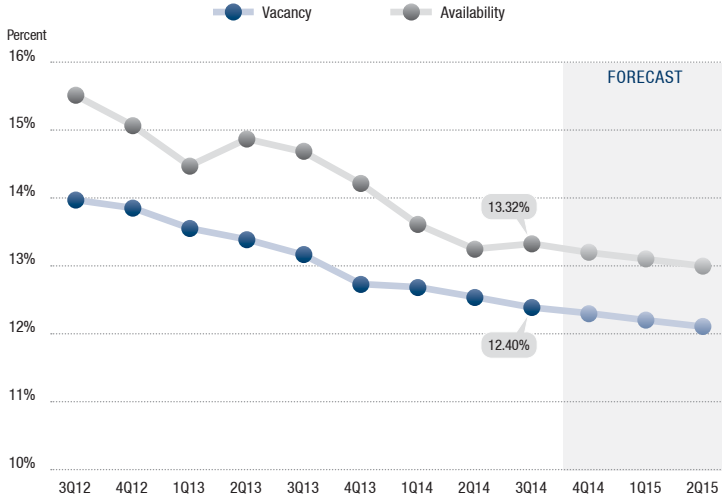
- **Employment** - We anticipate job growth of around 1.2%, or 2,100 jobs, in the Reno/Sparks area by 2015. The occupational groups with the fastest growth rate are education administrators, engineering managers, business operations specialists, and wholesale and retail buyers.
- **Lease Rates** - Expect average asking lease rates to increase by 2% to 4% over the next four quarters.
- **Vacancy** - We anticipate the vacancy rate continuing to decrease, albeit minimally, dropping to around 12.10% by the end of the second quarter of 2015.

OVERVIEW

	3Q14	2Q14	3Q13	% of Change vs. 3Q13
Vacancy Rate	12.40%	12.52%	13.16%	(5.78%)
Availability Rate	13.32%	13.25%	14.69%	(9.33%)
Average Asking Lease Rate	\$1.20	\$1.19	\$1.20	0.00%
Sale & Lease Transactions	256,453	306,490	776,008	(66.95%)
Gross Absorption	269,592	329,350	396,554	(32.02%)
Net Absorption	38,758	56,605	85,470	N/A

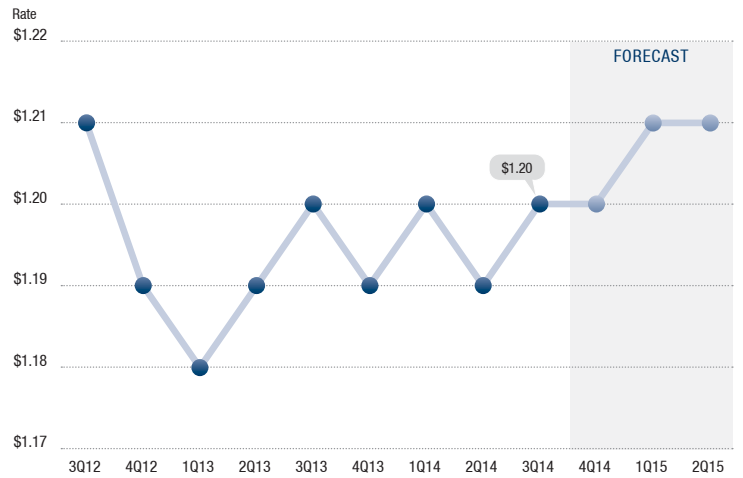
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



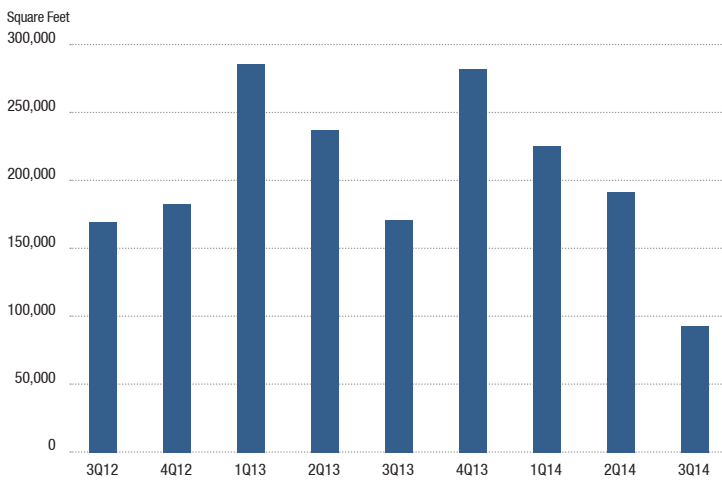
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



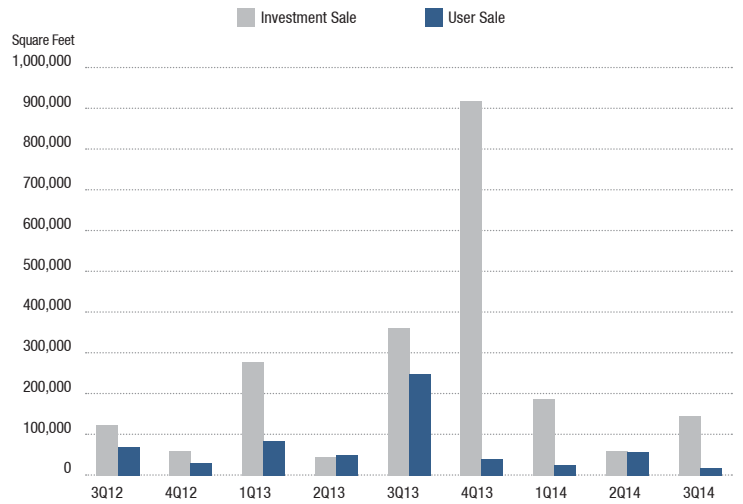
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



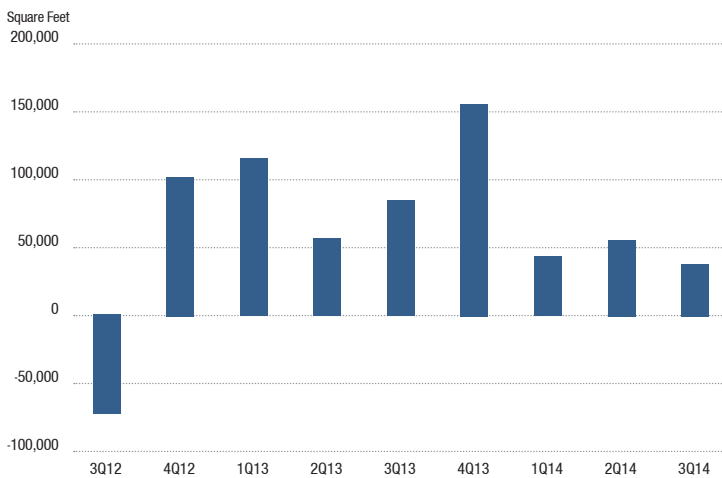
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



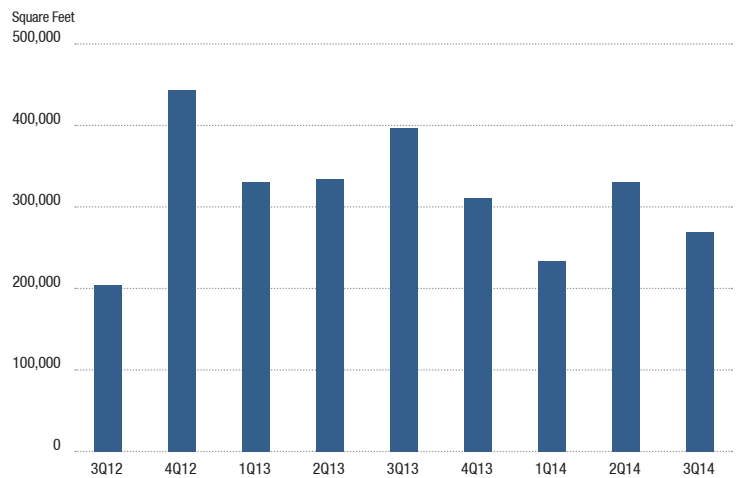
NET ABSORPTION

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



GROSS ABSORPTION

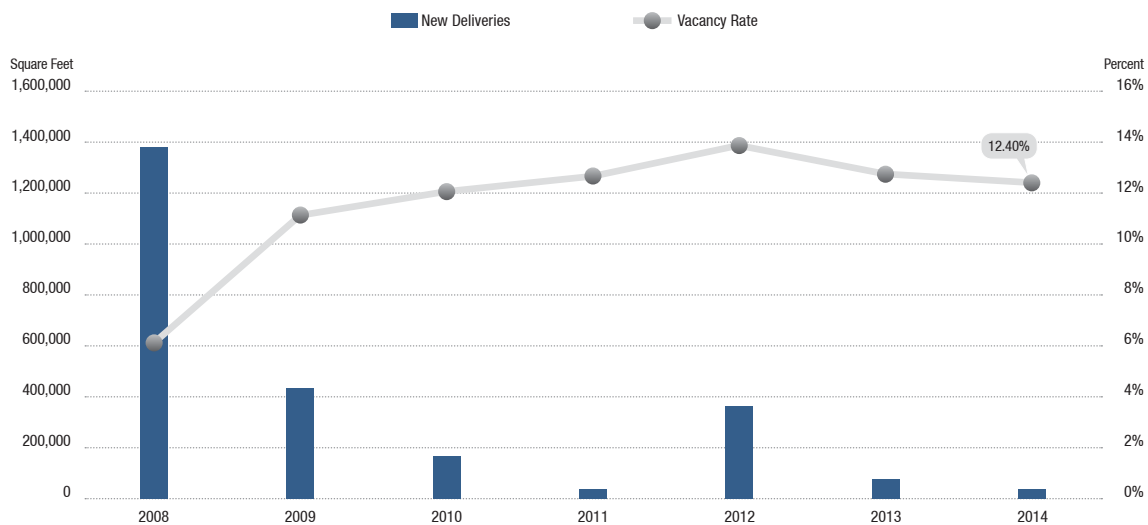
TOTAL AMOUNT OF SPACE THAT BECAME OCCUPIED IN A QUARTER



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2014	Square Feet Available	Availability Rate 3Q2014	Average Asking Lease Rate	Net Absorption 3Q2014	Net Absorption 2014	Gross Absorption 3Q2014	Gross Absorption 2014
Reno Market													
Airport Ret	31	408,232	0	24,923	52,528	12.87%	52,528	12.87%	\$1.19	(1,731)	(10,406)	1,471	6,896
Carson City County Ret	204	3,786,093	0	20,000	744,655	19.67%	781,380	20.64%	\$0.93	25,215	6,850	32,823	72,970
Douglas County Ret	147	2,254,869	0	136,000	212,013	9.40%	277,527	12.31%	\$1.19	19,422	8,538	26,207	74,906
Incline Village Ret	22	414,832	0	0	11,221	2.70%	11,221	2.70%	\$2.00	2,689	834	2,689	7,064
Kietzke Ret	138	2,206,904	0	15,000	226,665	10.27%	235,170	10.66%	\$0.92	(5,365)	(17,787)	5,256	26,282
Lyon County Ret	108	1,338,191	0	116,474	111,546	8.34%	141,534	10.58%	\$0.84	13,592	14,058	14,792	48,002
Meadowood Ret	163	4,406,861	0	250,000	426,455	9.68%	438,295	9.95%	\$1.30	(376)	103,686	29,437	182,448
N Outlying Washoe Cty Ret	2	7,203	0	0	2,368	32.88%	2,368	32.88%	\$0.00	0	(2,368)	0	0
North Valleys Ret	76	924,361	0	257,446	49,728	5.38%	56,793	6.14%	\$1.35	0	5,532	0	14,823
Northeast Reno Ret	98	558,727	0	45,000	46,787	8.37%	53,067	9.50%	\$1.64	1,628	5,131	4,400	15,499
Northeast Sparks Ret	133	2,386,744	0	152,677	325,592	13.64%	326,664	13.69%	\$1.91	23,417	40,134	23,417	54,951
Northwest Reno Ret	130	1,732,226	0	0	110,100	6.36%	139,444	8.05%	\$1.51	7,393	17,229	13,135	42,818
Park Lane Ret	175	1,833,331	13,625	324,831	365,812	19.95%	412,114	22.48%	\$1.00	(11,340)	2,152	45,733	72,295
Reno Redevelopment Ret	67	838,576	0	0	138,887	16.56%	147,703	17.61%	\$1.57	(2,529)	24,061	2,746	33,392
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	2,622,340	39,466	209,140	221,018	8.43%	237,523	9.06%	\$1.33	(37,044)	(44,608)	14,433	31,953
South Virginia Ret	218	1,150,197	0	67,874	67,712	5.89%	85,312	7.42%	\$1.39	1,061	3,589	13,411	29,888
Southwest Reno Ret	41	462,739	0	0	54,395	11.76%	47,996	10.37%	\$1.35	(1,049)	2,643	3,525	16,607
Spanish Springs Ret	89	1,732,329	0	89,379	315,761	18.23%	302,486	17.46%	\$1.25	6,598	11,342	9,978	32,595
Sparks Industrial Ret	43	442,324	0	3,343	37,400	8.46%	42,050	9.51%	\$0.56	6,219	(22,055)	6,219	10,645
Sparks Redevelopment Ret	104	452,130	0	0	39,664	8.77%	42,664	9.44%	\$1.34	(13,702)	(11,220)	6,260	12,778
Storey County Ret	17	84,149	0	0	1,076	1.28%	11,628	13.82%	\$0.00	0	6,100	0	6,100
West Sparks Ret	79	1,738,355	0	62,805	390,375	22.46%	400,328	23.03%	\$1.03	4,660	(4,310)	13,660	35,234
Reno Market Total	2,247	31,970,047	53,091	1,774,892	3,964,971	12.40%	4,259,008	13.32%	\$1.20	38,758	134,135	269,592	828,146
Malls	40	2,501,870	0	189,832	207,944	8.31%	220,516	8.81%	\$2.63	8,842	12,291	11,727	30,954
Power Centers	81	3,056,231	13,625	363,413	616,011	20.16%	632,426	20.69%	\$1.03	7,169	87,452	9,918	101,347
Shopping Centers	705	14,193,192	0	369,854	2,047,646	14.43%	2,129,373	15.00%	\$1.17	(5,148)	(52,464)	134,009	355,974
Specialty Centers	3	91,631	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
General Retail	1,418	12,127,123	39,466	851,793	1,093,370	9.02%	1,276,693	10.53%	\$1.14	27,895	86,856	113,938	339,871
Reno Market Total	2,247	31,970,047	53,091	1,774,892	3,964,971	12.40%	4,259,008	13.32%	\$1.20	38,758	134,135	269,592	828,146

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
6419 S. Virginia St.	Meadowood	31,616	\$117.03	Crossing Sc, LLC	Krs Reno Sc 1313, Inc.
3223 Mill St.	Kietzke	33,962	\$94.22	National Sierra, LLC	Lithia Real Estate, Inc.
239 W. 2nd St.	Downtown	45,730	\$47.56	El Cortez Reno Holdings, LLC	G & B Properties, Inc.
8030 S. Virginia St.	South Reno	2,697	\$463.48	Grilled Choice Foods, LLC	Dart 8030, LLC
10180 N. McCarran Blvd.	Northwest Reno	3,028	\$387.05	Richard S. & Mamie R. Dairiki	Caughey Living 1995 Trust

Lease Transactions

Property Address	Submarket	Square Feet	Projected Opening Date	Tenant	Owner
125-165 Disc Dr.	Spanish Springs	16,835	Jul-14	Undisclosed	Sparks Retail Associates, LLC
Frontier Plaza 55 E. Winnie Ln.	Carson City County	10,000	Sep-14	Undisclosed	North Carson Street, LLC
Shops at the Village 1107-1145 California St.	Southwest Reno	7,191	Sep-14	Undisclosed	Longs Drugs Stores, Inc.
16300 S. Virginia Street	South Reno	5,400	Aug-14	Undisclosed	Tjb Holdings, LLC
Longley West Plaza 7675-7689 S. Virginia St.	Meadowood	5,243	Jul-14	Undisclosed	Longley Partners, LLC

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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