

## Office Market Report

Compared to 2011:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

DOWN

Deliveries

DOWN

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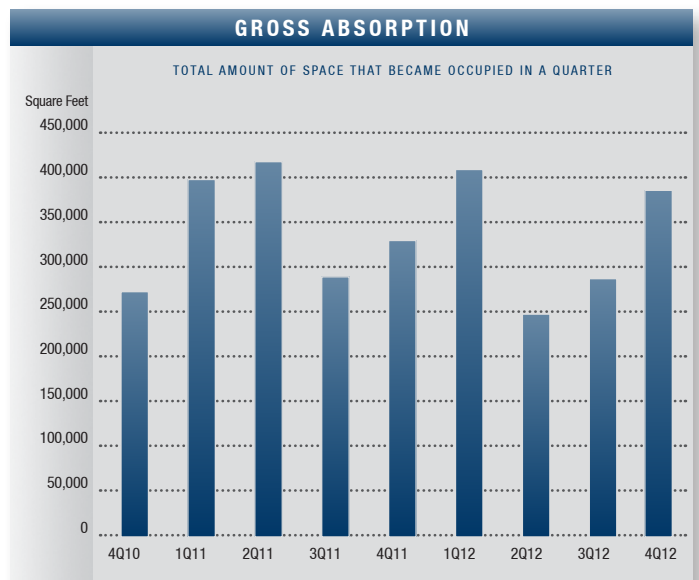
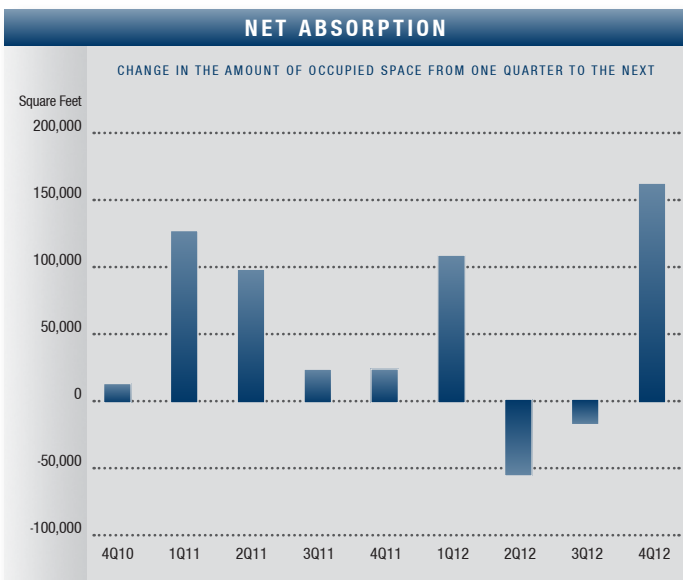
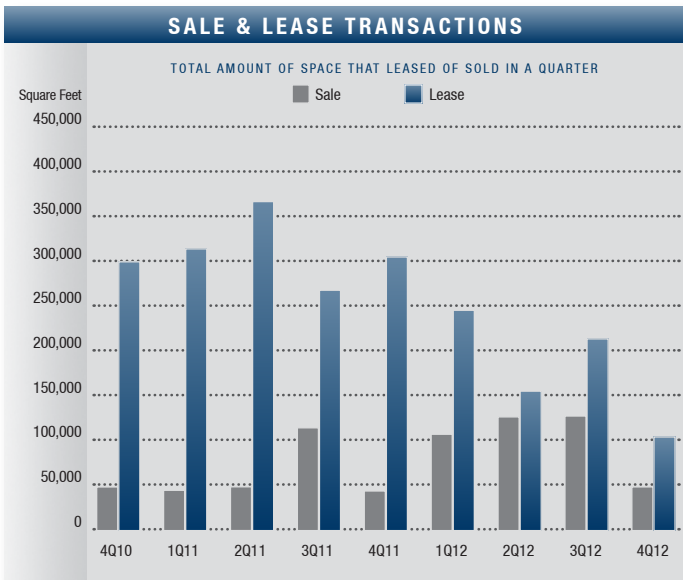
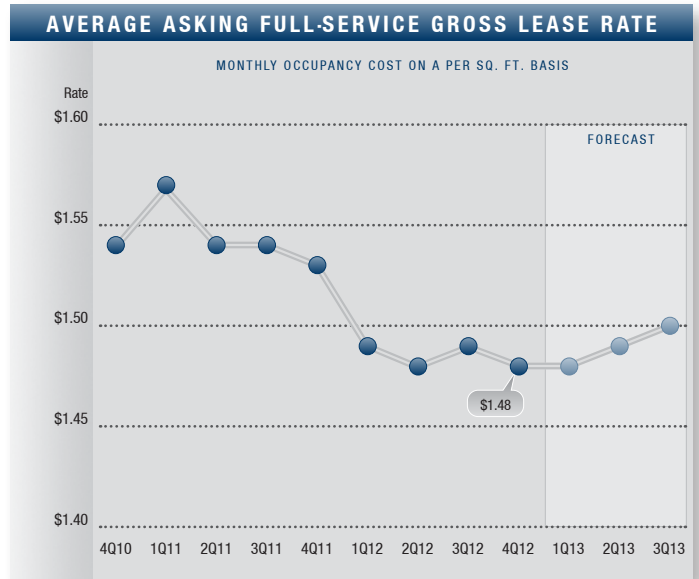
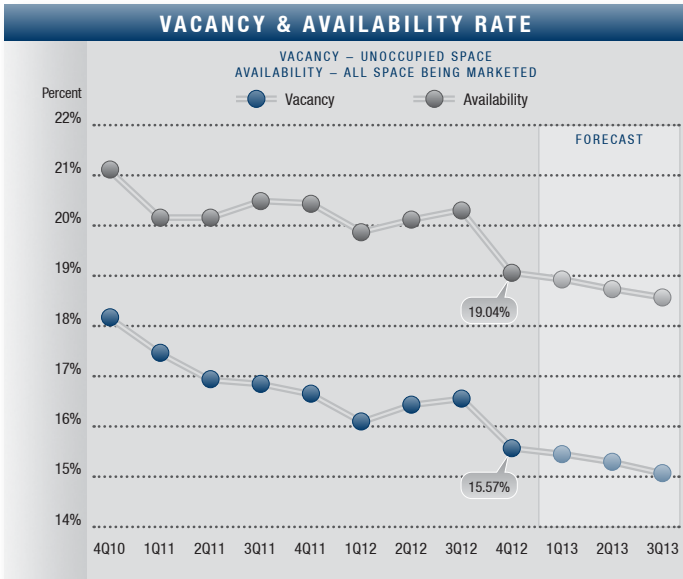
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### Market Highlights

- Market Status** - The Reno office market ended 2012 with a great quarter. A large positive absorption figure and a major drop in vacancy gave this market some much needed optimism. However, over the past few years this market has been like a yo-yo, and we expect a long-term recovery in this market to be more moderate.
- Construction** - There were no office properties under construction in the Reno market at the end of the fourth quarter of 2012. 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 decreased for the third quarter by 94 basis points to finish the fourth quarter of 2012 at 15.57%. Within the major submarkets, Sparks and Central/Airport submarkets remained very high at 19.58% and 17.72%, respectively, while the Meadowood submarket posted the lowest rate at 11.56%.
- Availability** - The percentage of total space being marketed came in at 19.04% in the fourth quarter of 2012 — a decrease of 123 basis points from the previous quarter. Within the major submarkets, the South Meadows and Sparks submarkets remained very high at 24.75% and 23.95%, respectively, while the Meadowood submarket looked better at 14.57%.
- Lease Rates** - At the end of the fourth 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 the \$1.49 seen in the previous quarter. The region's highest average asking rate (within the major submarkets) was \$1.66 in the Downtown area, while the lowest was \$0.65 in the Sparks submarket.
- Absorption** - The Reno office market posted positive net absorption of 161,267 square feet during the fourth quarter. Other than the second and third quarter of 2012, 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 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 fourth quarter of 2012 to post around 275,000 square feet of total volume. Details of the largest transactions for 2012 can be found on the back page of this report.
- Employment** - The unemployment rate in the Reno-Sparks MSA was 10.6% in October 2012, down from 12% in July 2012. This compares with an unemployment rate of 10.9% for Nevada and 7.5% for the nation during the same period.
- Overall** - In the near future, Reno's office market will likely continue to fluctuate some as it continues on its gradual path to recovery. However, 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 about 17% 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

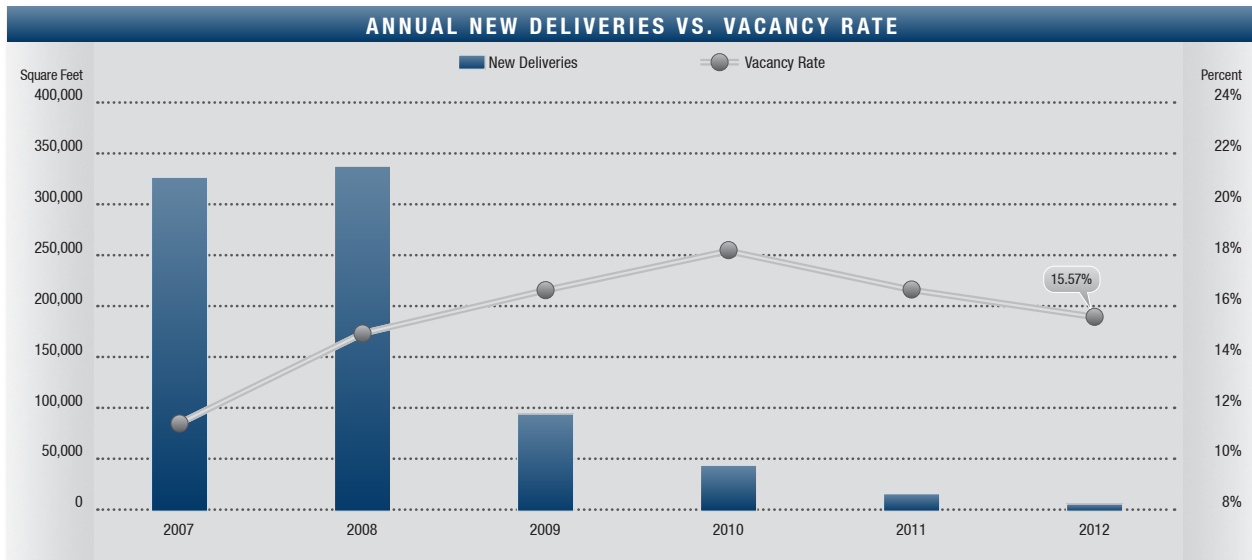
|                           | 2012      | 2011      | 2010      | % of Change vs. 2011 |
|---------------------------|-----------|-----------|-----------|----------------------|
| Total Vacancy Rate        | 15.57%    | 16.69%    | 18.18%    | (6.71%)              |
| Availability Rate         | 19.04%    | 20.46%    | 21.10%    | (6.94%)              |
| Average Asking Lease Rate | \$1.48    | \$1.53    | \$1.54    | (3.27%)              |
| Sale & Lease Transactions | 1,115,600 | 1,493,116 | 1,056,261 | (25.28%)             |
| Gross Absorption          | 1,327,276 | 1,432,124 | 1,094,488 | (7.32%)              |
| Net Absorption            | 196,552   | 272,439   | (242,918) | 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 4Q2012 | Square Feet Available | Availability Rate 4Q2012 | Average Asking Lease Rate | Net Absorption 4Q2012 | Net Absorption 2012 | Gross Absorption 4Q2012 | Gross Absorption 2012 |
| <b>Reno Market Total</b>     |                  |                          |                   |                     |                       |                     |                       |                          |                           |                       |                     |                         |                       |
| Carson City County           | 166              | 2,196,724                | 0                 | 3,000               | 340,296               | 15.49%              | 366,228               | 16.67%                   | \$1.09                    | 33,294                | 54,340              | 46,143                  | 148,254               |
| Central/Airport              | 245              | 2,804,234                | 0                 | 15,792              | 496,830               | 17.72%              | 586,000               | 20.90%                   | \$1.12                    | 2,259                 | 5,400               | 43,834                  | 198,296               |
| Douglas County               | 57               | 491,963                  | 0                 | 6,545               | 53,308                | 10.84%              | 54,426                | 11.06%                   | \$1.79                    | 4,390                 | 26,587              | 7,844                   | 38,297                |
| Downtown                     | 311              | 4,067,818                | 0                 | 0                   | 584,357               | 14.37%              | 697,758               | 17.15%                   | \$1.66                    | 22,375                | 26,852              | 64,996                  | 259,488               |
| Incline Village              | 29               | 315,973                  | 0                 | 0                   | 58,428                | 18.49%              | 70,119                | 22.19%                   | \$2.63                    | 11,556                | (19,005)            | 15,606                  | 62,479                |
| Lyon County                  | 37               | 185,626                  | 0                 | 12,000              | 61,349                | 33.05%              | 68,149                | 36.71%                   | \$0.00                    | 7,357                 | 12,665              | 7,357                   | 17,065                |
| Meadowood                    | 190              | 3,144,380                | 0                 | 289,036             | 363,475               | 11.56%              | 458,133               | 14.57%                   | \$1.60                    | 23,143                | 31,050              | 78,242                  | 198,181               |
| North Outlying Washoe County | 6                | 112,026                  | 0                 | 0                   | 29,882                | 26.67%              | 25,387                | 22.66%                   | \$1.80                    | (1,320)               | 928                 | 1,680                   | 5,688                 |
| North Valleys                | 16               | 109,841                  | 0                 | 0                   | 29,736                | 27.07%              | 29,736                | 27.07%                   | \$0.00                    | (7,273)               | (8,073)             | 640                     | 3,440                 |
| South Outlying Washoe County | 21               | 201,082                  | 0                 | 24,054              | 12,043                | 5.99%               | 18,617                | 9.26%                    | \$1.35                    | 1,982                 | 1,117               | 6,182                   | 10,699                |
| South Meadows                | 175              | 2,253,640                | 0                 | 201,707             | 355,515               | 15.78%              | 557,820               | 24.75%                   | \$1.55                    | 54,261                | 57,851              | 98,082                  | 255,551               |
| Sparks                       | 161              | 1,203,434                | 0                 | 0                   | 235,602               | 19.58%              | 288,242               | 23.95%                   | \$0.65                    | 12,069                | (7,796)             | 14,895                  | 84,814                |
| Storey County                | 2                | 23,730                   | 0                 | 881,162             | 0                     | 0.00%               | 0                     | 0.00%                    | \$0.00                    | 0                     | 0                   | 0                       | 0                     |
| West Reno                    | 39               | 341,397                  | 0                 | 0                   | 97,122                | 28.45%              | 102,104               | 29.91%                   | \$0.00                    | (2,826)               | 14,636              | 0                       | 45,024                |
| <b>Reno Market Total</b>     | <b>1,455</b>     | <b>17,451,868</b>        | <b>0</b>          | <b>1,433,296</b>    | <b>2,717,943</b>      | <b>15.57%</b>       | <b>3,322,719</b>      | <b>19.04%</b>            | <b>\$1.48</b>             | <b>161,267</b>        | <b>196,552</b>      | <b>385,501</b>          | <b>1,327,276</b>      |

|                          |              |                   |          |                  |                  |               |                  |               |               |                |                |                |                  |
|--------------------------|--------------|-------------------|----------|------------------|------------------|---------------|------------------|---------------|---------------|----------------|----------------|----------------|------------------|
| Class A                  | 20           | 1,583,765         | 0        | 102,000          | 278,007          | 17.55%        | 400,911          | 25.31%        | \$1.74        | 13,126         | 13,644         | 19,206         | 78,973           |
| Class B                  | 717          | 9,953,646         | 0        | 1,331,296        | 1,571,254        | 15.79%        | 1,844,564        | 18.53%        | \$1.50        | 137,779        | 224,516        | 278,129        | 916,102          |
| Class C                  | 718          | 5,914,457         | 0        | 0                | 868,682          | 14.69%        | 1,077,244        | 18.21%        | \$1.24        | 10,362         | (41,608)       | 88,166         | 332,201          |
| <b>Reno Market Total</b> | <b>1,455</b> | <b>17,451,868</b> | <b>0</b> | <b>1,433,296</b> | <b>2,717,943</b> | <b>15.57%</b> | <b>3,322,719</b> | <b>19.04%</b> | <b>\$1.48</b> | <b>161,267</b> | <b>196,552</b> | <b>385,501</b> | <b>1,327,276</b> |

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                                |
|-------------------------|--------------------|-------|-------------|-------------------|------------------------------------|---------------------------------------|
| 1470 Medical Pkwy.      | Carson City County | B     | 38,426      | \$221.20          | American Realty Capital Healthcare | Hammes Company                        |
| 10345 Professional Cir. | South Meadows      | A     | 64,360      | \$117.31          | Chance Family Trust                | DDH Financial Corporation             |
| 900 Sandhill Rd.        | South Meadows      | B     | 40,746      | \$147.25          | KBA Enterprises, LLC               | Panatton / Carlsen / Rieger / Roberts |
| 10619 Double R Blvd.    | South Meadows      | B     | 17,631      | \$311.95          | Massie & Company                   | Dr. Craig Sande, MD                   |
| 1285 Financial Blvd.    | Central / Airport  | C     | 39,345      | \$76.25           | Renown Health, Inc.                | Evergreen Capital, LLC                |

Lease Transactions

| Property Address        | Submarket         | Class | Square Feet | Transaction Date | Tenant                    | Owner                               |
|-------------------------|-------------------|-------|-------------|------------------|---------------------------|-------------------------------------|
| 10315 Professional Cir. | South Meadows     | A     | 19,955      | Mar-12           | UWIGP                     | Reno Tech 7, LLC                    |
| 10615 Professional Cir. | South Meadows     | B     | 14,758      | Sep-12           | N/A                       | MLSG Home Loans                     |
| 6005 Plumas St.         | Meadowood         | B     | 13,532      | Sep-12           | Wells Fargo Advisors, LLC | Lakeridge Center Office Complex, LP |
| 1175 Financial Blvd.    | Central / Airport | C     | 13,104      | Jun-12           | One Contact, Inc.         | Covec 1988 Living Trust             |
| 100 W. Liberty St.      | Downtown          | A     | 11,800      | Feb-12           | Downey Brand, LLP         | Chawin Property, Inc.               |

Product Type

CLASS A

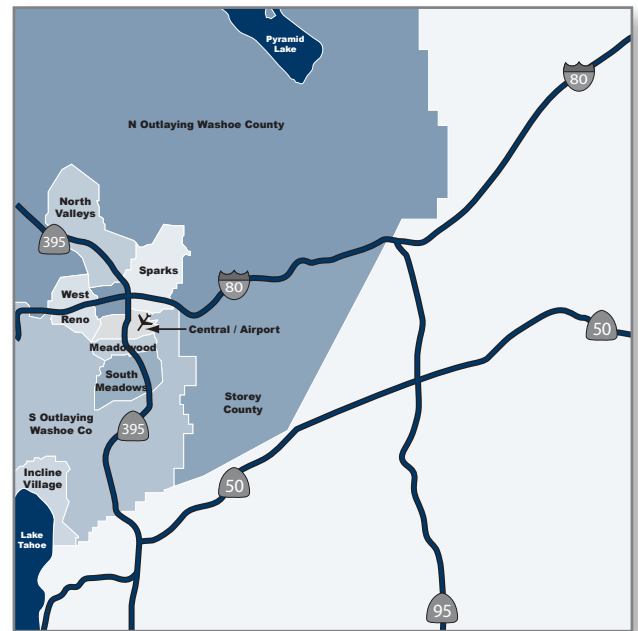
Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

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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