

Market Research

RETAIL | FIRST QUARTER REPORT | 2009



MARKET INDICATORS

	1Q 2009	2Q 2009*
DIRECT VACANCY	↑	↑
SUBLEASE VACANCY	↑	↑
TOTAL VACANCY	↑	↑
NET ABSORPTION	↓	↓
CONSTRUCTION	↓	↓
RENTAL RATE	↓	↓
*PROJECTED		

Vacancy Hits an All Time High

Text by: Roxanne Stevenson

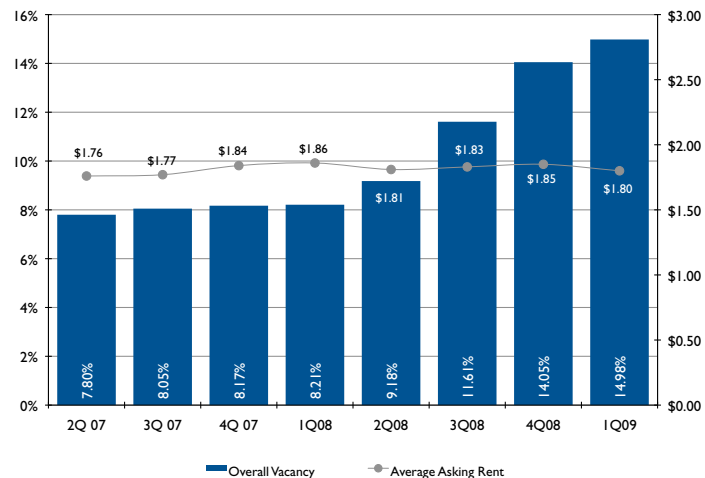
First Quarter Overview

With the continued slowdown of the housing market and tremendous pullback in consumer spending, it appears that the beginning of 2009 is playing out like the end of 2008 as retailers continue to close stores and consolidate. The disappointing Christmas shopping season was ranked as one of the worst in forty years. To date, we have seen Circuit City, TGI Friday's, four Long's Drugs, Home & Garden Direct, Tequila Beach, Household Finance, Baja Fresh in Sparks, multiple Domino's Pizzas and several independent retailers and restaurants shut their doors. Combined with the widespread store closures in 2008, the vacancy rate has been pushed up to historic levels. In the first quarter, we had negative net absorption of 43,569 square feet as the vacancy rate hit 14.98 percent, up from year-end 2008 of 14.05 percent—significantly higher than the national average of 8.4 percent. The only anchors to open were Best Buy in the Legends at Sparks Marina and Staples in the Shopper's Square expansion.

Construction

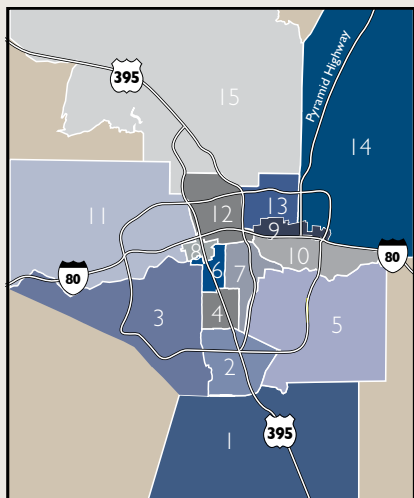
Construction has slowed substantially with the exception of two projects—The Legends at Sparks Marina and Shopper's Square expansion in the Park Lane submarket. The Legends is set to transform the economic and tourist-based landscape of Northern Nevada with their \$1.2-billion, destination retail and entertainment center encompassing more than one million square feet. It is currently under construction at the intersection of Interstate 80 and Sparks Blvd and is scheduled to open phase one this summer joining Scheel's All Sports, Target and Best Buy. As a destination development, The Legends combines retail (primarily "factory" stores), entertainment and dining options that target visitors from a wide geographic area. Studies indicate the project has the potential to draw an additional eight hundred thousand tourists to the area each year, bringing the total visitors to the market to six million annually. Because the project will be designed to boost tourism, RED Development will utilize STAR (Sales Tax Anticipated Revenue) Bonds, a unique financing tool available for projects that will have a positive impact on the region or state.

Q1 2009 VACANCY CHART



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SUBMARKET MAP KEY

ID	SUBMARKET
1	South Reno
2	Meadowood
3	Southwest Reno
4	Parklane
5	Airport
6	South Virginia
7	Kietzke
8	Reno Redevelopment
9	Sparks Redevelopment
10	Sparks Industrial
11	Northwest Reno
12	Northeast Reno
13	West Sparks
14	NorthEast Sparks
15	North Valleys

Shopper's Square recently completed its 63,000 square foot expansion as Staples opened their first location in the Truckee Meadows. Smart & Final Extra will open this summer with their new concept that increases their traditional footprint from 17,000 square feet to 30,000 square feet. The new format features a bulked up grocery component and also carries health and beauty items. Their former space on Kietzke Lane will be back filled by another one of their concepts, Cash & Carry, which is a wholesaler that caters to the foodservice industry.

Rent/Land Price Trends

It is no surprise that activity has been going downhill since mid 2008. Rents, as well as values, have decreased 15 percent to 30 percent, depending upon the location and quality of the project. Comps are difficult to obtain as the retail landscape is changing rapidly. A lease or sale that was done one year ago has little relevance in today's market. Average monthly "asking rents" for shop space are \$1.80 per square foot triple net compared to the year end figure of \$1.85 triple net. However, "asking rents" and "effective rents" are vastly different. Many landlords are not even quoting rents and are offering additional tenant improvements, "early occupancy" (previously called free rent in the good old days), low rent during the first few years of the term that escalates, rent rebates, help with financing build-out, and FF&E (Furniture, Fixtures and Electrical) and other creative terms and concessions.

Vacancy

Currently, there is 2,232,000 square feet of vacant space in the market, of which approximately 900,000 square feet is anchor and junior anchor space. The first quarter of the year has traditionally been the time when we see the most closures; however, reports indicate that there are still some retailers on life support and that more consolidations and closings may be on the horizon. Co-tenancy provisions that stipulate that tenants are entitled to either a rent deduction or release from the lease are also causing landlords to lose sleep. Retaining tenants and renewing leases have become a

priority. What was once viewed as routine has become a complicated negotiation with tenants requesting lease restructuring along with rent reductions. It is more important than ever to try and put an end to the landlord/tenant disconnect so both parties can work together. Furthermore, shopping center owners are looking at uses ("market adjusted strategies") previously not considered to fill vacancies such as dollar concepts, medical, art, educational, office uses, liquor stores and even pawn shops.

Looking Ahead

There are many unknowns in the shopping center industry right now. Many questions come to mind when looking ahead. When will pipelines fill up again? How will banks rebuild? What will consumers want to purchase? Will shoppers continue to trade down and focus more on value or will there be pent-up demand? What will happen to the underperforming centers and vacant box space? Will there be new retail concepts to back fill the large vacancies? When the country does recover, what will shopping centers of the future look like?

Most industry experts agree that it is unlikely that consumer markets will ever get to the excessive levels seen during the housing bubble and developers and lenders will be much more conservative.

With the vacancy rate at a historical high, new development will be scarce until there are tenants to backfill the existing vacancy. With the elevated big box space available, it will be some time before our market will see large tenants absorb the anchor space. Perhaps we will see a new breed of retailers enter our markets allowing landlords to divide the space to accommodate the need for smaller anchors.

Whatever the future holds, we remain positive that the economy will begin to rebound in the latter half of 2009. Unfortunately, we don't see much of the 2.5 million square feet of retail space that is proposed/planned being constructed in 2009 or early 2010. We know currently, retail real estate appears to be running through the proverbial gauntlet, taking lumps and bumps, but eventually there is an end. Retailers, landlords, developers and brokers that make it though, will emerge wiser and stronger.

CENTER NAME	PROPOSED
Super Wal-Mart Glendale:	225,000 SF
Super Wal-Mart on Lemmon Drive:	225,000 SF
Park Lane Promenade:	500,000 SF
Legends Subsequent Phases:	726,879 SF
Downtown Reno around Ballpark:	TBD
Phase II & III of Summit Sierra:	±350,000 SF
Completion of Eagle Landing:	67,564 SF
Three Flags Center:	30,000 SF
Pioneer Meadows Phase II:	124,263 SF
Los Altos Crossing Phase II:	40,232 SF
Sparks Galleria:	107,300 SF
South Creek Crossing:	67,218 SF

RETAIL MARKET STATISTICS

FIRST QUARTER 2009

EXISTING PROPERTIES			DIRECT VACANCY		SUBLEASE VACANCY		TOTAL VACANCY				NET ABSORPTION		CONSTRUCTION		RENT
SUBMARKET	BLDGS	TOTAL INVENTORY SQUARE FEET	SQUARE FEET	RATE	SQUARE FEET	RATE	SQUARE FEET	RATE 1Q2009	RATE PRIOR QUARTER	CURRENT OCCUPIED SQUARE FEET	1Q2009	YEAR TO DATE	COMPLETED THIS QUARTER	UNDER CONST.	AVERAGE ASKING
PROPERTY TYPE TOTALS															
AIRPORT	5	226,755	12,595	5.55%	-	-	12,595	5.55%	5.56%	214,160	4	4	-	-	\$2.30
KIETZKE	9	938,751	184,910	19.70%	40,508	4.32%	225,418	24.01%	14.50%	713,333	(89,343)	(89,343)	-	-	\$1.25
MEADOWOOD	27	3,119,055	354,565	11.37%	58,197	1.87%	412,762	13.23%	11.55%	2,706,293	(52,649)	(52,649)	-	-	\$1.75
NORTH VALLEYS	8	415,518	35,938	8.65%	-	-	35,938	8.65%	8.74%	379,580	380	380	-	-	\$1.85
NE RENO	2	52,672	18,641	35.39%	-	-	18,641	35.39%	21.26%	34,031	-	-	-	-	\$2.65
NE SPARKS	14	1,530,879	248,722	16.25%	19,642	1.28%	268,364	17.53%	15.66%	1,262,515	413	413	34,492	193,590	\$1.35
NW RENO	19	1,670,756	423,864	25.37%	2,160	0.13%	426,024	25.50%	24.55%	1,244,732	(2,439)	(2,439)	-	20,000	\$2.00
PARK LANE	18	953,111	286,288	30.04%	5,000	0.52%	291,288	30.56%	29.86%	661,823	(19,212)	(3,672)	32,182	30,118	\$1.28
RENO REDEV.	9	162,391	61,668	37.98%	-	-	61,668	37.98%	37.81%	100,723	(273)	(273)	-	-	\$2.75
SOUTH RENO	15	2,134,968	155,326	7.28%	6,915	0.32%	162,241	7.60%	7.12%	1,972,727	880	880	12,000	7,782	\$2.22
S. VIRGINIA	3	116,280	9,458	8.13%	-	-	9,458	8.13%	9.51%	106,822	1,603	1,603	-	-	\$1.00
SW RENO	5	228,398	34,696	15.19%	-	-	34,696	15.19%	12.37%	193,702	(6,434)	(6,434)	-	-	\$1.45
SPARKS INDUST.	2	23,822	17,377	72.95%	-	-	17,377	72.95%	78.6%	6,445	1,344	1,344	-	-	-
SPANISH SPRINGS	12	1,642,619	195,738	11.92%	-	-	195,738	11.92%	16.05%	1,446,881	127,225	127,225	70,535	20,400	\$2.83
SPARKS REDEV.	1	12,764	-	-	-	-	-	-	-	12,764	-	-	-	-	\$1.65
WEST SPARKS	15	1,666,537	59,798	3.59%	-	-	59,798	3.59%	3.67%	1,606,739	29,932	28,132	29,580	21,700	\$1.87
MARKET TOTAL	164	14,895,276	2,099,584	14.10%	132,422	0.89%	2,232,006	14.98%	14.05%	12,663,270	(43,569)	(43,569)	178,789	293,590	\$1.80

QUARTERLY COMPARISON AND TOTALS

Q1-2009	164	14,895,276	2,099,584	14.10%	132,422	0.89%	2,232,006	14.98%	14.05%	12,663,270	(43,569)	(43,569)	178,789	293,590	\$1.80
Q4-2008	164	14,783,762	1,993,201	13.48%	83,722	0.57%	2,076,923	14.05%	11.61%	12,706,839	(180,106)	(225,515)	275,100	381,494	\$1.85
Q3-2008	159	14,579,349	1,617,982	11.10%	74,422	0.51%	1,692,404	11.61%	9.18%	12,886,945	(111,445)	(45,409)	277,594	779,113	\$1.83
Q2-2008	157	14,275,710	1,238,188	8.67%	72,457	0.51%	1,310,645	9.18%	8.21%	12,965,065	(91,936)	60,036	70,700	1,002,033	\$1.81
Q1-2008	150	14,225,227	1,104,293	7.76%	63,933	0.45%	1,168,226	8.21%	8.17%	13,057,001	157,972	157,972	136,396	911,223	\$1.86

MARKET ACTIVITY

SIGNIFICANT 2009 TRANSACTIONS

SIGNIFICANT LEASES

PROPERTY ADDRESS	DATE	SQUARE FEET	TENANT	TYPE
Eagle Landing - Pyramid Hwy	03/09	54,200	Auto Zone	Neighborhood Center
400-750 Greenbrae Dr	03/09	26,500	Gym	Strip Center
4827 Kietzke Ln	03/09	17,500	DB Shoe's	Power Center
Legends at Sparks Marina	03/09	5,852	Fuddruckers	Regional Center

RETAILERS & CONCEPTS TO WATCH—WHO IS EXPANDING?

<u>LEGENDS AT SPARKS MARINA:</u>	<u>COMPANIES/CATEGORIES EXPANDING:</u>	<u>COMPANIES/CATEGORIES HARDEST HIT</u>
Saks Fifth Avenue OFF 5th	Wal-Mart	Department Stores
Nike Factory Store	Fresh & Easy (maybe)	Do-it-Yourself
Volcom	Staples	Home Furnishings
Banana Republic Factory Store	Smart & Final Extra	Book Store Chains
IMAX Theater	Cash & Carry	Bank Branches
Olive Garden	Drug Stores (although slowing)	Luxury
Cadillac Ranch	Dollar Concepts	Upscale Restaurants
Michael Kors	Ethnic Grocery Stores	Starbucks
Fuddruckers	Tax Related	
Tommy Hilfiger	Cellular Phones	
Carter's	Gyms/Health Clubs	
Converse	Tires & Automotive	
Freshberry Yogurt Cafe	Value Fast Food and Quick Serve Restaurants	

RETAIL AT A GLANCE

	<u>YEAR END 2008</u>	<u>Q1 2009</u>
Total Inventory	14,783,762 SF	14,895,276
Overall Vacancy	14.05%	14.98%
Monthly Average Asking Rents	\$1.85	\$1.80
Monthly NNN:	\$0.31 - \$0.71	\$0.31 - \$0.90
Net Absorption	(180,106) SF	(43,569) SF
Under Construction	381,494 SF	293,590 SF
Completed Construction	275,100 SF	178,789 SF
Pad Prices	\$18 - \$30	\$12 - \$25
Annual Ground Rents	\$55,000 - \$125,000	\$45,000 - \$100,000

294 OFFICES IN 61 COUNTRIES
ON 6 CONTINENTS

USA 94
Canada 22
Latin America 17
EMEA 97
Asia/Pacific 64

\$1.6 Billion in Revenue

1.1 Billion SF Under Management

12,749 Professionals

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