

RENO | NEVADA

## RESEARCH &amp; FORECAST REPORT



## MARKET INDICATORS

	Q4-10	Projected Q1-11
VACANCY	↑	↓
ABSORPTION	↓	→
CONSTRUCTION	↓	→
LEASE RATES	↓	→

## Retail Market Review

## THE YEAR OF STABILIZATION

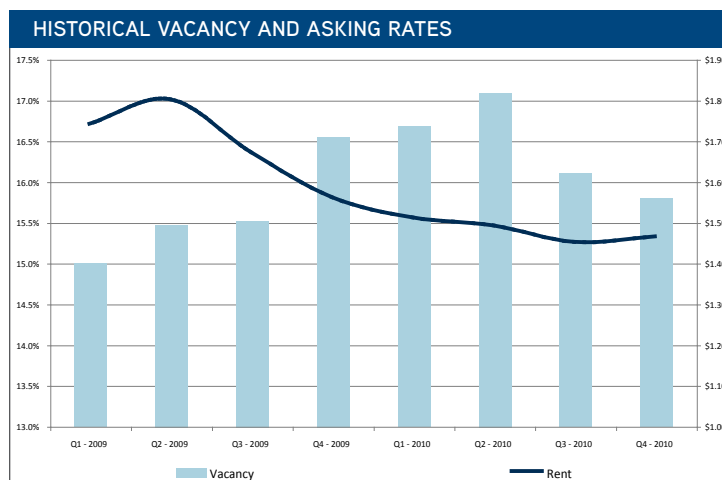
We have gone from 2010 where “not as bad was the new good” to a year showing signs of stabilization. After three tough years, we are happy to say goodbye to the Great Recession. There is no question that we are far from being out of the woods because job recovery and improvement to the residential market are critical for the revival of retail. However, recent signs of new retail activity are encouraging.

The good news is that we believe retail commercial real estate has hit bottom. Vacancy rates fell slightly from 16.6 percent in 2009 to 15.8 percent to close 2010. The market also posted year-to-date positive net absorption and while asking rents did decrease to an average monthly asking rate of \$1.46 per square foot, we believe that they are finally leveling out. In addition, triple net costs remained consistent, and in some cases, were even reduced.

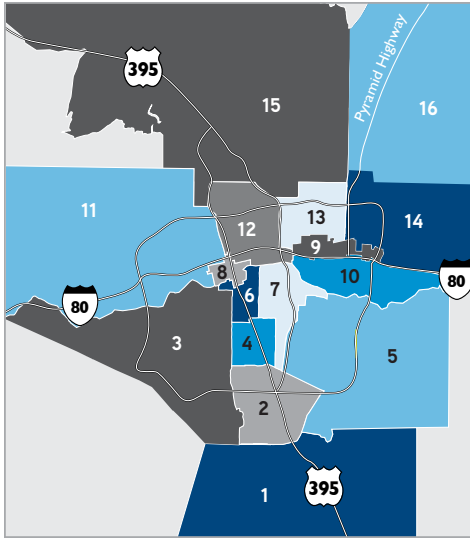
## 2010 HOLIDAY SALES STRONG

ICSC reported a 4.0 percent increase over the previous year, the largest increase in four years. In addition, e-commerce was up 12.0 percent, an all time high. The season will also be remembered for an exceptional Cyber Monday after Christmas, which was the first billion-dollar spending day in history.

Top performers for the year included Abercrombie & Fitch, TJ Maxx, Dollar Tree, Walgreen's, Amazon.com and department stores to name a few. The luxury-goods market also started to rebound as higher income shoppers got fed up with skimping. Among discounters, Target emerged as the favorite over Wal-Mart as consumers wanted value and quality. In electronics, anything with an Apple logo sold furiously while flat screen televisions and computer sales cooled.



Rents and vacancies are beginning to stabilize



SUBMARKET MAP KEY

- 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
- 16 Spanish Springs

After four years of decline, Washoe County taxable sales posted modest increases in 2010 compared to the previous year. Annual taxable retail sales per capita peaked in 2006 and have decreased every year since.

### STILL A TENANT'S MARKET

As there is no shortage of available space for retailers, it remains a tenant's market and they are not shy about pitting one landlord against another. Even in centers where landlords avoided a flood of vacancies, they probably are collecting fewer rent dollars as lessees pressed for concessions and leases rolled over to lower market rates. Rent reductions have abated, but landlords will most likely continue struggling to regain pricing power and will compete intensely to attract top performing tenants.

Retailers with cash in their coffer are taking advantage of increased sales and favorable economics. Several tenants have announced plans to step up expansion. Value, discount, dollar, automotive, cell phones and casual dining restaurants lead the pack.

Although we lost a few restaurants last year, franchise quick serve and casual concepts are driving restaurant expansion. While independent

restaurants have been hit the hardest the past two years, there are several local and regional chains vying to squeeze in among the national contenders and take advantage of the market conditions.

### 2010 CLOSINGS - WHO WILL BE NEXT?

Safeway and Savemart's closures were very impactful as was Sax Off Fifth and the Jones New York concepts in the Legends. Restaurants such as Chili's, Austin's, Bully's and the Melting Pot are also noteworthy.

Even with the recent credit line from GE, Borders Books filed Chapter 11 and 30 percent of their underperforming stores will close. Thankfully, Reno is not on the first round of closures. Office Depot is running third in a three-horse race and many industry experts do not believe they will survive 2011. As for Blockbuster, the writing is on the wall with a possible Chapter 11 liquidation looming. JC Penney's announcement that they are phasing out of the catalog business will result in the closing of all outlet stores. Other than those mentioned above, we do not see other chains closing down, just more pruning and consolidations.

### SIGNIFICANT RETAIL ACTIVITY

TENANT	LOCATION	COUNTY	SIZE
KOHL's	Eagle Station	Carson City	86,000 SF
Big Lots	Southgate	Carson City	34,973 SF
Total Wine & More	The Commons	Washoe	28,000 SF
Ross	Silver State Plaza	Washoe	27,000 SF
TJ Maxx	Oulets at Legends	Washoe	24,837 SF
Planet Fitness	Silver State Plaza	Washoe	19,000 SF
Big Five Sporting Goods	Southgate	Carson City	14,000 SF
Pier 1	Del Monte Plaza	Washoe	10,550 SF
Charming Charlie	Summit Sierra	Washoe	9,754 SF
Dollar Tree	Three Flags	Washoe	8,000 SF
AutoZone	Canyon Center	Washoe	7,000 SF
Famous Dave's	Kietzke & McCarran	Washoe	6,656 SF
Einstein Bros. Bagels	Meadows Marketplace	Washoe	4,400 SF
Olive Garden	Southgate	Carson City	Ground Lease
Fresh & Easy	Eagle Landing	Washoe	Pad Sale
Wal-Mart Super Center	Minden/Gardnerville	Douglas	Sale

## SIGNIFICANT TRANSACTIONS

There were several important transactions done last year including several new to the market such as Einstein Bros. Bagels, Total Wine & More, Charming Charlie, Pier 1, Famous Dave's, Fat Burger and Planet Fitness. In Douglas County, Kohl's opened in Eagle Station and deals were completed with Olive Garden, Big 5 and Big Lots in Southgate.

A concept that does not yet exist in Northern Nevada and worth highlighting is Total Wine & More. They are a wine and spirit superstore and carry over 8,000 different wines, 2,000 types of spirits and 1,000 beers. Their emphasis is on fine wines from every wine-producing region in the world with the lowest possible prices. They will open in April in the former Linens-n-Things space.

## TRADITIONAL SUPERMARKET SQUEEZED

The biggest story here is that Wal-Mart is looking at landing four or five 42,000 square foot Neighborhood Market concepts here. These stores will have a drive-thru pharmacy and positioned to "fill in the holes" not already served by one of their super centers.

The grocery industry is changing as is the way consumers shop for food. Retailers better known for selling clothes or prescriptions, such as Target, Walgreen's and CVS, are expanding into the grocery business in a big way. Sun Flower Market, Sprouts and Hispanic grocers are looking for locations and dollar stores are enlarging their grocery sections. Another sign of change is that

Raley's is preparing to convert their store in Old Town Mall to its discount Food Source brand. Add Costco and other warehouse clubs into the mix and it is easy to see how the traditional supermarket is being pinched. Weak regional chains could one day be at risk.

## WAL-MART DRIVES NEW CONSTRUCTION

The pullback in construction will help recovery as existing space is absorbed. Wal-Mart is driving most of the new construction with the recent completion of their Glendale store and the new project under way in North Valley. While many of the proposed projects have been cancelled, we believe that Park Lane Promenade is one that will be built as soon as they secure an anchor tenant. Additionally, Keystone Commons, previously Keystone Corners, is slated for redevelopment and expansion.

## TRENDS TO WATCH

The retail store is no longer the center of the retail world. Consumers now have access to anything they want 24/7 so we expect to see more e-commerce, social networking and smart phones being used as retailers connect to shoppers wherever they are and whatever their demographic.

Look for more "stores within stores". Examples include RadioShack-run mobile phone shops inside Target. They expect to have over 1,400 kiosks by the end of June. Sears is carving out space for the trendy retailer Forever 21 and even Wal-Mart has 400 in-store leases ready for well-matched retailers.

## INDUSTRY TRENDS

- **Get on Board With Social Networking**
- **On-line Retailing Grows**
- **Stores "Within Stores"**
- **Pop Ups Popular**
- **Smaller Big Boxes**
- **High Income Consumers Spend More Freely**
- **Flight to Value and Quality Here To Stay**
- **Store Openings Increases/Closings to Decrease**
- **Greening of Retail**

## EXPANDING RETAILERS & RESTAURANTS

### EXPANDING RETAILERS

Big Lots (Carson City)

Walmart Super Centers

Dollar Tree

O'Reilly

Discount Tires

Verizon

Ross

Walmart Neighborhood Grocery

TJ Maxx

Autozone

Tires Plus

T-Mobile

### EXPANDING RESTAURANTS

Einstein Bros Bagels

Fatburger

Genghis Grill

Peg's Glorified Ham & Eggs

Squeeze Inn

Subway

Olive Garden (Carson City)

Famous Dave's

U-Swirl

Mmmm Yogurt

Yogurt Beach

Great Basin Brewery

Shoppers are expected to start opening their wallets as there is pent up demand and improved consumer confidence; however, unlike the “bubble” years, they will spend smartly and strategically and out of current income rather than with plastic. It is also pretty safe to say that many stores will be smaller and their operators more responsive.

## RETAIL INVESTMENT OUTLOOK

The availability of capital, along with low interest rates, has accelerated the pace of retail investments in key markets. The ability to borrow money at approximately five percent has made it possible to accept CAP rates in the six to seven percent range. While most investors have decided to play it safe and purchase A+ grocery anchored and triple net leased properties over the past year, with the low interest rates we do foresee investors looking to class B and some class C assets. Locally, there were only two shopping centers sold over the last year—Eagle Station in Carson City and Double R Galleria. Going forward in our market, we see retail investments being driven by distressed assets with most being lower-quality assets.

## 2011 FORECAST

Clearly, the road ahead will be bumpy at times. Optimism about the future will continue to ebb and flow, especially until more people are working. Shoppers will expect rock bottom prices on toothpaste and paper towels while at the same time, the latest Apple gadget will fly out the door at full price. The Colliers' Retail Team is cautiously optimistic about the remainder of 2011 and predicts that net absorption will remain even; new construction will be flat except for Wal-Mart; vacancy rates should post a modest decline; and lease rates will remain firm. We believe that the retail industry is poised for a gradual recovery that will materialize slowly in 2011 and more aggressively in 2012.

### RETAIL AT GLANCE

Total Inventory	15,468,546 SF
Overall Vacancy(%)	15.8%
Monthly Average Asking Rents	\$1.46
Monthly NNN	\$0.38
Net Absorption	247,382 SF
New Construction Completed in 2010	200,000 SF
Under Construction	162,200 SF
Large Land Parcels	NONE SOLD
Asking Pad Prices	\$8-\$18 / SF

*\*Excludes regional malls and centers under 10,000 SF.*

### NORTHERN NEVADA SHOPPING CENTERS 2010 SALES

CENTER	PURCHASE PRICE	GLA	PRICE PER SF	SALE DATE
Eagle Station (Carson City)	\$9,000,000	114,258 SF	\$78.00	5/10/2010
Double R Galleria	\$2,750,000	37,308 SF	\$74.00	12/16/2010

## 480 offices in 61 countries on 6 continents

United States: 135

Canada: 39

Latin America: 17

Asia Pacific: 194

EMEA: 95

- › \$1.9 billion in annual revenue
- › 2.4 billion square feet under management
- › Over 15,000 professionals

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