

Market Research

INDUSTRIAL | THIRD QUARTER | 2007



MARKET INDICATORS

	3Q 2007	4Q 2007*
DIRECT VACANCY	↓	↑
SUBLEASE VACANCY	↓	↔
TOTAL VACANCY	↓	↑
NET ABSORPTION	↑	↔
CONSTRUCTION	↓	↔
RENTAL RATE	↔	↔

*PROJECTED

Demand Stalls...Construction Booms

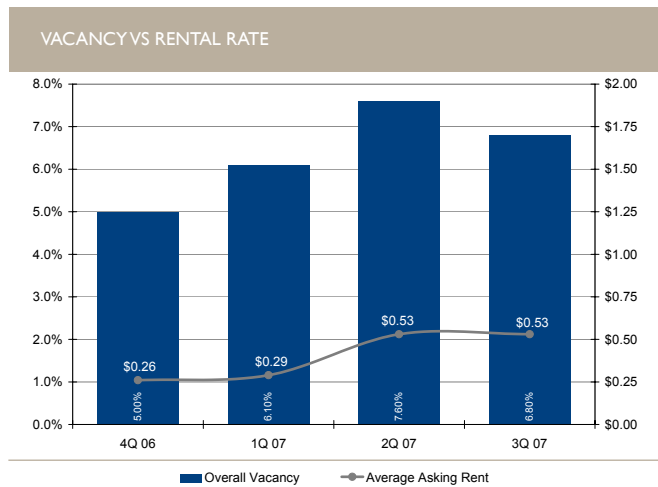
Overview

Although new construction added 1,095,420 square feet and vacancy decreased from 7.4% to 6.8%, the Northern Nevada industrial market continued the sluggish trend from the second quarter. Contributing to the decline in vacancy was the move of The Tire Rack into 310,000 square feet in the Tahoe Reno Industrial Center (TRIC) while vacating 216,054 square feet in the Sierra Commerce Center in Sparks, 141,240 square feet on Cola Ct. being absorbed, Pet-Edge taking nearly 171,000 square feet and Mergenthaler Transfer & Storage taking 49,000 square feet causing the vacancy in the Sparks industrial core to decrease from 5.5% to 5.2%.

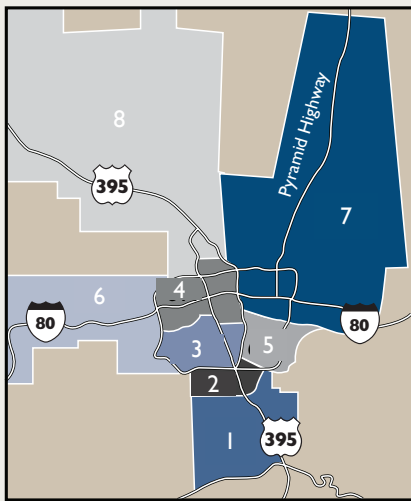
Over 2.9 million square feet of construction has been completed in 2007 thus far, 2.92 million square feet is currently under construction with an additional 2.26 million square feet planned within twelve months, and 877,000 square feet offered for Build-to-Suit. The overall vacancy rate will increase in the early months of 2008 especially in TRIC. It is obvious that any large credit tenant should be able to negotiate reasonably good concessions.

Interestingly, even with over 1.2 million square feet of vacant space in TRIC, outside developers continue to show interest in the Northern Nevada industrial market. Development Arts has broken ground on a 632,000 square foot building in the new West America Commerce Center as well as McShane Development with a 566,200 square foot building. Both McShane and Development Arts projects have additional phases planned which should provide a steady stream of product for years to come.

This illustrates an interesting point relative to the vacancy rate. Sparks, the largest concentrated industrial base of nearly 28 million square feet only has a total vacancy rate of 5.2% (4.6% direct and .6 % sublease), Stead (part of Reno) with a base of 8.8 million square feet has a 8.3% (6.8% direct and 1.6% sublease), the remaining portion of Reno, which includes the submarkets of Downtown, Airport, and South Meadows has a base of 26 million square feet and a total vacancy of 5.3% (4.4% direct and .93% sublease). It's obvious that McCarran with a base of 2.6 million square feet and a vacancy rate of 49%, distorts the picture and will continue to do so unless demand increases significantly.



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SUBMARKET MAP KEY

ID	SUBMARKET
1	South Meadows
2	Meadowood
3	Southwest Reno
4	Downtown
5	Airport
6	West Reno
7	Sparks
8	Northwest Reno

continued from p. 1

Also to be noted is the overall sublease vacancy rate decreased from .9% to .5% and total absorption was up from Q2 to 600,135 square feet absorbed versus 459,872 last quarter indicating that the market is absorbing some of the older existing space. With Pet Smart moving from 220,000 square feet in Stead to nearly a million square feet in TRIC, Reno's vacancy will rise.

The Fernley community continues to grow, though at a slower rate, but demand for industrial space has not materialized even though the Crossroads Commerce Center is a viable location for manufacturing and distribution to the Western states. The greatest growth has been in the retail sector providing a good support base for industrial growth.

Construction (completed)

For the second consecutive quarter construction in Reno, Sparks, and McCarran bridged over one million square feet bringing the total industrial inventory to 65,474,641 square feet. The bulk of the new construction resides in the McCarran submarket with Union Pacific Capitol completing 500,768 square feet of Warehouse/Distribution product on USA Parkway. In addition, 24,252 square feet of light industrial product was completed; 13,952 square feet on Megabyte Drive and 10,300 square feet on Sydney and Waltham. Within Reno and Sparks 145,000 square feet of Warehouse/Distribution space was completed at 1381 Capital Blvd,

418,000 square feet off of Pyramid Hwy, and 7,400 square feet at 740 Bennie Lane in the Northwest.

Construction (under construction end of Q307)

The big surprise for the third quarter is the number of large projects under construction totaling 2,936,116 square feet. As with completed construction, the bulk of the product under construction resides in the McCarran submarket with three large Warehouse/Distribution projects underway: 491,000 square feet on Ireland, 873,000 square feet off of USA Parkway, and 566,200 in Eagle Valley. Also under construction is a 40,000 square foot Industrial building located at 885 Denmark Drive.

While McCarran carries the largest amount of construction, other submarkets are continuing to see activity. The Spanish Springs Industrial Center Phase I is nearing completion with two light industrial buildings totaling 25,200 square feet. In addition, phase I of Tarragon's Spanish Springs Corporate Park on Distribution Drive will be adding 411,100 square feet at the end of October, 2007. In Stead, 390,000 square feet is nearing completion at Panattoni's Lear Industrial Center. Lastly, 100,000 square feet is under construction at Terabyte Drive in the South Meadows Business Park.

MARKET ACTIVITY

SIGNIFICANT THIRD QUARTER TRANSACTIONS

SIGNIFICANT LEASES

PROPERTY ADDRESS	DATE	SQUARE FEET	TENANT	TYPE
1170 Trademark	9/2007	220,000	Russell Corp (Fruit of the Loom)	Warehouse/Dist.
10855 Lear Blvd.	9/2007	153,000	Ceva Logistics	Warehouse/Dist.
655 Cola Ct.	9/2007	86,200	Pet Edge	Warehouse/Dist.

SIGNIFICANT SALES

PROPERTY ADDRESS	DATE	SQUARE FEET	BUYER/SELLER	TYPE
10 Greg Street	8/2007	91,012	Leff Family Tr./Greg Street Partners, LLC	Industrial
2 Eric Circle	8/2007	42,300	Wells Blookfield/Carrier Comm. Refrigeration	Warehouse/Dist.
1550 S. McCarran Blvd.	9/2007	33,562	1550 S. McCarran LLC/Truck Parts & Equip. Co.	Light Industrial

INDUSTRIAL MARKET STATISTICS

THIRD QUARTER 2007

EXISTING PROPERTIES			DIRECT VACANCY		SUBLEASE VACANCY		TOTAL VACANCY				NET ABSORPTION		CONSTRUCTION		RENT
CLASS	BLDGS	TOTAL INVENTORY SQUARE FEET	SQUARE FEET	R. RATE	SQUARE FEET	R. RATE	SQUARE FEET	RATE 3Q-2007	RATE PRIOR QUARTER	CURRENT OCCUPIED SQUARE FEET	3Q-2007	YEAR TO DATE	COMPLETED THIS QUARTER	UNDER CONST	AVERAGE ASKING
SUBMARKETS															
AIRPORT															
IND.	186	6,784,220	292,604	4.3%	-	0.0%	292,604	4.3%	5.0%	6,491,616	46,141	52,043	-	-	\$0.73
R&D/FLEX	1	60,636	6,705	11.1%	-	0.0%	6,705	11.1%	11.0%	53,931	(55)	(6,705)	-	-	\$0.65
W/D	35	2,506,332	121,564	4.9%	-	0.0%	121,564	4.9%	9.1%	2,384,768	93,442	86,287	145,000	-	\$0.65
TOTAL	222	9,351,188	420,873	4.5%	-	0.0%	420,873	4.5%	6.1%	8,930,315	139,528	131,625	145,000	-	\$0.71
DOWNTOWN															
IND	41	632,586	65,650	10.4%	-	0.0%	65,650	10.4%	9.8%	566,936	(3,550)	(60,466)	-	-	\$0.65
R&D/FLEX	0	-	-	0.0%	-	0.0%	-	0.0%	0.0%	-	-	-	-	-	-
W/D	10	604,054	67,136	11.1%	-	0.0%	67,136	11.1%	15.8%	536,918	28,018	23,566	-	-	\$0.50
TOTAL	51	1,236,640	132,786	10.7%	-	0.0%	132,786	10.7%	12.7%	1,103,854	24,468	(36,900)	-	-	\$0.57
MCCARRAN															
IND	13	1,097,032	173,276	15.8%	6,880	0.6%	180,156	16.4%	55.0%	916,876	(221,900)	804,466	525,020	40,000	\$0.75
R&D/FLEX	0	-	-	0.0%	-	0.0%	-	0.0%	0.0%	0	-	-	-	-	-
W/D	3	1,522,518	1,102,518	72.4%	-	0.0%	1,102,518	72.4%	0.0%	420,000	-	-	-	1,970,600	\$0.32
TOTAL	16	2,619,550	1,275,794	48.7%	6,880	0.3%	1,282,674	49.0%	42.1%	1,336,876	(221,900)	804,466	525,020	2,010,600	\$0.38
MEADOWOOD															
IND	35	1,397,717	36,007	2.6%	5,000	0.4%	41,007	2.9%	1.8%	1,356,710	(16,100)	3,074	-	-	\$0.70
R&D/FLEX	1	16,870	16,870	100.0%	-	0.0%	16,870	100.0%	100.0%	-	-	-	-	-	\$0.98
W/D	13	1,694,941	22,374	1.3%	-	0.0%	22,374	1.3%	2.3%	1,672,567	16,112	40,276	-	-	\$0.63
TOTAL	49	3,109,528	75,251	2.4%	5,000	0.2%	80,251	2.6%	2.6%	3,029,277	12	43,350	-	-	\$0.74
NORTHWEST															
IND	55	2,385,925	14,165	0.6%	-	0.0%	14,165	0.6%	0.7%	2,371,760	1,600	23,828	7,400	-	\$0.25
R&D/FLEX	0	-	-	0.0%	-	0.0%	-	0.0%	0.0%	-	-	-	-	-	-
W/D	19	2,256,869	77,500	3.4%	-	0.0%	77,500	3.4%	10.8%	2,179,369	165,145	512,720	-	-	\$0.34
TOTAL	74	4,642,794	91,665	2.0%	-	0.0%	91,665	2.0%	5.6%	4,551,129	166,745	536,548	7,400	-	\$0.33
SOUTH RENO CORRIDOR															
IND	63	3,589,720	124,534	3.5%	-	0.0%	124,534	3.5%	4.3%	3,465,186	29,749	39,741	-	100,000	\$0.85
R&D/FLEX	4	56,600	2,544	4.5%	-	0.0%	2,544	4.5%	4.5%	54,056	-	-	-	-	\$1.50
W/D	18	2,199,428	56,800	2.6%	-	0.0%	56,800	2.6%	10.0%	2,142,628	163,575	100,454	-	-	\$0.41
TOTAL	85	5,845,748	183,878	3.1%	-	0.0%	183,878	3.1%	6.5%	5,661,870	193,324	140,195	-	100,000	\$0.72
SOUTHWEST															
IND	4	62,419	-	0.0%	-	0.0%	-	0.0%	0.0%	62,419	-	-	-	-	\$0.73
R&D/FLEX	1	33,307	2,315	7.0%	-	0.0%	2,315	7.0%	7.0%	30,992	-	(1,440)	-	-	\$0.70
W/D	2	39,922	20,914	52.4%	-	0.0%	20,914	52.4%	52.4%	19,008	-	-	-	-	\$0.77
TOTAL	7	135,648	23,229	17.1%	-	0.0%	23,229	17.1%	17.1%	112,419	-	(1,440)	-	-	\$0.76
SPARKS															
IND	349	12,418,741	362,426	2.9%	133,115	1.1%	495,541	4.0%	4.0%	11,923,200	(18,941)	(122,195)	418,000	24,416	\$0.70
R&D/FLEX	4	100,214	-	0.0%	-	0.0%	-	0.0%	0.0%	100,214	-	8,584	-	-	\$0.52
W/D	130	15,311,624	913,023	6.0%	49,920	0.3%	962,943	6.3%	6.7%	14,348,681	63,994	(134,374)	-	411,100	\$0.38
TOTAL	483	27,830,579	1,275,449	4.6%	183,035	0.7%	1,458,484	5.2%	5.5%	26,372,095	45,053	(247,985)	418,000	435,516	\$0.49
STEAD															
IND	29	2,680,413	173,525	6.5%	-	0.0%	173,525	6.5%	16.4%	2,506,888	265,817	253,359	-	390,000	\$0.38
R&D/FLEX	0	-	-	0.0%	-	0.0%	-	0.0%	0.0%	-	-	-	-	-	-
W/D	26	6,179,729	424,645	6.9%	137,870	2.2%	562,515	9.1%	9.1%	5,617,214	(300)	109,450	-	-	\$0.35
TOTAL	55	8,860,142	598,170	6.8%	137,870	1.6%	736,040	8.3%	11.3%	8,124,102	265,517	362,809	-	390,000	\$0.36
WEST RENO															
IND	73	1,743,944	19,578	1.1%	-	0.0%	19,578	1.1%	0.4%	1,724,366	(12,612)	(6,560)	-	-	\$0.75
R&D/FLEX	0	-	-	0.0%	-	0.0%	-	0.0%	0.0%	-	-	-	-	-	-
W/D	3	98,880	-	0.0%	-	0.0%	-	0.0%	0.0%	98,880	-	-	-	-	-
TOTAL	76	1,842,824	19,578	1.1%	-	0.0%	19,578	1.1%	0.4%	1,823,246	(12,612)	(6,560)	-	-	\$0.75

INDUSTRIAL MARKET STATISTICS

THIRD QUARTER 2007

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CLASS	BLDGS	TOTAL INVENTORY SQUARE FEET	SQUARE FEET	R RATE	SQUARE FEET	R RATE	SQUARE FEET	RATE 3Q-2007	RATE PRIOR QUARTER	CURRENT OCCUPIED SQUARE FEET	3Q-2007	YEAR TO DATE	COMPLETED THIS QUARTER	UNDER CONST	AVERAGE ASKING
MARKET TOTAL															
IND	848	32,792,717	1,261,765	3.8%	144,995	0.4%	1,406,760	4.3%	7.0%	31,385,957	70,204	987,290	950,420	554,416	\$0.68
R&D/FLEX I I		267,627	28,434	10.6%	-	0.0%	28,434	10.6%	10.6%	239,193	(55)	439	-	-	\$0.93
W/D	259	32,414,297	2,806,474	8.7%	187,790	0.6%	2,994,264	9.2%	7.8%	29,420,033	529,986	738,379	145,000	2,381,700	\$0.37
TOTAL	1,118	65,474,641	4,096,673	6.3%	332,785	0.5%	4,429,458	6.8%	7.4%	61,045,183	600,135	1,726,108	1,095,420	2,936,116	\$0.47

QUARTERLY COMPARISON AND TOTALS

3Q-07	1,118	65,474,641	4,096,673	6.3%	332,785	0.5%	4,429,458	6.8%	7.4%	61,045,183	600,135	1,726,108	1,095,420	2,936,116	\$0.53
2Q-07	1,112	64,021,083	4,125,871	6.4%	595,545	0.9%	4,721,416	7.4%	6.1%	59,299,667	459,872	671,659	1,575,530	2,701,301	\$0.53
1Q-07	1,102	62,668,792	2,869,493	4.6%	954,017	1.5%	3,823,510	6.1%	5.0%	58,845,282	-25,578	-25,578	230,000	2,853,998	\$0.29
4Q-06	1,103	61,943,264	2,339,483	3.8%	732,921	1.2%	3,072,404	5.0%	5.4%	58,870,860	45,156	2,510,137	354,202	2,924,498	\$0.26
3Q-06	-	61,490,967	2,763,358	4.5%	538,097	0.09%	3,301,455	5.4%	4.7%	58,727,609	-518,626	2,464,981	-	-	-
2Q-06	-	61,011,398	2,244,732	3.7%	639,317	1.0%	2,884,049	4.7%	6.1%	57,637,498	1,495,870	2,983,607	-	-	-
1Q-06	-	61,011,398	3,740,602	6.1%	-	-	3,740,602	6.1%	6.8%	57,270,796	893,214	1,487,737	-	-	-
4Q-05	-	60,332,284	3,743,064	6.2%	-	-	3,743,064	6.2%	-	57,150,657	594,523	-	-	-	-



Land

Industrial land remains scarce in the Reno and Sparks core markets. However, when land is available for sale, land owners are holding prices firm in the range of \$11 to \$20 per square foot with prices below \$11.00 a rarity. Users or developers looking for land at economically sensible price points are looking to Stead, McCarran (Tahoe Reno Industrial Center), Spanish Springs, and Fernley. The Tahoe Reno Industrial Center (TRIC) 8 miles east of Sparks remains the most affordable with land prices in the \$2.25 to \$5.00 range with an abundant amount of available land. Spanish Springs Business Center still has approximately 146 acres of available land in the \$4.00 - \$6.00 price range depending on size. Stead has approximately 63 acres available with prices ranging from \$3.00 to \$6.50 per SF.

Trends

With the impact of the housing market and fear of a slowing economy, speculative industrial construction may start to decline if absorption does not gain significant traction. Even with over 1 million square feet of speculative construction completed in the third quarter overall vacancy declined from 7.4% in the second quarter to 6.8%. Given the large amount of new product available in the McCarran, Stead, and Spanish Springs submarkets landlords will continue to battle for speculative tenants looking in these markets in hopes to secure occupancy. The main question moving forward is how long will it take to fill this speculative high cube distribution product? We will also continue to see tenants move from functionally obsolete building in the Sparks core to newer buildings in outside markets. This relocation of companies within the core will continue to contribute to the overall vacancy if absorption does not follow these expansions.

267 OFFICES IN 57 COUNTRIES
ON 6 CONTINENTS

USA 95
Canada 17
Latin America 17
Asia Pacific 52
EMEA 85

\$63.5 billion in annual transaction volume
672.9 million square feet under management
10,171 Professionals

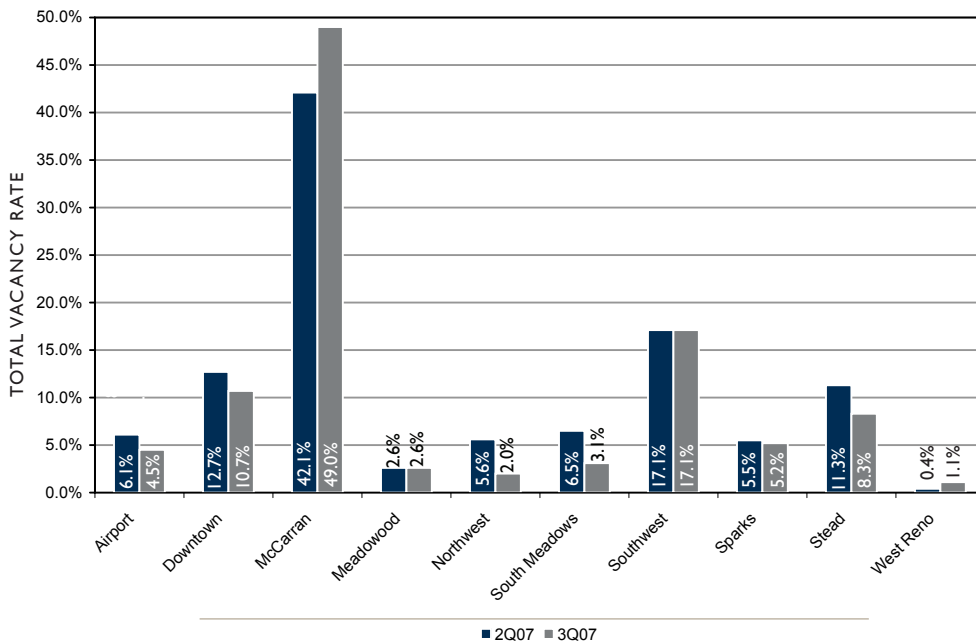
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TOTAL VACANCY RATES BY SUBMARKET
3Q2007 VS 2Q2007



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