

Q4

COLLIERS INTERNATIONAL OFFICE MARKET REPORT

RENO, NEVADA

DECEMBER 2003

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Construction on Phase One of the five-building Northern Nevada Corporate Center began during the 4th Quarter of 2003.

“Next year looks to have a resurgence of class “A” building construction.”

- Tim Ruffin

Tim Ruffin, SIOR, CCIM
Senior Vice President
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Dominic Brunetti
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OVERVIEW:

As they say in college football games, WHOA NELLY! The Reno Office market finished the year with a flurry of activity and set near records in net absorption. As the national economy heated up so did the Reno Office market. We were having a good year. The fourth quarter pushed us into the great year category.

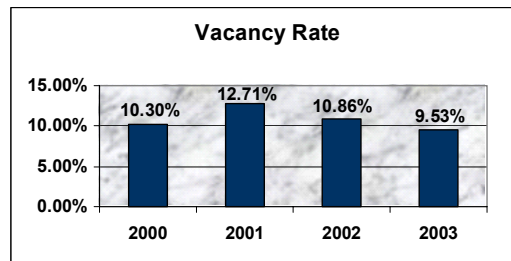
Most of the activity for the year was in garden office projects, which also dominated the construction scene for the year. The year finished with 14 active garden office projects. We also saw strong activity in the southwest sub-market led by the Plumb Gate project. As we stated in previous reports, the only class “A” building completed was the Sierra Building in the MountainView Corporate Center (Sun West Bank).

Most of the new leasing activity was in the Meadowood and South Meadows sub-markets. While the first half of the year was led by larger leasing transactions, the second half saw many smaller leases consummated. There was also an increased demand from California firms looking to escape the cost of doing business in their state.

Next year looks to have a resurgence of class “A” building construction. We expect to see two new buildings in Meadowood, two in South Meadows, and the first class “A” building in Damonte Ranch. We expect class “A” construction will eclipse garden office construction in 2004.

VACANCY RATES:

We finished the year at 9.53%, nearly two percentage points below our original forecast. Five of the seven sub-markets finished the year below 9%. While the final numbers look great, there are storm clouds on the horizon. Several large tenants are looking to downsize, finalize a move, or leave town. Three of these known tenants will give back a total of 78,000 square feet in the first half of 2004.



LEASE RATES:

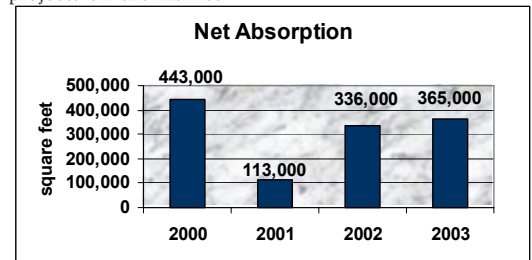
Lease rates clearly finished the year higher. There may be some second generation space in the \$1.75 to \$1.80 per square foot, full service range. Look for all new buildings to be at or above \$2.00 per square foot. The nicer class “A” buildings in Meadowood will be in the \$2.35 per square foot range. While this may seem high by historical standards, tenants have been willing to pay it if the amenities of the building commensurate.

LEASE RATES - continued:

Class “B” buildings will be in the \$1.50 per square foot range and class “C” buildings will go all the way down to below \$1.00 per square foot, full service. Increased operating expenses and construction costs are the primary drivers of new building rents.

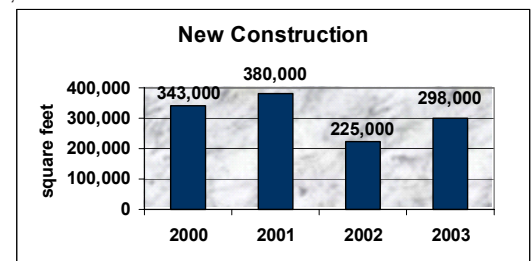
NET ABSORPTION:

We had to look at the numbers twice when we saw net absorption at 365,000 square feet for the year. The only year greater was 2000 when we had 443,000 square feet of net absorption. I think net absorption is indicative of the overall growth of Reno. With a growth rate of 4.5% in the general population, it is not out of reason for the office occupancy to grow at a little over 5%. This is especially true when you consider the number of firms, such as PC Doctor, relocating from California and looking to move over the hill. Net absorption in the fourth quarter was led by the Meadowood and Southwest sub-markets. I think these two sub-markets indicate the impact of garden office projects on the market.



CONSTRUCTION:

The fourth quarter also added the most new buildings of any previous quarter with over 118,000 square feet added. Virtually all the new construction was in the Southwest, Meadowood, and South Meadows sub-markets. Sparks also added over 11,000 square feet of new office space to the market. Class “A” buildings under construction as we close the year include The Northern Nevada Corporate Center, Magnolia Double R, The Landmark/Paragon Building, The First Independent Bank Building and The Platinum Building. These five buildings will add over 220,000 square feet to the market in the first half of next year.



LAND:

Yes, Will Rogers was right about buying land. What he failed to mention was how high the price would rise if you didn't act quickly. There seems to be a land rush in South Reno and land prices reflect the demand. Land in

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LAND - continued:

MountainView Corporate Center is now selling for \$17.00 per square foot and land in South Meadows is trading for as high as \$13.00 per square foot with asking prices at \$14.00 per square foot. The real question is, will all the land tied up be developed by the current owners or are they looking to flip for a short term profit? STAY TUNED!

YEAR-END HIGHLIGHTS:

- 🌐 The vacancy rate ends the year below 10%
- 🌐 Five major class "A" buildings under construction
- 🌐 Covance and Bally Systems lease over 100,000 square feet combined in South Meadows
- 🌐 South Meadows leads the market in activity
- 🌐 Magnolia Village is fully leased with record rents over \$2.40 per square foot, full service
- 🌐 14 active garden office projects
- 🌐 Only one class "A" building completed in 2003
- 🌐 Land prices are priced at record highs
- 🌐 Net absorption for 2003 is second highest total on record



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Tim is currently the lead broker for the five-person Office Properties Group. He has handled office properties in the Reno area since 1997. In 1998 prior to joining Colliers, Tim received the Distinguished Achievement Award at CB Richard

Ellis for the Northwest United States. Since 1997, Tim has consummated deals representing over One Million square feet of office space. Tim was the Managing Partner of the Reno Colliers International office in 2002 and 2003. He was the Top Producer for the Reno Office in 2000, 2001, 2002, and 2003.

Tim earned his CCIM designation in August of 1998 and the Society of Industrial and Office Realtor (SIOR) designation in May of 2001. He currently serves on the National SIOR New Member Committee. He is active in the Northern California SIOR Chapter and the Northern Nevada CCIM Chapter.

Tim holds a BS from Kansas State University in Finance and an MBA from the University of Missouri in Kansas City in Accounting. He graduated from both schools with honors and was a member of Beta Gamma Sigma.

Tim is very active in community affairs and serves on many boards and panels. He is currently Assistant Governor for the five Reno/Sparks Rotary Clubs, President-elect for WIN, Board member of the Boys Scouts of America Northern Nevada Executive Council, Board member of the DRI Research Park Board, on the Reno Gazette Journal Business Section Advisory Roundtable, member of the Reno City Manager's Roundtable, an EDAWN member serving on the State and Local Government Committee, and a member of the Reno/Sparks Chamber of Commerce.

Tim served as President of the Reno Central Rotary in 2000-2001 and President of the Northern Nevada CCIM Chapter in 2001. He also chaired the Legislative Task Force for EDAWN in 2002.



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Before beginning work with Colliers International, Dominic directed business development for a local title and escrow company. Dominic began his sales career in the Bay Area within the software industry. His aptitude for assisting corporations in their business development efforts matured while his passion for the real estate industry grew.

Dominic is actively pursuing his Certified Commercial Investment Member (CCIM) designation.

Dominic graduated in 2000 from Stanford University with a BA in Political Science and a minor in Sociology. He also played linebacker and was a member of Stanford's 2000 PAC-10 championship football program.

Dominic is active in the community as a member of the Economic Development Authority of Western Nevada (EDAWN), Western Industrial Nevada (WIN), the Reno/Sparks Chamber of Commerce and is an applicant for Reno's Downtown Rotary.