



Market Research

RETAIL | THIRD QUARTER | 2009



MARKET INDICATORS

	3Q 2009	4Q 2009*
VACANCY	↑	↔
NET ABSORPTION	↓	↓
CONSTRUCTION	↓	↓
ASKING RENTS	↓	↓

LESS BAD IS GOOD!

Contributing Author: Roxanne Stevenson, Senior Vice President, Retail Properties

Third Quarter Overview

With the U S economy beginning to show slight signs of improvement, so has retail leasing. Tenants in the discount, wireless, drug store, automotive and quick serve restaurant categories are looking to expand. There has never been a better time for expansion with bargains galore, available in locations that previously were too costly, or unavailable.

Many landlords have had to face difficult decisions on the benefits of filling up vacant spaces and keeping tenants or holding out for transactions that make economic sense in the future. Filling space is not easy or cheap. To make deals, landlords are offering: rent of up to 30% less than two years ago; increased tenant improvement allowances; time to build out spaces; and free rent. The time to negotiate a lease now takes months rather than weeks and during that time, tenants often come back to the table to “re-trade” the deal.

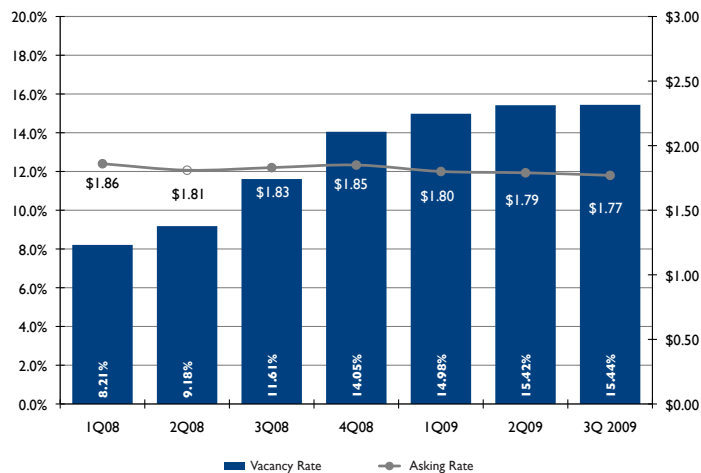
Reno/Sparks Retail Market

Although the overall vacancy rate is the highest in history, it has remained relatively level this year with the third quarter ending at 15.4% versus the national average of 10.3% as reported by Bloomberg. Because store closings are not reaching anticipated levels, we expect the year-end vacancy number will remain stable, which is a bright spot in a year of gloom. However, the bad news is that retailers did everything they could in 2009 and those retailers that are still struggling, despite lease restructuring and cost cutting on all controllable expenses (including labor), may have to close their doors during the first half of 2010.

Overall average asking rents decreased slightly to \$1.77 per square foot from \$1.79 the previous quarter and \$1.85 year-end 2008. There is currently 2.36 million square feet of vacant space on the market, of which eighteen spaces are over 20,000 square feet. Net absorption totaled 25,693 square feet for the third quarter and 186,000 square feet year-to-date, which is due primarily to stores opening in Legends at Sparks Marina.

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Q3 2009 VACANCY VERSUS AVERAGE LEASE RATES



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For landlords, receiving another request for rent relief is nerve-racking. On the other hand, there are benefits that can be sought in connection with temporary rent relieve such as “blending and extending the lease”; renegotiation of co-tenancy, use, continuous operation, relocation, termination and percentage rent provisions. A top priority for most landlords and brokers is holding onto current tenants and to work with those with a viable business model.

Unemployment, Sales Tax Revenues and Housing

Job losses, the downturn in the residential market and consumer confidence continued to impact spending levels. The unemployment rate in Washoe County climbed to 13.4% compared to the U.S. average of 9.8%. In Washoe County, retail sales remain soft and declined 18.1% over August 2008 (September numbers were not available at this writing). On a national level, The International Council of Shopping Centers (ICSC) reported that national same store sales for September increased slightly year-over-year by .1%, which is encouraging as it is the first year-over-year increase in fourteen months.

There is also renewed hope in the residential market as activity in re-sales was up 41% from last year and 9% from the previous quarter in Washoe County. The median sales price of a home is currently \$183,250, a decrease of 25% from the previous year and only a 1% decrease from the previous quarter.

Investments

Those who hoped the second half of the year would bring a long awaited return of investment sales are probably disappointed. At the end of the third quarter, sales of single tenant triple net leased investment sales continued to occur; however, transactions over \$5 million were sluggish. The bid/ask gap appears to be narrowing, but many owners are choosing not to sell unless they have to. Additionally, banks are beginning to extend or remake loans rather than foreclose or put them on the market.

New and Proposed Developments

The Legends at Sparks Marina has been responsible for much of the new construction, absorption numbers and tenant activity in the past year with their impressive lineup of tenants and amenities. While there are numerous proposed projects, we do not foresee any significant construction anytime soon, with the exception of future phases of The Legends, Summit Sierra and the redevelopment of Park Lane Mall.

Retail Tenant Activity

A jaunt through the area’s shopping centers tells the story; the economic climate the past two years has hammered the retail industry. Consumers have put away their credit cards, are spending

RETAIL MARKET STATISTICS

THIRD QUARTER 2009

EXISTING PROPERTIES			DIRECT VACANCY		SUBLEASE VACANCY		TOTAL VACANCY				NET ABSORPTION		CONSTRUCTION		RENT
QUARTER	BLDGS	TOTAL INVENTORY SQUARE FEET	SQUARE FEET	RATE	SQUARE FEET	RATE	SQUARE FEET	RATE 3Q2009	RATE PRIOR QUARTER	CURRENT OCCUPIED SQUARE FEET	3Q2009	YEAR TO DATE	COMPLETED THIS QUARTER	UNDER CONST.	AVERAGE ASKING

QUARTERLY COMPARISON AND TOTALS

Q3-2009	169	15,309,141	2,213,924	14.46%	150,350	0.98%	2,364,274	15.44%	15.42%	12,944,867	25,693	186,242	10,400	69,020	\$1.77
Q2-2009	166	15,274,412	2,222,491	14.55%	132,747	0.87%	2,355,238	15.42%	14.98%	12,919,174	249,752	192,051	345,802	38,000	\$1.79
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

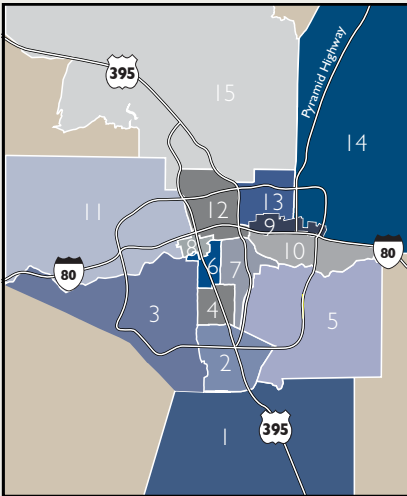
SIGNIFICANT THIRD QUARTER 2009 TRANSACTIONS

SIGNIFICANT LEASES

PROPERTY ADDRESS	DATE	SQUARE FEET	TENANT	TYPE
6401-6485 S Virginia St	Q309	31,400	Goodwill Industries	Community Center
Silverada Plaza	Q309	14,512	Dollar Tree	Power Center
500 E Moana	Q309	8,046	Consignment Furniture of Reno	Freestanding

SIGNIFICANT SALES

PROPERTY ADDRESS	SQUARE FEET	BUYER/SELLER	TYPE
North Reno Plaza - 1801-2375 Silverada Blvd	129,960	Seller - Kimco Buyer - North Reno Plaza LLCv	Neighborhood Center



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

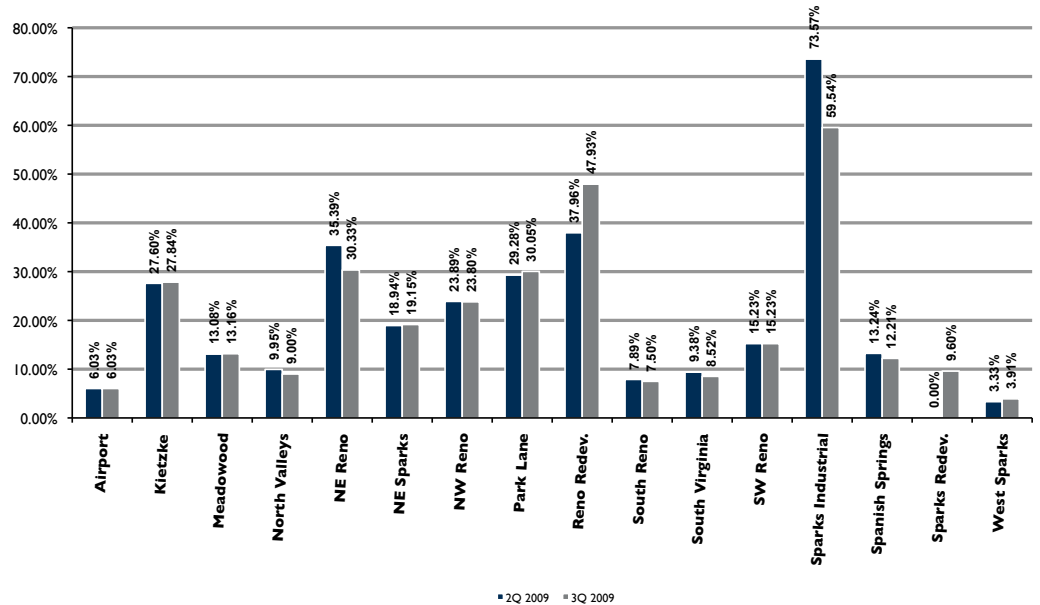
less and trying to save more. Alternatively, they simply do not have any money to spend. In spite of this, leasing activity has picked up locally and deals are getting done as shown on the “Retail Tenant Activity” table. In some retail sectors, better-run firms are not only surviving, but growing, while competitors downsize or go out of business. According to Retail Traffic, ten retailers gaining strength from the recession include: Aaron’s Rents, Aeropostale, Amazon, Buckle, Dollar Tree, Gamestop, O’Reilly Automotive (acquired Krage Auto Parts), Priceline, Staples and Ulta Salon, Cosmetics & Fragrance.

Forecast

There are mixed reports about Christmas; then again, the most recent sales indicate that this season will be stronger than last year’s disastrous holiday shopping season.

It is no big secret that retail has been hit hard with sharp drops in retail sales, closings, bankruptcies, liquidations, reduced expansions, and a large consumer flight to value. We do remain cautiously optimistic that vacancy and rent levels are close to bottoming out and year-end figures will be relatively stable. Watch out for potential store closings the first half of 2010 with a very slow recovery beginning in the second or third quarter of 2010. It will be a while before we are out of the woods; however, for now-less bad is indeed good!

Q3 2009 VACANCY CHART



RETAIL TENANT ACTIVITY Q3 2009

OPENED	LEASES EXECUTED/COMPLETED	PENDING ACTIVITY	CLOSED
Goodwill Industries	Super Wal-Mart Tribal Land	Super Wal-Mart North Valleys	Anne Taylor Loft
Dickey's Barbeque	JC&C Wireless-	Ross	Aldo Shoes
Cheeseburger in Paradise	U-Swirlz Yogurt	Kohl's in Carson	Pick Up Stix
Forever 21	Leslie's Pool Mart	Popeye's	Asian Bistro
Fresh Berry	Heidi's (relocation)	Firestone	Pita Pit (Sparks)
Styles for Less	Peg's Ham & Eggs	Dollar Tree	Fox Pizza
Off Broadway Shoes	Fresh & Easy—Los Altos	Fast Food Restaurants	Name Droppers
Subway	Dollar Tree (relocation)	Casual Dining Restaurants	
Pizza Balls	T-Mobile	Great Basin Brewery	
Consignment Store of Reno	Dotty's	Ultimate Electronics	
Manny & Olga's Pizza	China King Restaurant	Hobby Lobby	
Cadillac Ranch	Cricket	O'Rileys/Kragen	
	Century 21	Discount Tire	
	Auto Zone		
	Walgreen's		
	Denny's		
	IMAX Theater		
	Fuji Sushi		
	Anytime Fitness		

Q3 RETAIL AT A GLANCE

	Q3 – 2009	Year End 2008
Population Washoe County **	436,776**	423,833
Total Inventory *	15,309,141/SF	14,783,762/SF
Overall Vacancy:	15.44%	14.05%
Monthly Average Asking Rents:	\$1.79/SF	\$1.85/SF
Monthly NNN:	\$0.31 - \$0.90	\$0.31 - \$0.71
Net Absorption:	192,051/SF	-255,515/SF
New Construction Completed:	10,400/SF	275,100/SF
Under Construction:	69,020/SF	381,494/SF
Large Land Parcels:	\$8 - \$12/SF	\$10 - \$15 SF
Asking Pad Prices:	\$12 - \$25/SF	\$18 - \$30/SF
Annual Ground Rents (I.E. restaurant pad):	\$45,000 - \$100,000	\$55,000 - \$125,000
Unemployment (Reno-Sparks MSA)	13.1%	11%

*Excludes Regional malls and centers under 10,000/SF

** Data Provided by the Nevada State Demographer

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

CONTACT INFORMATION

Colliers International

10765 Double R Boulevard
Suite 100
Reno, NV 89521
United States
Tel: 775-823-9666
Fax: 775-823-4699

Tim Ruffin, SIOR, CCIM

Managing Partner

Senior Vice President | Office Properties
Email: truffin@colliersreno.com
Tel: 775-823-4670

Krystal Christiaens

Research Analyst

Email: kchristiaens@colliersreno.com
Tel: 775-823-6626

Text Author:

Roxanne Stevenson

Senior Vice President | Retail Properties

Email: rstevenson@colliersreno.com
Tel: 775-823-4661

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