

RENO | NEVADA

RESEARCH & FORECAST REPORT



Will 2013 Be More of the Same?

Over the past few years, some of the retail newsletter headings have been: “Not As Bad Is The New Normal”, “Bouncing Along The Bottom”, “Shift To Thrift”, “The Year Of Stabilization” and “Let The Recovery Begin!” Will the 2013 headline finally indicate slow growth for Washoe County as other markets are now experiencing or will it be more of the same?

Of the 18.5 million square feet of retail space that Colliers tracks, the overall vacancy has remained relatively flat for the past three years. At the close of 2012, the shopping center vacancy within Reno/Sparks stood at 16.2 percent, up slightly from the previous year’s number of 15.91 percent. Quoted overall average monthly rents at the close of the year fell from \$1.35 per square foot to \$1.29 per square foot which is not bad when you consider 2010’s 14 percent decline. Another encouraging note is that the year posted an overall positive net absorption number of approximately 65,000 square feet.

MARKET INDICATORS

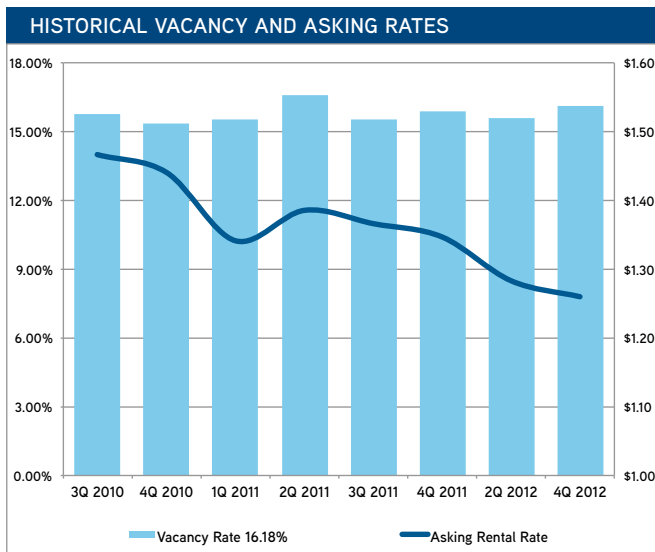
	Q4-12	Projected Q1-13
VACANCY	↔	↔
ABSORPTION	↓	↔
CONSTRUCTION	↑	↓
LEASE RATES	↓	↔

SOARING ONLINE SALES DURING HOLIDAY SEASON

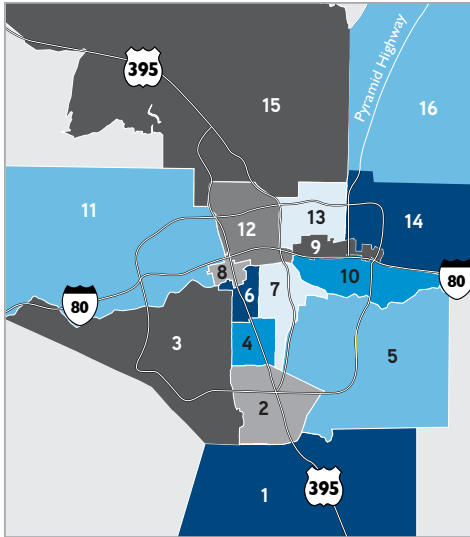
According to the National Retail Federation (NRF), total holiday retail sales increased 3.0 percent. However, Christmas was the most digital ever and online holiday shopping grew a whopping 14 percent versus one year ago to \$42.3 Billion. Black Friday was also robust with a 6.6 percent sales gain year over year, which could be attributed to extended hours as some stores opened on Thanksgiving Day. Some industry experts are predicting that Black Friday’s days are numbered as more and more stores push up their opening times.

Some of the winners for the season include Amazon.com (up over 40 percent from 2011), American Apparel, Nordstrom’s, Costco, Ross, TJX, Whole Foods, DSW Shoes, Family Dollar, Pier 1, Williams-Sonoma, PetsMart, Buffalo Wild Wings and Starbucks.

2012 CLOSINGS



As we emerge from the recession, we expect rents to level out, now that vacancy rates have stabilized.



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

There were a few closings such as Scolari's in Lemmon Valley and Firken & Wolf. The good news is that the number of closings is much less than in previous years and the Scolari's has already been back-filled by Grocery Outlet and Big Lots. Unfortunately, 2013 will experience a few more including the JC Penney Home Store, two Old Navy locations and at least one Office Max. Currently, there are twenty boxes available in the 20,000 to 170,000 square foot range with activity on only a few of them with options for back-filling limited.

SIGNIFICANT TRANSACTIONS/TENANT ACTIVITY

There were some significant transactions completed, probably the most visible being TJ Maxx, Old Navy Factory Store and the Lowe's relocation in The Legends.

Tenant activity was good in certain categories such as dollar/discount concepts including Family Dollar, 99 Cents Only and Dollar General entering our market for the first time with multiple locations. Tuesday Morning is expanding and consolidating their Reno and Sparks locations by back-filling the former Ben Franklins at Shopper's Square.

Medical and service users were busy taking advantage of great retail and restaurant space that they could not previously afford and landlords were not willing to lease to them. For example, EyeMart Express located in the former

Bajio's; Pacific Dental secured two locations—one in a portion of the former Brevhouse and the other in a closed Blockbuster; Concentra Urgent Care leased the former Cheeseburger Island building and Renown leased a space previously occupied by Payless Shoes.

EXPANDING RESTAURANTS AND RETAILERS

The International Council of Shopping Centers (ICSC) reports that almost 40 percent of all new tenancy will be restaurants. We are following that trend in Northern Nevada as well. Fast food and fast casual restaurants expanding include Popeye's, McDonald's, Taco Bell, Steak 'n Shake, Panera Bread, Chipotle, Subway and Five Guys Burgers. There are numerous independent restaurants that also opened such as Squeeze-In, Sushi 7, Twisted Fork, Brewer's Cabinet and Un Café. Buffalo Wild Wings signed a lease in The Legends and is also working on a Carson City location.

Retailer expansion was dominated by discounters; however other active segments included medical, automotive, wireless and service. In addition, Forever 21 is adding a second location at Meadowood Mall and rumors are flying that Hobby Lobby and H&M may be looking here seriously.

Contracting retail categories in 2013 are comprised of large grocery formats, video and video game stores, book stores, office supplies

NEW & UNDER CONSTRUCTION

TOTAL COMPLETED NEW CONSTRUCTION 2012:		UNDER CONSTRUCTION 2012:		COMMENCING CONSTRUCTION 2012:	
PROPERTY	SIZE	PROPERTY	SIZE	PROPERTY	SIZE
Lowe's (Legends – relocation)	124,076 SF	South Creek	23,875 SF	Wal-Mart (Legends)	170,000 SF
TJ Max (Legends)	24,837 SF	Old Navy Factory Store	12,495 SF	IMAX Theater	50,000 SF
Taco Bell (Legends)	2,556 SF	Sticks (Mid Town)	5,000 SF	Buffalo Wild Wings Pad (Legends)	7,500 SF
South Creek	12,067 SF				
O'Reilly (Spanish Springs)	6,000 SF				
Pad at Ridgeview	5,000 SF				

SIGNIFICANT SALES ACTIVITY

SHOPPING CENTER SALES:						
CENTER	ADDRESS	PRICE	SALE DATE	GLA (SF)	PRICE PSF	CAP
Air Center Plaza	3923-3999 S McCarran Blvd., Reno, NV	\$ 3,800,000	3/31/12	51,971 SF	\$ 73.11	9.00%
Monte Vista Village	9570 S McCarran Blvd., Reno, NV	\$ 1,575,000	10/1/12	14,920 SF	\$ 106.00	9.30%
Wildcreek Plaza	2975 El Rancho Drive, Sparks, NV	\$ 1,150,000	6/1/12	14,096 SF	\$ 82.00	10% on actual income
Sierra Town Center	Out parcel Reno, NV	\$ 1,100,000	6/12/12	15,101 SF	\$ 72.84	N/A
Arlington Gardens	606 W Plumb Lane, Reno, NV	\$ 550,000	12/1/12	11,683 SF	\$ 47.00	16.00%

MARKET COMPARISONS

RETAIL MARKET

SUBMARKET	TOTAL INVENTORY SF	DIRECT VACANT SF	SUBLEASE VACANT SF	TOTAL VACANT SF	DIRECT VACANCY RATE	SUBLEASE VACANCY RATE	VACANCY RATE CURRENT QUARTER	AVERAGE ASKING RENTAL RATE
SUBMARKETS TOTAL								
AIRPORT	295,784	39,746	-	39,746	13.4%	0.0%	13.4%	\$1.35
KIETZKE	1,380,100	212,230	-	212,230	15.4%	0.0%	15.4%	\$0.91
MEADOWOOD	3,269,930	471,856	39,360	511,216	14.4%	1.2%	15.6%	\$1.15
NORTH VALLEYS	774,871	48,753	-	48,753	6.3%	0.0%	6.3%	\$1.35
NORTHEAST RENO	256,596	52,646	-	52,646	20.5%	0.0%	20.5%	\$1.06
NORTHEAST SPARKS	2,153,389	407,883	-	407,883	18.9%	0.0%	18.9%	\$1.40
NW RENO	1,601,205	281,478	-	281,478	17.6%	0.0%	17.6%	\$1.38
PARK LANE	1,298,193	378,636	-	378,636	29.2%	0.0%	29.2%	\$1.03
RENO REDEV	600,387	135,113	16,500	151,613	22.5%	2.7%	25.3%	\$1.55
S RENO	2,394,152	177,885	5,500	183,385	7.4%	0.2%	7.7%	\$1.57
S VIRGINIA	511,893	48,458	-	48,458	9.5%	0.0%	9.5%	\$1.16
SW RENO	417,569	37,797	-	37,797	9.1%	0.0%	9.1%	\$1.35
SPANISH SPRINGS	1,701,854	256,869	-	256,869	15.1%	0.0%	15.1%	\$1.22
SPARKS INDUSTRIAL	119,875	11,224	-	11,224	9.4%	0.0%	9.4%	\$1.76
SPARKS REDEV	132,832	5,000	-	5,000	3.8%	0.0%	3.8%	\$1.00
W SPARKS	1,636,085	380,846	-	380,846	23.3%	0.0%	23.3%	\$1.32
Total	18,544,715	2,946,420	61,360	3,007,780	15.9%	0.3%	16.2%	\$1.29

QUARTERLY COMPARISON AND TOTALS

Q4 - 2012	18,544,715	2,946,420	61,360	3,007,780	15.9%	0.3%	16.2%	\$1.29
Q2 - 2012*	18,325,567	2,766,762	79,302	2,846,064	15.1%	0.4%	15.5%	\$1.27
Q4 - 2011	15,644,571	2,364,969	124,104	2,489,073	15.12%	0.79%	15.91%	\$1.35
Q3 - 2011	15,625,307	2,301,760	124,996	2,426,756	14.73%	0.80%	15.53%	\$1.35
Q2 - 2011	15,625,307	2,410,099	181,611	2,591,710	15.42%	1.05%	16.59%	\$1.37

* Switched to CoStar's raw data, which was then manipulated to match historical Colliers Retail statistical specifications.

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and shipping/postal services. Housing related retailers such as home goods, do-it-yourself home improvement stores and furniture are expected to recover in 2014, if our housing market returns.

NEW CONSTRUCTION

It has been a tough few years for new construction in the Reno market. In 2013, most new construction will be driven by Wal-Mart with a new supercenter in Legends as well as the possible roll-out of their 42,000 square foot Neighborhood Market.

RETAIL TRENDS TO WATCH

Retail expansion will continue to be driven by two major trends. First, the negative and long-term impact of e-commerce on brick and mortar stores with e-commerce comprising 10 percent of all retail sales according to Retailing Today. 2013 is expected to build on the momentum of the past year and continue to grow in the future. Second, the bifurcation caused by the middle class consumer continues to squeeze the mid-pricepoint retailers as luxury and discount prevail. As a result, look for smaller store footprints (especially in big boxes) as almost every retailer is rolling out smaller stores today and trimming real estate needs as well as more entertainment, restaurants and service.

In addition, the schism between Class A and Class C properties will continue to widen. Anchored shopping centers in strong locations are holding their own and in some cases, posting rent gains while Class C centers even if just a few blocks away, continue to struggle with elevated

TRADITIONAL SUPERMARKET SQUEEZED

With Tesco's recent announcement that their Fresh & Easy concept failed in the U.S., their real estate will be on the block, including four locations here. It is unknown right now what they will do.

Wal-Mart remains a game changer in the industry with plans to build two supercenters in the Reno market. This will bring the total number of Wal-Mart's to eleven, in Reno, Sparks, Carson/Minden and Fernley/Fallon. Their plans also include rolling out their 40,000 square foot Neighborhood Market with rumors that they have already secured four or five locations. The expansion of Grocery Outlet and perhaps Sprouts, coupled with the aggressive expansion of new dollar concepts and increased food offerings in drug stores, the pieces of the grocery pie are getting smaller.

RETAIL INVESTMENT OUTLOOK

The majority of retail investment sales in 2012 were distressed and we see that continuing into this year. With fewer trophy properties available in the major cities, deal activity has turned to tertiary markets and properties in the middle, which could be good news for our region. However, there remains no appetite for challenged properties that are not priced as distressed.

2013 FORECAST

Although retail activity has picked up, the leasing environment in Reno/Sparks remains extremely competitive. By the looks of it, it seems that we are dealing with many of the same issues that we faced in 2012. The good news is that unemployment is down, the housing market appears to be improving and there is increased leasing activity. The single most important factor for retail is housing and with a rebound on the horizon, we should see slow growth, decreased vacancies and an upturn in rents.

YTD 2012 RETAIL AT GLANCE

Total Inventory SF	18,544,715 SF
Overall Vacancy(%)	16.2%
Monthly Average Asking Rents	\$1.29

BOX SPACE AVAILABLE

FORMER OCCUPANT	SIZE	SHOPPING CENTER
Lowe's	177,809 SF	Oddie Blvd
Wal-Mart	125,405 SF	North Towne
Target	106,785 SF	Iron Horse
Mervyn's	79,000 SF	Sierra Town Center
Former Smith's	68,972 SF	Sierra Marketplace
Original Mervyns	67,769 SF	Kietzke Center
Safeway	55,269 SF	Firecreek
Safeway	46,850 SF	Carson City
Circuit City	45,524 SF	Firecreek
100 N Sierra	42,000 SF	Downtown Reno
Sports Authority	40,149 SF	Sparks Galleria
Petsmart	34,690 SF	Airport Square
Sierra Trading Company	31,527 SF	Sierra Town Center
Whole Foods Sublease	28,788 SF	Redfield Promenade
Sax Off Fifth	28,368 SF	Legends
Borders	25,000 SF	Redfield Promenade
Circuit City	20,304 SF	Sparks Galleria
Shoe Pavilion	20,182 SF	Sparks Crossing
Office Max	20,059 SF	Sparks Crossing
Old Navy	16,920 SF	Sparks Crossing
CVS	16,913 SF	Pioneer Meadows
CVS	16,835 SF	Sparks Galleria
CVS	16,400 SF	Riverboat-Downtown Reno
Factory to U	14,275 SF	McCarran Plaza
Old Navy	14,000 SF	Firecreek

512 offices in 61 countries on 6 continents

United States: 125

Canada: 38

Latin America: 18

Asia Pacific: 214

EMEA: 117

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- > 979 billion square feet under management
- > Over 12,000 professionals

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