

# RENO | NEVADA RESEARCH & FORECAST REPORT



## Retail Market Review

### MID YEAR REVIEW

It appears that we are still bouncing along the bottom. The overall vacancy rate rose from 2010's year-end figure of 15.8 percent to 16.9 percent this quarter, with overall average asking monthly rents decreasing marginally to \$1.38 per square foot. That compares to \$1.46 per square foot year-end 2010. Although there have been fewer store closings so far this year, the rising vacancy rates can be attributed to a domino effect created by the store closures in 2009 and 2010 along with the sluggish economy.

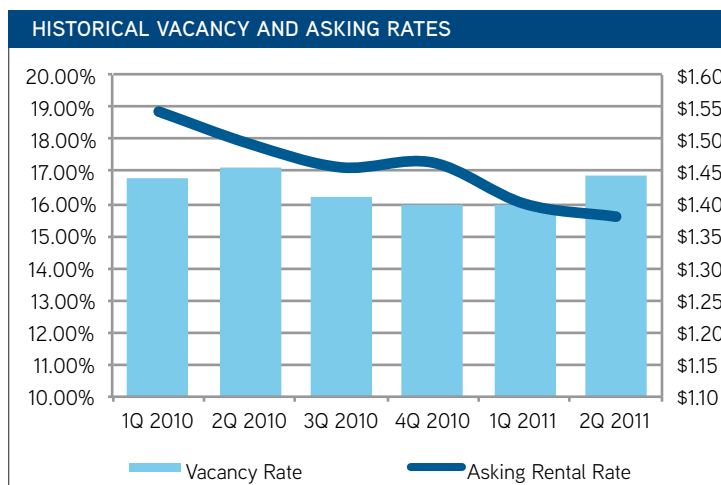
### WASHOE COUNTY ECONOMIC INDICATORS

According to The Center for Business and Economic Research at the University of Nevada, Washoe County's economic indicators remained mixed in early 2011. Compared to a year earlier, March visitor volume was down 10.8 percent while gaming was down 7.1 percent. Residential construction permits continued rising in March. Reno-Sparks employment rose by 600 jobs (0.1 percent), and the unemployment rate notched downward to 13.1 percent. Taxable sales for March 2011 compared to March 2010 were up 2.1 percent and food services, drinking places, clothing and clothing accessory stores were the front-runners.

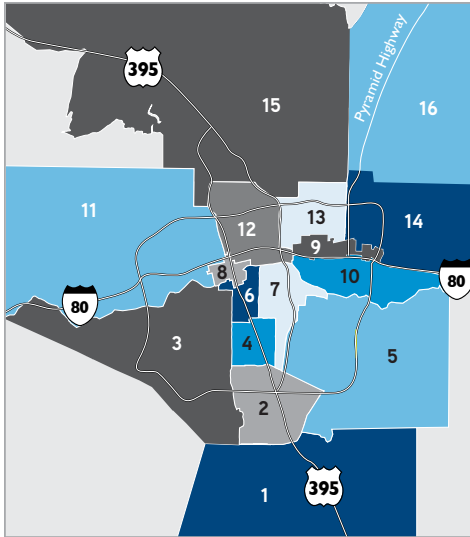
While the price of fuel has gone down some, it remains one of the biggest threats to the overall economy which could continue to be a drag on retail sales, especially for non-essential retail.

### MARKET INDICATORS

	Q2-11	Projected Q3-11
VACANCY	↑	↑
ABSORPTION	→	↓
CONSTRUCTION	→	↑
LEASE RATES	→	→



Overall average monthly rents continue to decrease marginally



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

### WHO IS ACTIVE?

There is some urgency with retailers that are expanding to get deals done while the window is still open and “A” locations are available. Retailers are clearly focusing on the strongest centers. Active retail categories in our market have not changed with automotive, discount, casual dining, cell phone stores, fitness and some independent businesses driving new deals. Expansions are expected for dollar store retailers that cater to a down market. An estimated 1,800 new discount dollar stores are slated to open in the U.S. in the coming two years with two new chains entering Northern Nevada for the first time.

During the first six months of the year, Total Wine & More, Famous Dave’s, Charming Charlie, Planet Fitness, Yogurt Beach, U-Swirlz, Squeeze-In, Jack’s Café, T-Mobile and Fatburger opened. In addition, Ross will be opening in Silver State Plaza in July and TJ Maxx and Old Navy recently signed leases at Outlets at Legends and IMAX theaters will break ground soon. Unlike office, upgrading space and/or relocating has been minimal in the retail sector. The exception is Sierra Trading Post, which is moving from Sierra Town Center to DelMonte Plaza, adjacent to Whole Foods. Sierra Trading Post is scheduled to open at their new location in the fourth quarter.

### STORE CLOSINGS

Borders Books failed to secure a bidder to keep the bookstore in business and is seeking court approval to liquidate. It was announced that all stores will close by the end of September putting another junior anchor space in our market.

Dish Network won its bid to purchase Blockbuster Video. What that means to the chain’s remaining 1,700 stores is unknown, including those in Northern Nevada. The traditional video rental store has become obsolete and new technology indicates that rather than a brick-and-mortar retailer, Blockbuster will be a provider of streaming video services.

Store closings were led by the restaurant category and include, in part, Chevy’s, Cheeseburger Island Style, Marie Callender’s, Bajio’s, L&L Barbeque and Round Table Pizza.

### TRENDS TO WATCH

#### RETAILERS FOCUS ON SMALLER STORES.

The mantra for national retail chains the past 20 years has been to “Supersize”. Some big box retailers in the 40,000, 60,000 and even 100,000 square foot range have changed their tune to “smaller is better”. Smaller prototypes are popular with retailers including Kohl’s, Target, Best Buy and Wal-Mart. The stores tend to achieve similar sales per square foot to that of larger stores, but with fewer employees and lower building costs. This trend has big implications for shopping centers and developers. Landlords and tenants are working together to right-size existing stores in shopping centers and industry experts predict that the smaller model will be the norm for retailers moving forward.

**GROCERY WARS.** Look for hybrid grocery stores to continue to grow as drug and dollar stores increase their food presence to compete in the one-stop shop arena. Growing specialty grocers such as Sprouts and Sunflower are filling a void, as are specialty ethnic grocers,

### SIGNIFICANT LEASE AND SALES ACTIVITY

#### LEASE ACTIVITY

PROPERTY ADDRESS	LEASE DATE	SIZE	TENANT	TYPE
Del Monte Plaza, Reno NV	May 2011	31,000 SF	Sierra Trading Post	New Lease / Relocation
100 North Sierra, Reno NV	Jan 2011	14,000 SF	YMCA Wellness & Exercise Center	New Lease
Longley West Plaza, Reno NV	May 2011	10,000 SF	Fitness for 10	New Lease
Redfield Promenade - Reno NV	Q2, 2011	8,574 SF	Ijji Sushi	New Lease
Longley West Plaza, Reno NV	May 2011	6,018 SF	Jacks Cafe	New Lease
Silver State Plaza, Sparks NV	Apr 2011	5,830 SF	Aaron’s Rents	New Lease
Damonte Ranch Town Centre, Reno NV	Mar 2011	4,500 SF	Damonte Ranch Animal Hospital	New Lease
Palladio, Reno NV	May 2011	3,900 SF	Ancient Grains	New Lease
Silver State Plaza, Sparks NV	May 2011	3,597 SF	Scrapbook Store	New Lease
Damonte Ranch Town Centre, Reno NV	Jun 2011	2,760 SF	Moana Dental	New Lease
South Virginia Commons, Reno NV	Apr 2011	1,500 SF	Gandolfo’s	New Lease

MARKET COMPARISONS

RETAIL MARKET

TYPE	BLDGS	TOTAL INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	SUBLEASE VACANT SF	SUBLEASE VACANCY RATE	TOTAL VACANT SF	VACANCY RATE CURRENT QUARTER	VACANCY RATE PRIOR QUARTER	NET ABSORPTION CURRENT QTR SF	COMPLETIONS CURRENT QTR SF	UNDER CONSTRUCTION SF	WEIGHTED AVG ASKING RENTAL RATE
<b>CLASS</b>													
COMMUNITY CENTER	16	3,045,690	664,766	21.8%	3,200	0.1%	667,966	21.9%	23.2%	37,095	-	-	\$1.48
FREESTANDING	19	730,706	81,553	11.2%	21,930	3.0%	103,483	14.2%	14.2%	12,400	-	-	\$0.88
REGIONAL CENTER	2	1,355,754	59,068	4.2%	-	-	59,068	4.2%	4.4%	-	-	131,023	\$2.67
POWER CENTER	17	4,420,682	640,322	14.5%	32,638	0.7%	672,960	15.2%	14.7%	(38,163)	-	170,000	\$1.13
SPECIALTY	8	249,029	80,181	32.2%	-	-	80,181	32.2%	32.2%	(4,943)	-	-	\$1.54
STRIP RETAIL	82	2,333,687	489,565	21.0%	25,104	1.1%	514,669	22.1%	22.2%	7,334	-	-	\$1.40
NEIGHBORHOOD CENTER	32	3,361,239	414,732	12.3%	98,739	2.9%	513,471	15.3%	10.6%	5,525	-	-	\$1.47
<b>SUBMARKETS TOTAL</b>													
AIRPORT	6	226,537	29,506	13.0%	-	-	29,506	13.0%	15.3%	5,200	-	-	\$1.85
KIETZKE	11	1,109,151	177,241	16.0%	40,508	3.7%	217,749	19.6%	19.6%	-	-	-	\$1.19
MEADOWOOD	30	3,296,451	367,012	11.1%	74,997	2.3%	442,009	13.4%	14.0%	186,070	-	-	\$1.12
N VALLEYS	8	415,518	174,819	42.1%	-	-	174,819	42.1%	10.8%	(130,044)	-	170,000	\$1.39
NE RENO	2	52,672	15,814	30.0%	-	-	15,814	30.0%	30.0%	-	-	-	\$1.75
NE SPARKS	14	1,814,712	303,570	16.7%	33,254	1.8%	336,824	18.6%	18.6%	1,464	-	131,023	\$1.81
NW RENO	17	1,510,781	242,225	16.0%	4,428	0.3%	246,653	16.3%	15.9%	(1,800)	-	-	\$1.26
PARK LANE	19	948,977	329,526	34.7%	4,700	0.5%	334,226	35.2%	34.6%	(5,977)	-	-	\$1.03
RENO REDEV	10	196,391	103,468	52.7%	-	-	103,468	52.7%	50.2%	(4,943)	-	-	\$1.53
S RENO	15	2,139,950	140,945	6.6%	-	-	140,945	6.6%	6.8%	4,042	-	-	\$1.87
S VIRGINIA	6	170,873	22,136	13.0%	-	-	22,136	13.0%	13.0%	-	-	-	\$1.20
SW RENO	5	240,900	30,779	12.8%	850	-	31,629	13.1%	13.1%	-	-	-	\$1.68
SPARKS INDUSTRIAL	2	23,822	8,744	36.7%	-	-	8,744	36.7%	36.7%	-	-	-	\$2.13
SPANISH SPRINGS	12	1,599,300	251,673	15.7%	16,913	1.1%	268,586	16.8%	15.3%	(39,964)	-	-	\$1.42
SPARKS REDEV	4	69,715	5,000	7.2%	4,521	6.5%	9,521	13.7%	13.7%	-	-	-	\$1.00
W SPARKS	15	1,681,037	227,729	13.6%	1,440	-	229,169	13.6%	13.6%	-	-	-	\$1.45
<b>Total</b>	<b>176</b>	<b>15,496,787</b>	<b>2,430,187</b>	<b>15.7%</b>	<b>181,611</b>	<b>1.2%</b>	<b>2,611,798</b>	<b>16.9%</b>	<b>16.0%</b>	<b>14,048</b>	<b>-</b>	<b>301,023</b>	<b>\$1.38</b>

QUARTERLY COMPARISON AND TOTALS

Q2-11	176	15,496,787	2,430,187	15.7%	181,611	1.2%	2,611,798	16.9%	16.0%	14,048	-	301,023	\$1.38
Q1-11	174	15,336,486	2,283,934	14.9%	164,825	1.1%	2,448,759	16.0%	16.0%	29,848	-	301,023	\$1.40
Q4-10	176	15,313,486	2,277,916	14.9%	166,773	1.1%	2,444,689	16.0%	16.2%	200,572	177,631	235,486	\$1.46
Q3-10	175	15,135,855	2,300,857	15.2%	152,075	1.0%	2,452,932	16.2%	17.1%	137,647	-	263,286	\$1.46
Q2-10	174	15,135,855	2,438,504	16.1%	153,490	1.0%	2,591,994	17.1%	17.0%	(59,912)	-	228,286	\$1.49

URBAN RETAIL

Watch for a revival of urban retail at 100 N. Sierra Street



particularly those that cater to the Hispanic market. It is interesting to note that Raley's converted their Peckham store to their Food Source concept to better serve the demographics in the neighborhood. Meanwhile, Fresh & Easy has pushed back their Northern Nevada openings to 2012/2013.

**SOCIAL MEDIA.** Customers are in charge as they integrate social media into all aspects of their lives, including shopping. The social media rate of growth is in the double and triple digits and has become an important part of retail marketing.

**CONSUMER DIVIDE.** The disparity between the "haves" and "have-nots" will continue to grow until the economy recovers. According to Advertising Age Magazine, the only growth in consumer spending last year came from people making over \$100,000 annually.

### PULLBACK IN CONSTRUCTION

The continued pullback in construction will help recovery as existing space is absorbed. There is currently 301,076 square feet of retail space under construction. The Wal-Mart Super Center in Lemmon Valley is 170,000 square feet and Lowe's in Outlets at Legends is 124,076 square feet. Both retailers should open by the first quarter of 2012.

### RETAIL INVESTMENT OUTLOOK

Going forward in our market, we see retail investments being driven by distressed assets, with most being lower-quality. Of the three shopping centers that sold this year, two were note sales that were done directly with the lender (Eagle Landing and Sparks Crossing). Sparks Crossing was the first acquisition in our market by Inland Group of Companies, bringing one of the country's largest commercial real estate REITS to Northern Nevada. Spanish Springs Shopping Center in Spanish Springs closed escrow on June 28 and at the time of this writing, details were not yet available.

### 2011 FORECAST

Retail real estate is seeing an uneven recovery. In top-tier cities, rents and occupancies are experiencing positive growth. Unemployment is highly tied to the retail sector and unfortunately markets with higher than average unemployment are still facing anemic demand. Due to our labor market and slow housing recovery, the retail sector in Washoe County faltered somewhat. We do not see much change for the balance of the year; however, we are optimistic that activity with expanding retailers will bring positive results by 2012.

RETAIL AT GLANCE	
Total Inventory	15,496,787 SF
Overall Vacancy(%)	16.85%
Monthly Average Asking Rents	\$1.38
Net Absorption	49,096 SF
Under Construction	301,076 SF
Large Land Parcels	NONE SOLD
Asking Pad Prices	\$8-\$18 / SF
Pad Annual Ground Lease Rents	\$45,000 - \$90,000

## 512 offices in 61 countries on 6 continents

United States: 125

Canada: 38

Latin America: 18

Asia Pacific: 214

EMEA: 117

- > \$1.5 billion in annual revenue
- > 979 billion square feet under management
- > Over 12,000 professionals

#### UNITED STATES:

Colliers International - Reno  
10765 Double R Blvd.  
Suite 100  
Reno, Nevada, 89521

TEL +1 775 823 9666

FAX +1 775 823 4699

Tim Ruffin  
Managing Partner  
tim.ruffin@colliers.com  
TEL +1 775 823 9666

#### RESEARCHER:

Alicia Luz  
Research Analyst  
alicia.luz@colliers.com  
TEL +1 702 836 3745

#### CONTRIBUTING AUTHOR:

Roxanne Stevenson  
Senior Vice President  
Retail Group  
roxanne.stevenson@colliers.com  
TEL +1 775 823 9666

[www.colliers.com/reno](http://www.colliers.com/reno)

This report and other research materials may be found on our website at [www.colliers.com](http://www.colliers.com). This quarterly report is a research document of Colliers International - Reno NV. Questions related to information herein should be directed to the Research Department at 702-836-3745. Information contained herein has been obtained from sources deemed reliable and no representation is made as to the accuracy thereof.



Accelerating success.