

RENO | NEVADA RESEARCH & FORECAST REPORT



Retail Market Review

THE ICE AGE ENDETH

The frosty standoff between retail landlords and retail tenants in Northern Nevada is slowly beginning to thaw. Landlords are motivated, select tenants are active, and leases are being signed. That is the good news. The bad news is that while transaction velocity has increased significantly over the first half of the year, it is very difficult to even loosely define what's happening as a "recovery". At the end of Q2, retail vacancy in the greater Reno/Sparks market sits at an unprecedented rate of 17.02 percent, a 0.52 percent increase from Q1. Washoe County taxable sales were down 3.8 percent in May 2010 compared with May 2009. Unemployment for Reno/Sparks is at 13.6 percent, well over the national average 9.5 percent, but slightly lower than Las Vegas at 14.8 percent. With few exceptions in the marketplace, tenants sit comfortably in the driver's seat when negotiating deals, the root cause being the few tenants that are growing face very little competition for the spaces they want.

On a national level, fears of a double-dip recession loom, with unemployment and housing having been virtually unaffected by the myriad of stimulus packages and bailouts. Economists seem divided on which way the economy is heading, and perhaps the logical extension of that is a philosophical division among retailers with some viewing this as the best time to expand and others still bunkered down. Landlords are split as well, with some believing the roaring rents of 2006 will soon return and will accordingly wait to sign long term leases, and some accepting the reality of today's marketplace. While both sides can make valid arguments, only time can decide the winners and losers.

MARKET INDICATORS

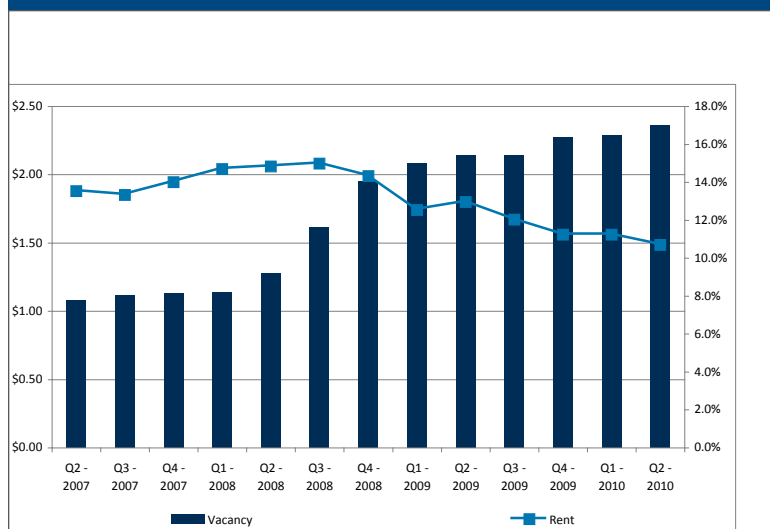
	Q2-10	Projected Q3-10
VACANCY	↑	↓
ABSORPTION	↓	↑
CONSTRUCTION	↑	→
LEASE RATES	↓	↓

WASHOE COUNTY ECONOMIC DATA

	Q2 '10	Q1 '10
Unemployment Rate	13.6%	13.5%
Visitor Volume	385k	361k
Gaming Revenue	\$70.43 M	\$64.43 M
Taxable Sales YTD	\$395 M	\$443 M
Residential Permits	39	108
Commercial Permits	13	7

SOURCE: THE CENTER FOR BUSINESS & ECONOMIC RESEARCH, UNLV

HISTORICAL VACANCY AND ASKING RATES





DEALS ARE OUT THERE... IF YOU WANT THEM

Retailers are pursuing spaces; in premier locations, available at very low rents, with existing build-outs similar to their needs, and where landlords have deep pockets for tenant improvements. Spaces that do not meet one, or more likely two, of the preceding qualifications need not apply. Landlords with top notch real estate can largely achieve rates that will allow them to cover expenses and generate a return. Landlords with B and C quality real estate must drastically reduce rental rates to have any hope of attracting new tenants or even to keep the ones they have. For these properties, it is increasingly difficult to get deals to “pencil” when comparing the necessary improvements for tenancy against the rent to be paid over the term of the lease, let alone to make any return on the invested money or add to the bottom line in any significant way. To give an extreme example, there is retail space on the market right now that one literally could not give away because the required improvements alone would price out most tenants that would be interested. That, as we say, is the rub.

TENANCY IS KING. KEEP THE TENANTS YOU HAVE

Existing tenancy is probably the first thing prospective tenants notice, and nothing raises red flags like dark, ominous store fronts. Synergy is vital to most retailers, and shopping centers with a lack thereof are faced with a glaring deficiency. Whereas six months ago there were virtually no active tenants to back-fill space that went dark, today there are some floating around if you have what they want (see criteria above), but given the rents they will pay and the improvement money required, landlords are generally far better off keeping the tenants they have anyway they can.

RENTS

While activity has risen, rents continue to fall. The days of landlords making a careful selection between the interested tenants based on economics, lease terms, reputation and market presence are over. Today, landlords are typically faced with accepting a tenant’s demands or leaving the space vacant until another qualified prospect comes along. Rates have fallen between 20 and 40 percent from their peaks depending on the quality of the space, with the average asking rent in the market now sitting at \$1.49 per square foot on a triple net basis. The lowered asking rent only tells part of the story; particularly for in-line shop space the asking rent is also very soft. Anecdotally, one shopping center that was commanding rents near \$3.00 per square foot in 2006 is now actively leasing space for \$1.00 per square foot.

NEW CONSTRUCTION

New construction remains largely stagnant, with the most significant projects in the pipeline being two Wal Mart Supercenters, the beginnings of the South Creek development by McKenzie Properties, a 5,400 square foot retail out-parcel at Coit Plaza, Three Flags Center, the continuation of North McCarran Crossing, and a freestanding Popeye’s Chicken and BJ’s Brewery at the Legends at Sparks Marina.

RETAIL TENANT ACTIVITY

The recent increase in leasing activity has come primarily from national discounters of various goods including food, apparel, general merchandise, and sporting goods, along with quick service restaurants, rent-to-own stores, automotive stores and service centers, cell phone stores, and opportunistic local restaurant operators.

SIGNIFICANT RETAIL ACTIVITY

LEASES EXECUTED	OPENED	CLOSED
Canyon Creek Grill	Dotty’s	Blockbuster
Dotty’s	Canyon Creek Grill (Carson City)	Wild West Electronics
Pier 1	Fuji Sushi	Round Table Pizza
Big Lots (Carson City)	Leslie’s Pool Mart	
Haven Bakery	U-Swirlz Yogurt	
Once Upon a Child	Tacos El Key	
Don Juan Bakery	Peg’s Ham & Eggs	
Subway	Dollar Tree (relocation)	
Doughboys Doughnuts	Tha Joint Sushi	

FORECAST

The Colliers Retail Team is cautiously optimistic about the remainder of 2010. There is a strong possibility that we may see positive net absorption and, for the first time since the recession hit, a slight decrease in the vacancy rate in third quarter 2010. This projection is based upon current inventory and pending deals; if there are additional large tenant bankruptcies and closures (watch for Blockbuster, Barnes & Noble, Borders, and Cost Plus World Market among others), then all bets are off. However, even if we see positive absorption, there is still too much space to be backfilled to expect rent levels to do anything but remain flat or fall further. Construction should remain slow, but in today's environment any amount of new construction should be a welcomed sight for those involved.

VACANCY AND RENT BY SUBMARKET

SUBMARKET	VACANCY RATE	AVERAGE ASKING RATE*
Airport	11.57%	\$2.11
Kietzke	28.36%	\$1.14
Meadowood	14.91%	\$1.48
North Valleys	10.29%	\$1.30
Northeast Reno	35.45%	\$1.75
Northeast Sparks	20.23%	\$1.70
Northwest Reno	21.33%	\$1.49
Park Lane	33.04%	\$1.23
Reno Redevelopment	48.11%	\$1.55
South Reno	9.61%	\$2.00
South Virginia	10.94%	\$1.19
Southwest Reno	14.36%	\$1.61
Sparks Industrial	59.54%	\$2.25
Spanish Springs	14.91%	\$1.42
Sparks Redevelopment	24.79%	\$1.00
West Sparks	7.17%	\$1.45

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*Average Asking Rate does not necessarily have any correlation with actual lease rates in executed transactions

480 offices in 61 countries on 6 continents

United States: 135

Canada: 39

Latin America: 17

Asia Pacific: 194

EMEA: 95

- > \$1.9 billion in annual revenue
- > 2.4 billion square feet under management
- > Over 15,000 professionals

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