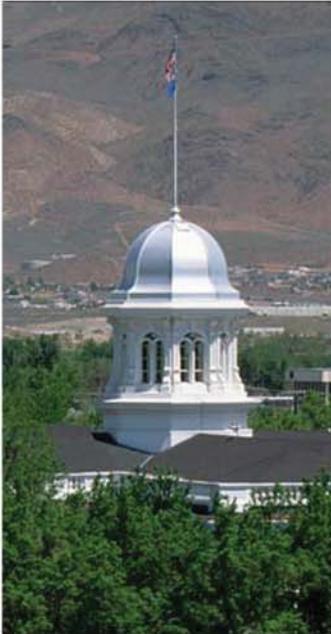




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NORTHERN NEVADA MARKET UPDATE
First Quarter, 2014
INDUSTRIAL VACANCY: 7.92%



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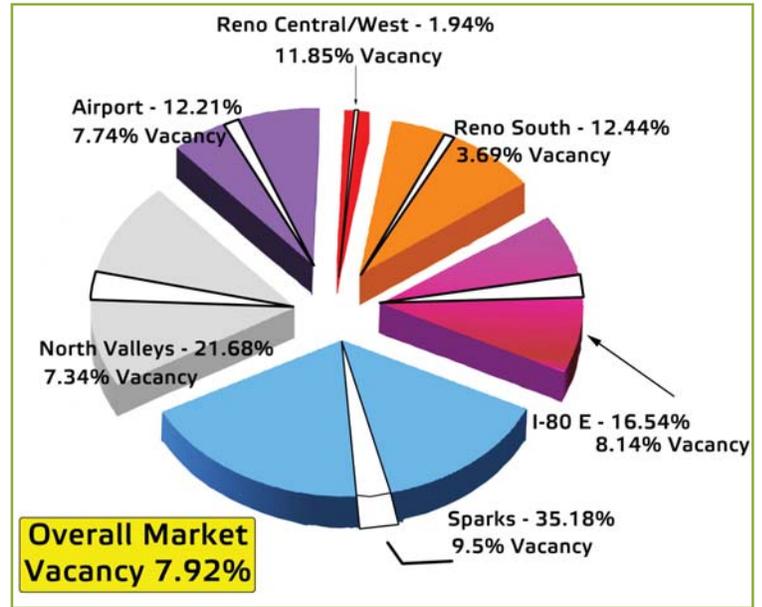
Q1, 2014 Performance – Northern Nevada

“What Goes Up...”

Gross absorption of 810,472 sf in Q1, 2014 is a scant portion of the monster 4,250,000 sf gross absorption put up for Q3 & Q4, 2013. But still is well over average gross absorption, none the less. Q4-2013 absorbed 2.5% of the overall market, by contrast Q1-2014 absorbed 1.1% of the overall market. This however, is no surprise. In northern Nevada, big box availability was very limited. The sub-market winners were Stead, West Sparks, and Airport, whose sub-markets accounted for 96% of the total gross absorption.

The heavy appetite for class A big box space that fueled the huge Q3, Q4, 2013 absorptions have left the market with just one class A space remaining to suit a 300 ksf requirement today. This lack of inventory, as predicted has cooled the absorption rates considerably. Thankfully, some tenants have resorted to build to suit projects to suit their needs, continuing our northern Nevada industrial real estate market growth and economic expansion.

The big news for Q1, 2014 has been the well reported boom in build to suit and even a new class A speculative development. In the pipeline we have over 2 million sf of build to suit under way (as soon as one more expected new announcement occurs soon). Additionally, Dermody Properties new spec building adds 624 ksf totaling to almost 2.7 million sf. coming on board in 2014.



Between Q3 - Q4, 2013, vacancy dropped 20%, between Q4 - Q1 vacancy dropped 6%. New Q1 vacancy of 7.92% is a steady decrease which is continuing toward a pro-landlord market. As summer progresses, we are predicting continual vacancy declines. There is a waiting inventory however, of almost 1.2 million SF returning to market in the Q3/Q4 time frame, which will adjust vacancy rates back up by almost 1.5%.

Leasing saw rents rising across the board with some size ranges rising more than others, based on supply/demand, but also based on landlords pressure from investors to increase yield on investments that have lagged in past years. In addition we are seeing a continuing trend of less landlord concessions. Sales pricing saw a 13% rise in 2013 and time on the market drop by 16%.

Quick Trends



Lease Rates

Concessions are decreasing and rates are rising across all size ranges.



Vacancy

Q1: 7.92%
The downward trend continues for eighth consecutive quarter.
Q4: 8.38%



Construction

Four new projects are beginning. 2.7 million SF under way.

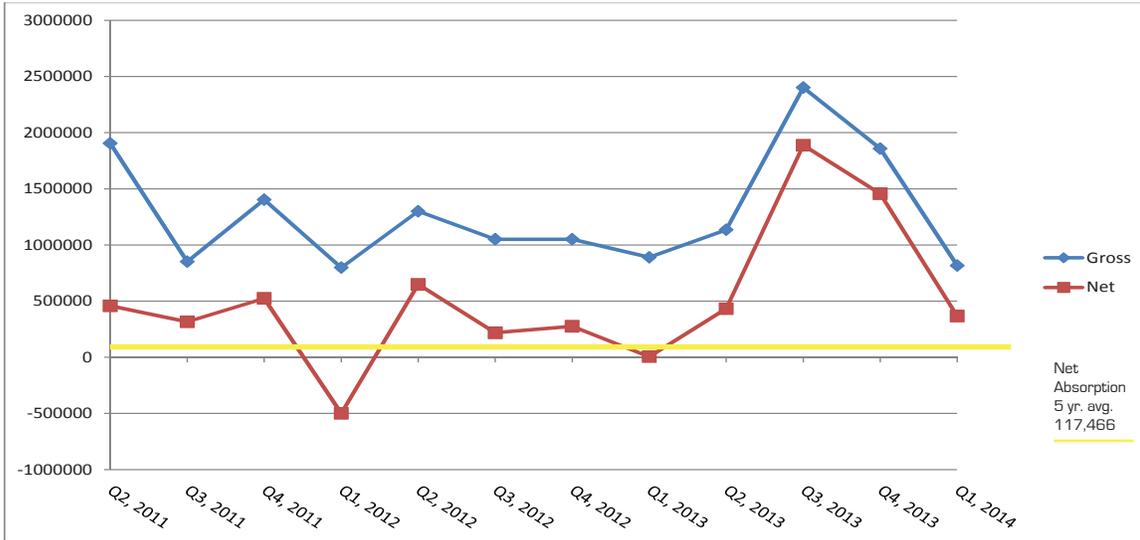


Outlook

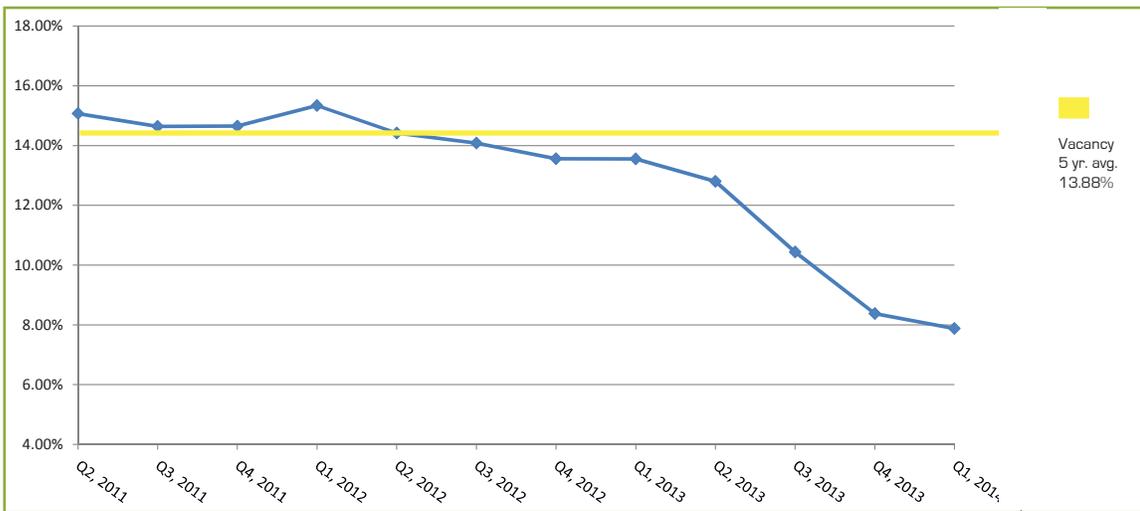
Positive absorption continuing through 2014.



Q1, 2014 Performance – Northern Nevada



- Net Absorption**
366,884 SF
- **74% Lower** than Q4, 2013
 - **Over 60x Higher** than Q1, 2013
 - **184% Higher** than 5 year avg.



- Vacancy**
7.92%
- **6% Lower** than Q4 2013 (8.38%)
 - **42% Lower** than Q1 2013
 - **43% Lower** than 5 year avg.

Sub-Market Breakdown

Sub-Market	Size	Vacant	Vac. %	Gross Abs.	Net Abs.	Spec BTS ytd	BTS Const. ytd	Total Const.
North Valleys	15,758,684	1,157,468	7.34%	264,300	256,300	0	0	0
I-80 East Corridor	12,018,728	978,086	8.14%	0	(-304,000)	0	0	0
Sparks	25,568,949	2,430,065	9.50%	263,300	172,502	0	0	0
Airport	8,872,036	686,483	7.74%	225,772	178,782	0	0	0
RenoCentral/West	1,410,606	167,161	11.85%	20,000	20,000	0	0	0
Reno South	9,043,313	333,969	3.69%	16,405	16,405	0	0	0
TOTALS	72,672,316	5,753,232	7.92%	789,777	339,989	0	0	0



Significant Transactions Q1 2014

Sales Transactions				Lease Transactions	
600 Lake Ave (Silver Springs)	Clean Dried Processing	156,800 SF	\$4,400,000	Ceva (re-occupy)	153,000 SF
155 Glendale	Blackfire REI	56,188 SF	\$1,850,000	Omnatrex	181,400 SF
5555 Quail & 3450 Airway	Cornerstone	545,232 SF	\$63,000,000	Confidential	104,074 SF
12035 Moya	DP-Clark No. Hills	545,550 SF	\$26,300,000	Prototype Concepts	51,136 SF

Construction

BTS is booming. With the work wrapped at the new 524k for Randa / Swank at 700 USA Parkway at TRIC, the workers just moved up the road to 3600 USA Pkwy to start the new 715k for Zulily. San Mar's new 600k in Spanish Springs is building the pad now and a new 750k BTS should be announcing very soon. That's 3 new projects totaling over 2 million sf of BTS moving ahead in Q1, '14. A record. Add to that new SPEC. construction of 624k in the No. Valleys by Dermody Properties and we have 4 projects with over 2.7 million sf new Class A big box sf under construction currently, representing a 3.6% market size increase.

2014 Trending

This will be a banner year for the northern Nevada construction trades, seeing more work than in the past many numbers of years combined. This should have a continuing positive impact on the area's overall economic recovery. We do not expect to see broad investment support for speculative construction until the rates on the new leases rise a bit more. Attention will be focused on Dermody's new project on how fast it gets leased and how favorable the terms are. We expect continued upward rent pressures on leases across the boards on class A, with a trickle-down effect to class B properties as well.

2014 Forecast

Our bet is that Dermody's new project will be leased up in full before it is completed this fall. However, we have a shadow inventory that will be coming back on line in 2014 with about 1.2 million sf returning to the market in Q3, '14 through Q1, '15, which will ease the available big box inventory situation. However, there could be sufficient indicators in the market by mid 2014 to allow the investment community to get more receptive to speculative building, with higher yields available in the Reno market as opposed to other capital markets yields.



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