



Market Advisor

ACCURATE INFORMATION ~ BETTER RESULTS



NORTHERN NEVADA MARKET UPDATE
 Third Quarter, 2014
INDUSTRIAL VACANCY: 8.48%



mipnv.com
 775.828.4665
 Reno, Nevada



Q3 2014 Performance – Northern Nevada

Northern Nevada Reaches a “Tipping Point”

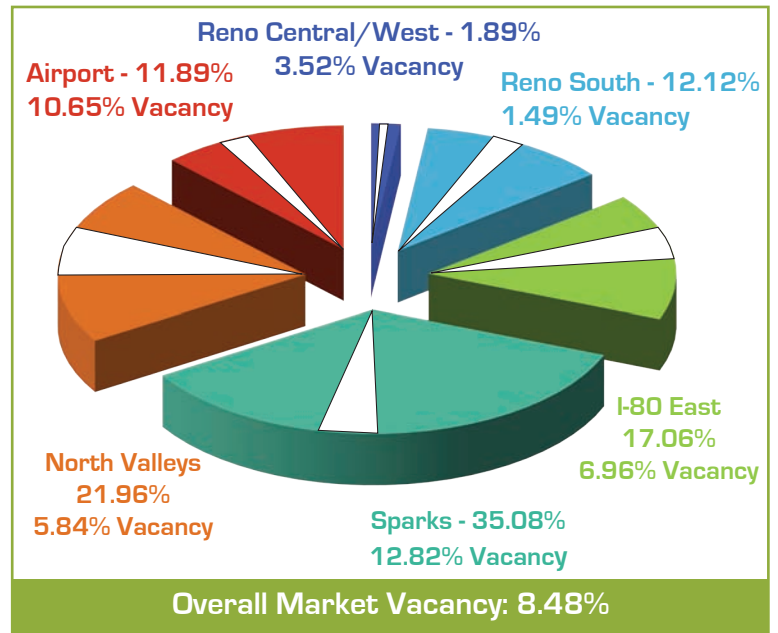
The northern Nevada industrial real estate market received the biggest economic stimulus package in recent memory this quarter with several new business announcements spearheaded of course by Tesla. In fact, Q3 2014 may be earmarked as a historically significant time for industrial real estate growth in our market. The most immediate effect of the Tesla news has been the burst of nation-wide interest from the real estate investment community. The sentiment from investors seems to be that if you are not invested in northern Nevada, you are missing the boat. Large numbers of investor groups are vying for the few available income properties in the market.

We are expecting that the impact of this market energy to be not only continued rising rental rates and lowering vacancy, but also lowering cap rates on investment sales - all more than welcome news for industrial real estate owners. If the Q2 market was termed “healthy,” Q3 has now turned the corner and many market examples show a very solid growth cycle that should sustain itself well into 2015.

Due to the high market activity, there are many dynamic factors in this quarter’s statistics. New build-to-suit inventory is being taken into account and simultaneously being credited as absorbed. New construction is expanding our market size as well as, a large amount of space is being considered returned to market and available now, even though it won’t actually vacate until later in the year. All of these factors have an increasing impact on the vacancy rate.

Gross absorption rose over the 2,000,000 square feet mark, which is over 50% higher than the 5 year average of 1,332,000 square feet.. The net absorption of only 311,730 sf shows the impact of all the space coming back into inventory, vacated mostly by firms expanding into their new, larger facilities here. The large market returns also results in a slightly higher calculated vacancy rate of 8.48%.

Some of the featured market activity is Dermody Properties not only completely filling its yet-to-be-completed 624,000 sf new



facility in Golden Valley, but it will also break ground on two new large warehouses in Golden Valley in November. Panattoni’s new 770,000 sf build-to-suit for Petco in Stead has kicked off, along with a new 200,000 sf spec. building. Conco is building a 300,000 sf warehouse expansion at 2777 USA Parkway, across the street from Zulily’s new 707,000 sf build to suit, which is getting close to ready to go as well. And let’s not forget San Mar’s new 606,000 sf new facility in Spanish Springs – it has the roof on now and it is heading for a Q1 2015 ready date. Industrial developers are also acquiring large blocks of raw land, a practice that hasn’t been witnessed in over five years.

Shortly after Tesla’s announcement, we saw asking prices on some of the remaining For Sale large industrial buildings take an immediate jump of 10%. We also noticed a big increase in interest for available For Lease space anywhere close to the new Tesla plant, with landlords already sticking close to asking rates. Some long-time vacant buildings have received full price offers to buy and are now into escrow.

These examples are just some of the tangible evidence that the northern Nevada industrial real estate market is once again alive, well and ready to experience its next big industrial growth spurt.

Quick Trends



Lease Rates

Market rents are rising. Concessions eroding.



Vacancy

Q3: 8.48%
Statistical anomaly shows increased vacancy rate.
Q2: 7.37%



Construction

New build-to-suit and spec construction increases.

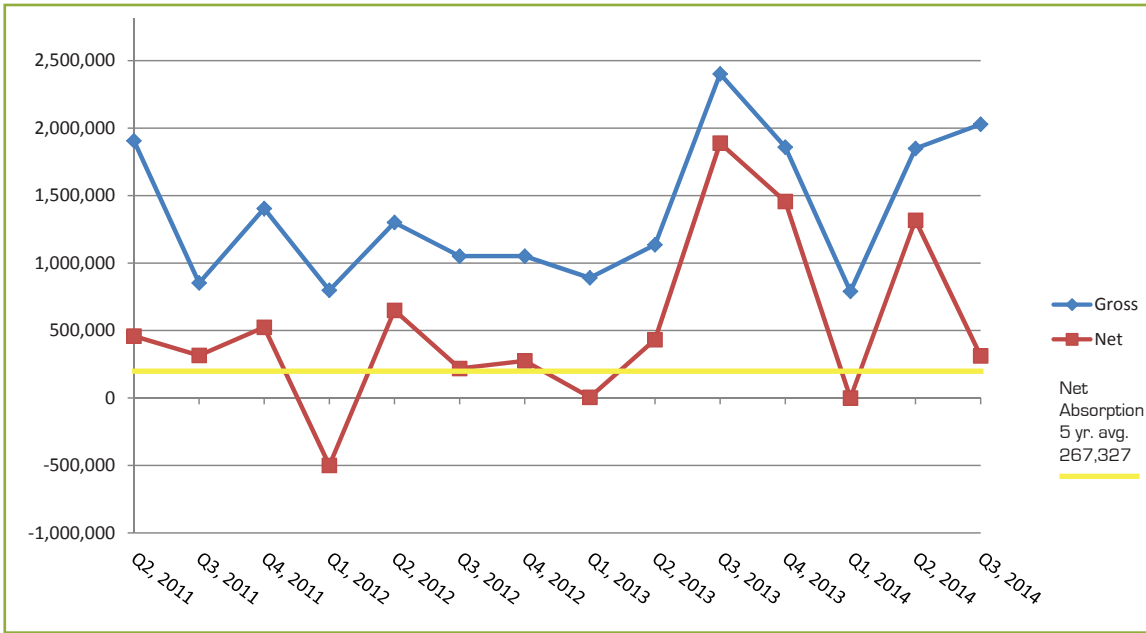


Outlook

Market velocity continues to escalate. Rising prices and lower vacancy will continue through 2014.

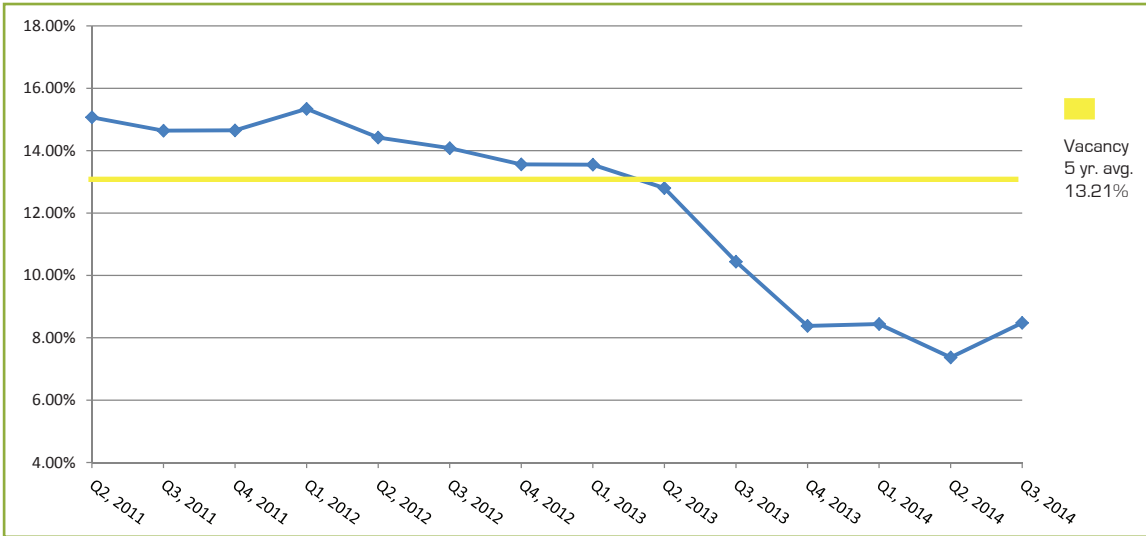


Q3 2014 Performance – Northern Nevada



Net Absorption
311,730 SF

- **Over 3x Lower** than Q2 2014
- **Over 4x Lower** over Q3 2013
- **14% Higher** than 5 year avg.



Vacancy
8.48%

- **Over 14% Higher** than Q2 2014 (7.37%)
- **21% Lower** than Q3 2013
- **36% Lower** than 5 Year Avg. (13.21%)

Sub-Market Breakdown

Sub-Market	Size	Vacant	Vac. %	Gross Abs.	Net Abs.	Spec BTS ytd	BTS Const. ytd	Total Const.
North Valleys	16,382,684	957,320	5.84%	624,000	624,000	0	624,000	624,000
I-80 East Corridor	12,725,728	885,968	6.96%	100,642	(-416,078)	0	0	0
Sparks	26,175,066	3,354,528	12.82%	918,950	1,274	0	606,117	606,117
Airport	8,872,036	944,577	10.65%	116,780	(-149,543)	0	0	0
Reno Central/West	1,410,606	49,591	3.52%	107,570	107,570	0	0	0
Reno South	9,043,313	134,310	1.49%	160,507	144,507	0	0	0
TOTALS	74,609,433	6,326,294	8.48%	2,028,449	311,730	0	1,230,117	1,230,117



Significant Transactions Q3 2014

Sales Transactions					Lease Transactions	
525 Coney Island	Ranshu, Inc.	294,333 sf	\$9,300,000	\$31.59 psf	Amazon	624,000 sq. ft.
1381 Capital Blvd.	KTR Reno, LLC	233,072 sf	\$8,600,000	\$36.89 psf	SanMar	606,117 sq. ft.
1400 Waltham Way	Newco	100,240 sf	\$5,792,500	\$57.78 psf	Krone	99,000 sq. ft.
Kleppe Business Park	Schnabel Ventures	150,000 sf	\$5,500,000	\$36.66 psf	Cenntro Motors	78,000 sq. ft.
110 Woodland Ave.	WWCRE Holdings	90,029 sf	\$4,750,000	\$52.76 psf	DIPACO, Inc.	45,612 sq. ft.
4965 Energy Way	Hawthorne Group	60,000 sf	\$2,500,000	\$41.66 psf		

Construction

The Q2 2014 update described northern Nevada's industrial real estate construction market as "on the mend." In Q3 2014, it is now burning on the booster rockets, with seven current or soon to start big box warehouse projects totaling 3,267,000 sf, eclipsing anything in the past many years. Panattoni has started its 750,000 sf for Petco plus a 200,000 sf spec in Stead; Dermody Properties has its 624,000 sf for Amazon plus two spec spaces of 224,000 sf and 400,000 sf in Golden Valley; Conco is adding 300,000 sf spec space to its full warehouse in Tahoe Reno Industrial Center; and Zulily's 707,000 sf build to suit in TRIC is still underway as is San Mar's 606,000 sf in Spanish Springs. These projects alone will increase the market size by about 4.5%. "Spec" construction is no longer a bad word.

2014 Trending

Our previous predictions of a banner recovery year for both the logistics industry and the construction trades has materialized. With the level of the northern Nevada industrial real estate market's current strength, we anticipate continued upward pressure on lease rates, continued downward pressure on vacancy rates and continued or increasing demand for lease space across all size ranges, from big box to flex space. Along with this, free base rent periods are becoming more and more challenging to achieve as well as other lease concessions such as free tenant improvements and pre-negotiated lease renewal rates. Landlords are becoming more selective, choosing the more credit worthy tenants and passing up on start-up ventures, short lease terms and any undesirable uses. The time of the record low price deals on warehouse space are long gone now and won't be back anytime soon. Tenants that secured those low lease rates in past years will get a sticker shock when renewing. Another interesting trend is the next evolution of eave height to 36' to accommodate the latest fulfillment trends.

2014 Forecast

I have commented recently that I don't believe anyone can adequately assess the impact Tesla will ultimately have on northern Nevada as a whole. Yes, we have the huge plant itself plus all the ancillary support facilities that will come and the housing impact and related services required. But beyond that, the national based interest that we are currently seeing in northern Nevada and Nevada in general has been unprecedented. New businesses want to be here, both institutional and private investors feel the need to be invested in our market and manufacturers across the nation see yet another gleaming example of the "can do" nature of Nevada's economic development industry. Q3 2014 has shaped up to be a period we will note as one of the brightest in Nevada's history.



Tom Miller, CCIM
tom@mipnv.com



Brad Lancaster
brad@mipnv.com



Beki Sisco
beki@mipnv.com