



Market Advisor

ACCURATE INFORMATION - BETTER RESULTS



NORTHERN NEVADA MARKET UPDATE
First Quarter 2017
 INDUSTRIAL VACANCY: 7.80%



mipnv.com
 775.828.4665
 Reno, Nevada



A Stabilized Market Emerges in Reno-Sparks

If you have been following the Reno–Sparks industrial real estate market growth over the past few years, you are familiar with names like Zulily.com, Amazon.com, Jet.com, Chewy.com (noticing an E-commerce pattern?), Petco, Sanmar, ITS Logistics and the like.

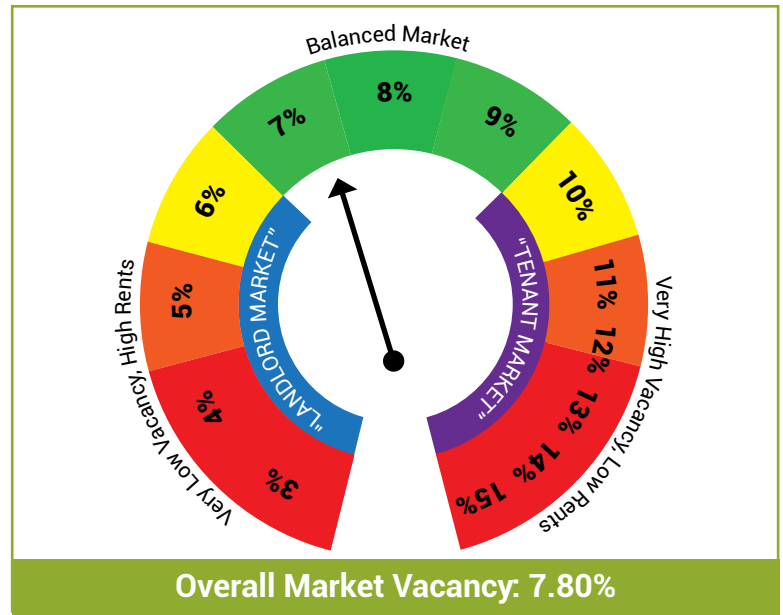
Those seven projects alone consumed over 4.5 million square feet of vacant space.

The good news is that when these large users move into space, the size of the deal really moves the needle and vacancy drops. However, any market that has been experiencing growth through these large transactions is also subject to a perceived downturn when these large deals don't sign up on any given quarter. This is what the Q1 numbers of 2017 are showing.

While market activity was again quite strong and gross absorption was still reasonably respectable, we just didn't finalize that many large transactions in this quarter to continue to lower the vacancy rate. In fact, we are reporting the same vacancy rate as last quarter at 7.8%. But allow us to put Q1's performance into perspective. While Panattoni added 221,000 sf of new speculative construction in South Meadows and the market returned over 1,000,000 sf, of vacated space, we still absorbed enough space to maintain the same vacancy rate. Only by comparing Q1's performance to the record setting quarters of 2016 can we say the absorption performance was down.

Quarterly gross absorption, the measure of all vacant space newly occupied in the quarter, was 1,243,406 sf. This is 21% lower than the five-year average. However, that average has been bolstered by new high record amounts of gross absorption in several past quarters. Quarterly net absorption, which is the measure of gross absorption minus the space that tenants vacated and the new, vacant construction accounted for this period, was an anemic 153,304 sf.

This is 78% lower than the five-year average and almost 90% lower than the similar quarter in 2016. Since net absorption is what changes the vacancy rate, the amount of change to vacancy is statistically insignificant in a market size of over 82,000,000 sq ft. Overall, asking pricing has remained slightly landlord favored as big box availability softens.



The Stead submarket received significant absorption with four transactions. Fosdick Fulfillment vacated its Mt. Anderson facility for a 270,000 sf space on Military Road, while ACH Foam moved from TRIC right into the ex-Fosdick space in Stead. High Quality Organics expanded again into 12755 Moya and Birdrock Waxman took 64,000 sf at 14525 Industry Circle. Stead nets an absorption of about 283,000 sf with these deals. The Sparks submarket repeated its typical high volume of transactions with six move ins and ten move outs, netting a net loss of occupancy of about 127,000 sf. We are expecting the absorption numbers to bounce back to more average levels as 2017 transpires.

Another factor we are seeing in the market is the moderate slowing of new warehousing breaking ground. Several quarters ago, it seemed like new roofs were popping up everywhere you looked and quickly absorbed. There are signs from some developers that a mild easing off on the portfolio expansion accelerator may be in order with respect to new, speculative warehousing. Still, several new projects are in the wings with some actually breaking ground now, as Prologis re-enters the local development market with a new 240,000 sf spec facility in Stead and Panattoni's new 356,000 sf building in the north valleys likely starting out of the ground soon. Scannell Properties is also considering entering the speculative market by possibly starting a new 564,000 sf warehouse next to the new FedEx facility in Mustang, which will open late next summer. Numerous other build to suit locations remain ready to go if demand continues.

Quick Trends

Lease Rates ||

Stable rent in a balanced market.

Vacancy ||

Q4 2016: 7.80%
Growing, healthy market.
Q1 2017: 7.80%

Construction ▼

Slowing build-to-suit and spec. construction.

Market Velocity ▲

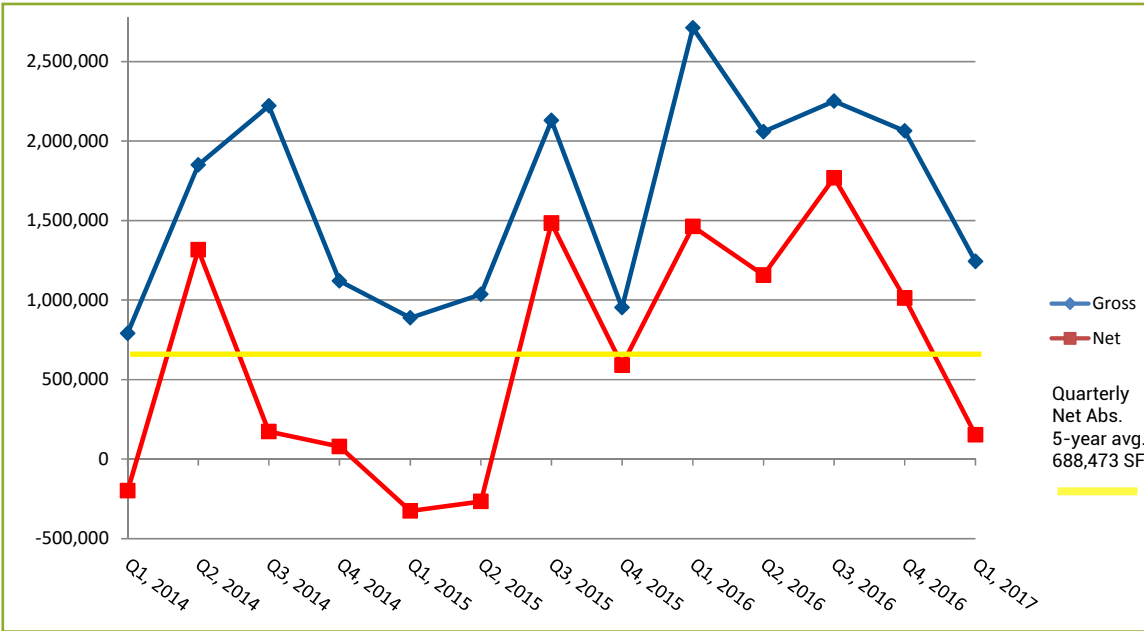
Steady demand continues.

Outlook ▲

Shrinking to adequate inventory supply over most size ranges.

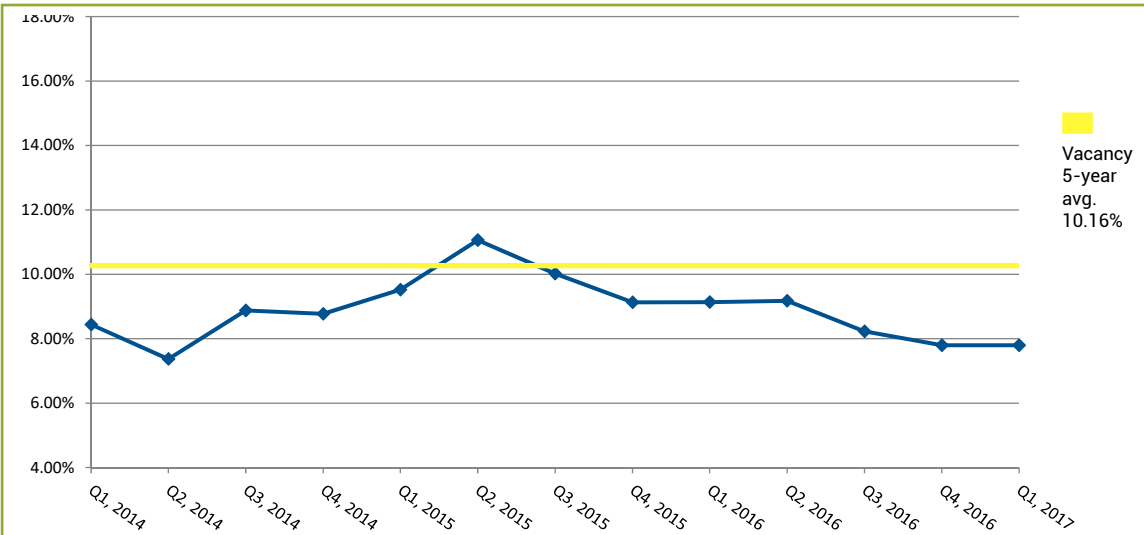


Net Absorption: The measure of gross absorption minus the space that tenants vacated and the new, vacant construction.



Q1 2017 Net Absorption 153,304 SF

- 86% Lower than Q4 2016
- 89% Lower than Q1 2016
- 78% Lower than quarterly 5-year Avg.



Vacancy: 7.80%

- Unchanged from Q4 2016 (7.80%)
- 32% Lower than Q1 2016 (11.50%)
- 23% Lower than quarterly 5-year Avg. (10.16%)

Sub-Market Breakdown - Q1 2017

Sub-Market	Size SF	Vacant SF	Vac. %	Gross Abs.	Net Abs.	Spec Const.	BTS Const.	Total Const.
North Valleys	20,849,933	1,387,982	6.66%	682,490	565,490	0	0	0
I-80 East Corridor	15,900,765	1,976,845	12.43%	195,300	(104,700)	0	0	0
Sparks	25,568,949	1,985,025	7.76%	52,447	(595,615)	0	0	0
Airport	8,872,036	516,908	5.83%	86,577	66,577	0	0	0
Reno Central/West	1,631,606	401,683	24.62%	11,664	11,664	221,000	0	221,000
Reno South	9,433,105	313,680	3.33%	214,928	209,888	0	0	0
TOTALS	82,256,395	6,418,561	7.80%	2,063,168	153,304	221,000	0	221,000



Significant Transactions Q1 2017

Sales Transactions				Lease Transactions		
12035 Moya Boulevard	Tri Star	545,550 SF	\$35,460,750.00	8730 Military Road	Fosdick	269,620 SF
13965 Mount Anderson	Beau & Sparky Properties	102,000 SF	\$5,610,000.00	2555 USA Parkway	Syncreon Technology	182,000 SF
230 Coney Island Drive	Wilder Holdings, LLC	10,240 SF	\$820,000.00	811 Sandhill Road, Bldg B	Zazzle, Inc.	180,792 SF
310 Coney Island Drive	A&D Properties, LLC	10,240 SF	\$820,000.00	9175 Moya Blvd, Suite A	TAGG Logistics	149,760 SF
175 Mull Lane	Hurricane Holdings Group, LLC	13,300 SF	\$600,000.00	13965 Mount Anderson	ACH Foam	102,000 SF

Construction

Construction activity seems to be slowing a bit. The projects that are emerging are once again the Class A industrial big box products. One new big box project at the I-80 Mustang exit adjacent to FedEx's Freight's new facility will be occupied in last summer.

Spring & Summer 2017 Forecast

We are starting to see a stabilizing of our industrial market. The rapid growth of late 2015 and throughout 2016 is effectively completely absorbed, with developers now becoming a bit more contemplative instead of leaping straight into the next new big box project. This suggests that the underwriting investment analysts with the funding sources are trending more toward accepting their gains from the past six quarters and more carefully considering the potential risks of being the last developer to put up a big box warehouse too late in the real estate expansion cycle – only to be left with a vacant asset.



Tom Miller, CCIM
tom@mipnv.com



Beki Dobson
beki@mipnv.com