



Market Advisor

ACCURATE INFORMATION - BETTER RESULTS



NORTHERN NEVADA MARKET UPDATE
Second Quarter 2017
 INDUSTRIAL VACANCY: 6.42%



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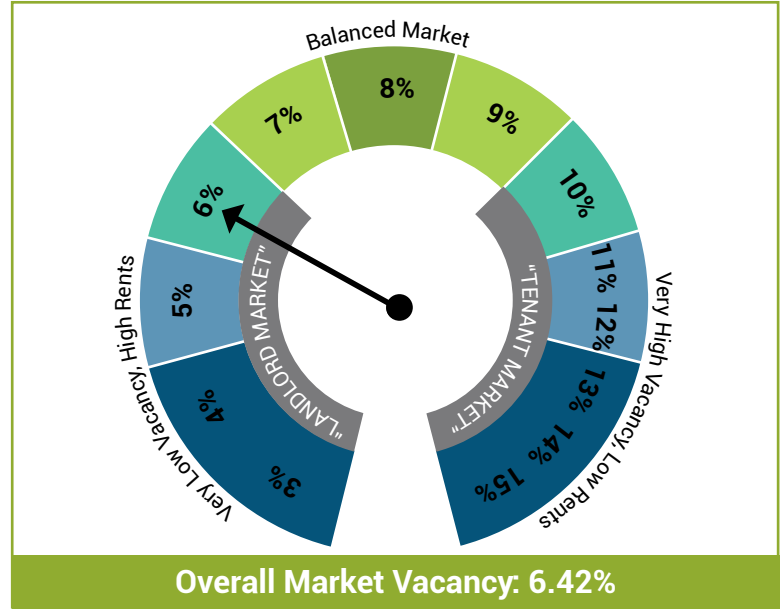
Landlords Rule

The second quarter of 2017 was noteworthy for industrial real estate in northern Nevada. The critical statistics all shifted to reflect the vibrant market velocity we are experiencing. In a word, our market is hot right now. Gross absorption of vacant space was 15% higher than our five-year average. The space given back as returned vacant inventory was low at 20% below average. This combines to a net absorption of 75% higher than the five-year average. Accordingly, our already low vacancy dropped a huge 1.4% to 6.42%. At this vacancy level, we absolutely see limited options remaining for tenants. Landlords are, of course, well aware of the market conditions trending ever so much more in their favor and have reacted with higher scrutiny to the quality of the tenant, increasing rental rates and offering fewer concessions. The sting of the years of below-market deals offered to tenants in the post-recession era has not been forgotten and the time for landlords to recover is now.

Big box tenants continue a high demand of space, resulting in steady absorption of the newest class "A" warehousing. These tenants determine their choice based on added features of the newest inventory, allowing logistics operations to employ the latest technology while saving on lower building operating costs. New speculative buildings do not sit vacant very long and there is a slight shortage in the largest-sized big box inventory, despite landlords selectively seeking investment-grade credit. Tenants are experiencing slowly rising rents, longer lease terms, minimal free tenant improvements and shrinking concessions; renewing tenants are seeing longer renewal terms and tenants expanding within their landlord's portfolios are seeing termination fees on the unused term of their lease. This brand of increasingly tough terms has become prevalent as our leasing boom continues.

As our market continues to grow, Scannell Properties is completing the new FedEx Ground terminal in Mustang, while in Patrick, Apple continues to expand its presence and Rack Space recently announced a new data center build. At the Tahoe-Reno Industrial Center, Switch recently completed the world's largest data center, and in April Google announced the purchase of 1,210 acres – the suspicion is that it's for a new, massive data center. USA Parkway is on schedule to complete the linkup of Interstate 80 and US Highway 50 this year, bridging the gap between the Reno/Sparks and the Carson City industrial markets and opening up considerable new growth options.

New, available market additions have also emerged. While developers remain mindful of the last building boom – when demand quickly dried up and buildings sat vacant for



years - the speculative construction market is still vibrant. Panattoni Development, Dermody Properties and Prologis will begin new speculative projects soon, all in the North Valleys areas.

Northern Nevada has been on industrial real estate investors' radars for a few years, as our market affords better yields than in capital markets. The prices that investors have paid for occupied buildings have been strong and it could be said that our investor sales have been slightly overheated. There is a slight shift in the investment sales market to one of deeper, somewhat cautious evaluation of the quality of the assets offered for sale. Some lenders and equity partners have become less agreeable to accepting tenants without investment grade credit or additional financial guarantees. This is in lockstep with landlords growing increasingly selective with whom they lease.

Overall, the Northern Nevada industrial real estate market remains robust and highly competitive against alternate locations. Add in Nevada's favorable business climate, northern Nevada's superior logistical advantage to efficiently serve the eleven western states, our sizeable industrial real estate market and extensive logistics support services and what we have is a highly attractive environment that continues to be considered the go-to location for firms expanding into the West Coast markets. All indicators point to a continued strong industrial market into 2018.

Quick Trends

Lease Rates

Stable rent in a balanced market.

Vacancy

Q1 2017: 7.80%
Growing, healthy market.
Q2 2017: 6.42%

Construction

Slowing build-to-suit and spec. construction.

Market Velocity

Steady demand continues.

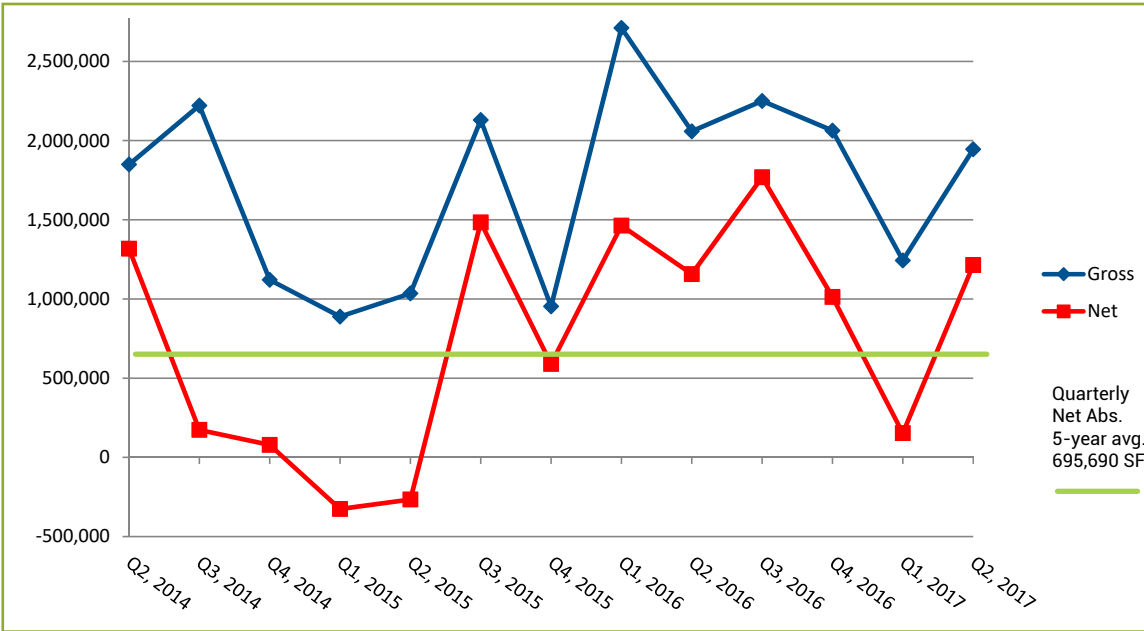
Outlook

Shrinking to adequate inventory supply over most size ranges.



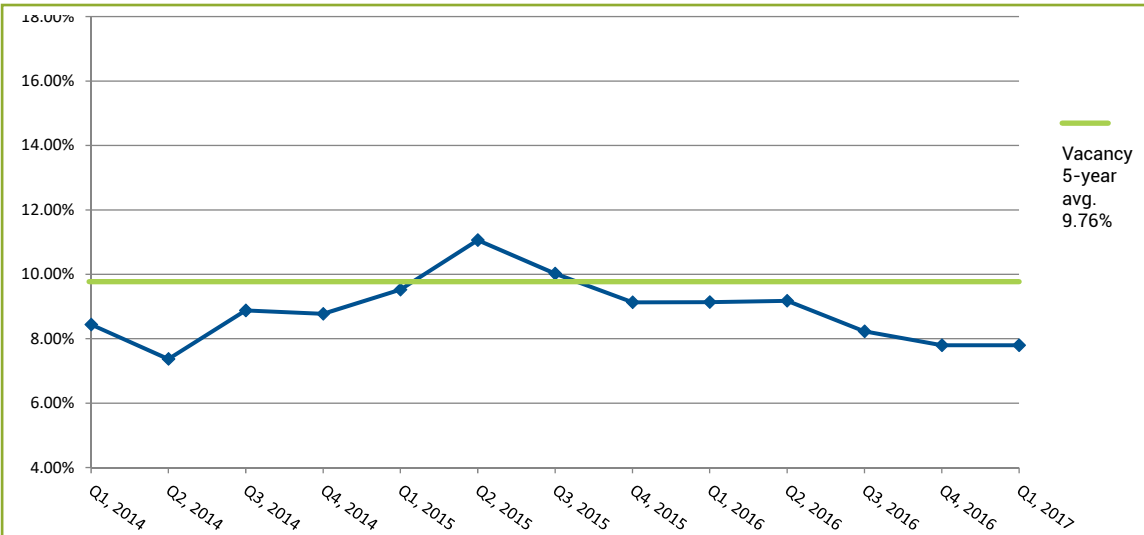


Net Absorption: The measure of gross absorption minus the space that tenants vacated and the new, vacant construction.



Q2 2017 Net Absorption 1,277,010 SF

- 6x Higher than Q1 2017
- 5% Higher than Q2 2016
- 75% Higher than quarterly 5-year Avg.



Vacancy: 6.42%

- 17% Lower than Q1 2017 (7.80%)
- 29% Lower than Q2 2016 (9.18%)
- 33% Lower than quarterly 5-year Avg. (9.76%)

Sub-Market Breakdown - Q2 2017

Sub-Market	Size SF	Vacant SF	Vac. %	Gross Abs.	Net Abs.	Spec Const.	BTS Const.	Total Const.
North Valleys	20,996,885	908,536	4.33%	683,367	626,317	146,871	0	146,871
I-80 East Corridor	15,900,765	1,678,085	10.55%	318,760	298,760	0	0	0
Sparks	25,568,949	2,068,130	8.09%	209,495	(83,105)	0	0	0
Airport	8,872,036	503,041	5.67%	341,958	13,867	0	0	0
Reno Central/West	1,631,606	127,819	7.83%	290,864	273,864	0	0	0
Reno South	9,433,105	166,373	1.76%	163,482	147,307	0	0	0
TOTALS	82,403,266	5,288,422	6.42%	2,007,926	1,277,010	146,871	0	146,871



Significant Transactions Q2 2017

Sales Transactions				Lease Transactions		
9295 Prototype Drive	AGNL Slots, LLC	1,051,043 SF	\$156,000,000.00	9460 N. Virginia Street	Microflex Corporation	271,992 SF
190 E. Glendale Avenue	Catholic Charities	30,400 SF	\$2,350,000.00	355 Cabela Drive	Patagonia, Inc.	221,000 SF
2050 Kleppe Lane	Allied Exchange Thirty	9,319 SF	\$2,250,000.00	2777 USA Parkway	Panasonic Corp. of North America	220,000 SF
1955 Timber Way	Timber Guys, LLC	45,300 SF	\$1,650,000.00	12995 Echo Ave, Suite 101	Columbus Vegetable Oils	112,500 SF
3033 Waltham Way	GSA Services, LLC	21,260 SF	\$1,550,100.00	900 North Hills Boulevard	Fulfillment Works	88,000 SF

Construction

While construction activity remains active, its momentum is at a slightly reduced pace than this time last year. Consistent with recent construction history, emerging projects are state-of-the-art, class "A" industrial, big box product. In Q2 2017, McKenzie Properties added two buildings, totaling 146,871 square feet, to the North Valleys market inventory. In Mustang, we expect to see the project located adjacent to the FedEx Ground facility completed and occupied by late summer 2017. Additionally, there are three new planned developments expected to break ground in Q3 2017 in the North Valleys submarket.

Summer & Fall 2017 Forecast

We are seeing a definite market swing towards a strong landlord favored climate. This market trend is anticipated to continue as long as the supply and demand levels remain status quo. Tenants would be well advised not to wait for this condition to reverse itself, as we are predicting a continuation of rising lease rates into 2018.



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