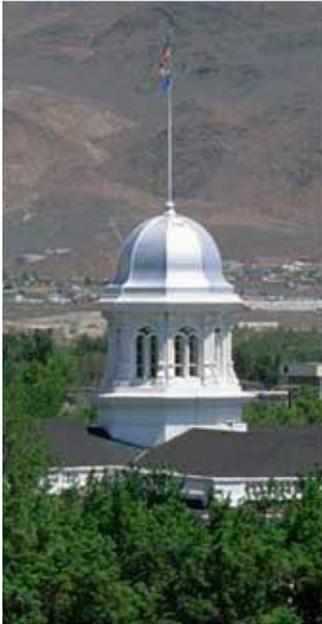




Market Advisor

ACCURATE INFORMATION - BETTER RESULTS



NORTHERN NEVADA MARKET UPDATE
Third Quarter, 2015
 INDUSTRIAL VACANCY: 10.02%



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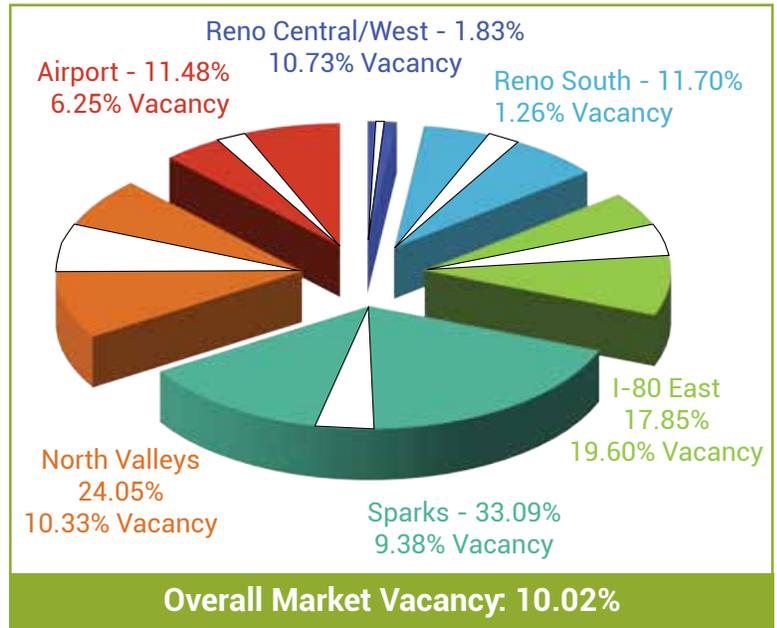


All Systems "Go" as the Industrial Market Rolls On

Vacancy is down, absorption is up, construction is busy – that’s the short version of the Q3 2015 Reno/Sparks industrial real estate market update. Despite landlords achieving higher rents with fewer concessions, tenants are lining up to take space at a steady and strong pace. In fact, Q3 saw gross absorption double Q2’s numbers with over two million square feet taken off the market. More importantly, however, the market experienced very few departures, resulting in a net absorption of over 1.5 million square feet. To put this net absorption into perspective, Q3 was five times the five-year average and only repeated twice in the past five years: the second and third quarters of 2013.

Vacancy took a significant decline of about 1.5% to 10%. With an overall growing market size of more than 77 million square feet, this indicates an adequate supply of available space still remaining. However, a closer look at vacancies shows that within selected size ranges, availability is scarce. Many tenants are seeing only a few options available to lease within their selected size requirements. Furthermore, landlords are becoming increasingly more selective on the types of lease terms and tenant credit they are accepting into their portfolios. Shorter lease term deals, tenants with less than average credit, startups and short time in business tenants are finding the going tough to find any space that is welcoming their occupancy. We do not expect this situation to change anytime soon as landlords fill their spaces with solid, quality, long term tenants at current market rates.

Continuing its trend, the Sparks submarket leads the quarter again with 16 new transactions,



accounting for 432,000 square feet of leased space. In TRIC, Conco’s new 300,00-square foot addition to 2777 USA Parkway received a new 160,000-square-foot tenant and Prologis has a new 140,000-square-foot tenant at 650 Waltham Way. Panattoni’s Petco build-to-suit project in Stead was absorbed this quarter at 770,000 square feet as well. Of significance to space availability is the return to market of the well-located but dated former K Mart 1,550,000+ square-foot warehouse sublease. The facility’s modest 24’ eave height, lack of docks, tight column spacing and dated warehouse heating system will prove to be problematic for many potential users. Since the likelihood of a single user is limited, offering demised spaces might also be challenged by the lack of usable docks and deep property depths. However, offsetting the challenges will be highly attractive leasing rates for those who can accommodate the property’s limitations. When this sublease runs out, it will have an immediate impact of raising the area’s vacancy by two-percent (2%)!

Quick Trends

Lease Rates ▬▬

Stable rent in a landlord friendly market.

Vacancy ▾

Q2 2015: 11.06%
Growing, healthy market.
Q3 2015: 10.02%

Construction ▴

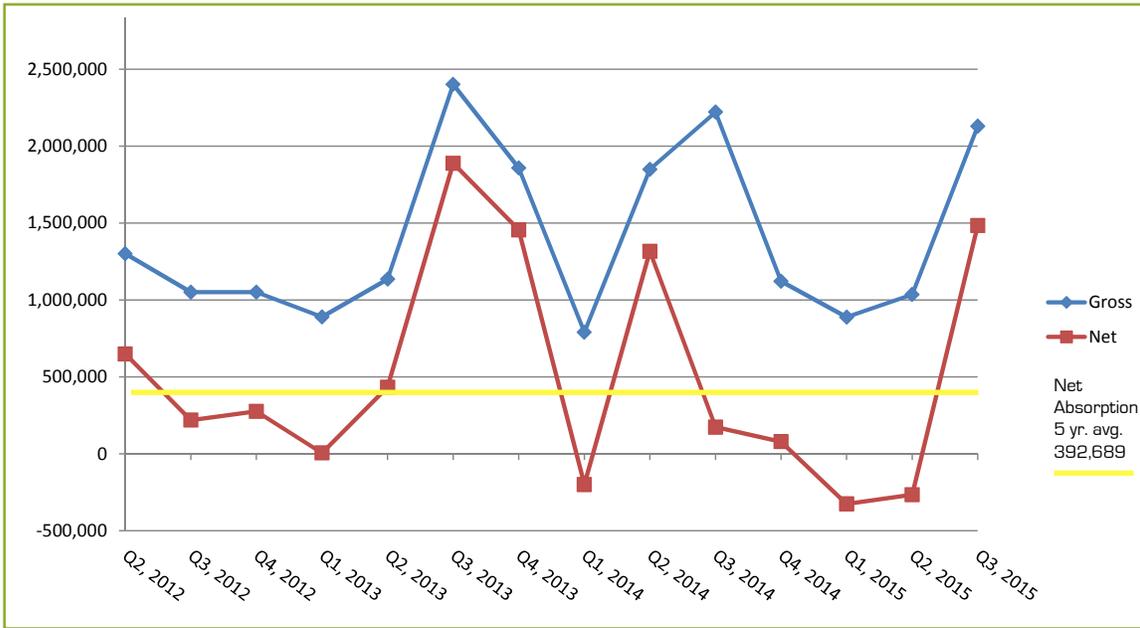
Continuing build-to-suit and spec. construction.

Market Velocity ▴

Adequate supply for healthy demand.

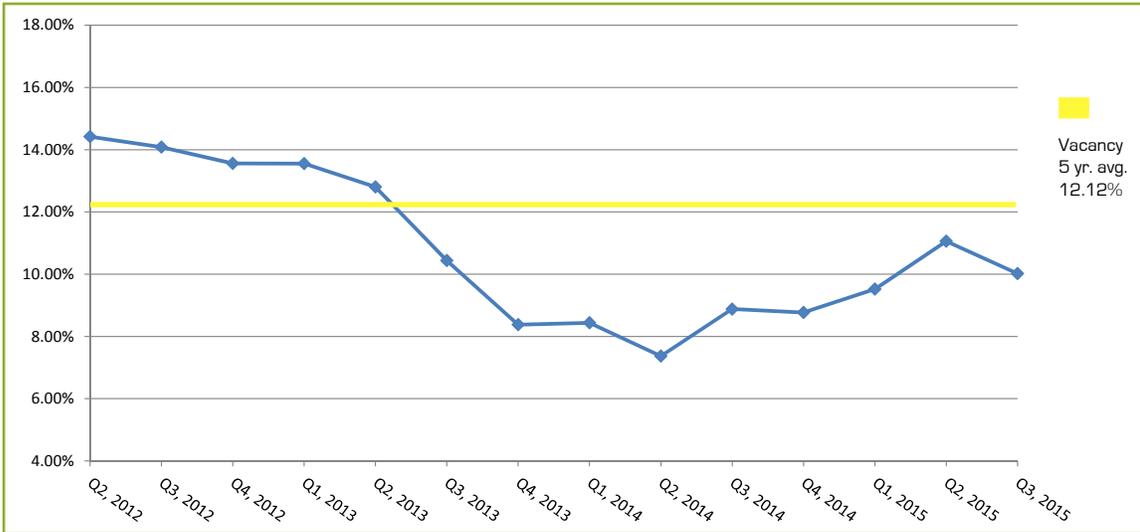
Outlook ▴

Some size ranges will see low inventory in 2015 with strong demand.



Net Absorption 1,483,655 SF

- Over 10x Higher than Q2 2015
- 8x Higher than Q3 2014
- Almost 3x Higher than 5-year Avg.



Vacancy: 10.02%

- 9% Lower than Q2 2015 (11.06%)
- 13% Higher than Q3 2014 (8.88%)
- 17% Lower than 5-year Avg. (12.12%)

Sub-Market Breakdown - Q3 2015

Sub-Market	Size SF	Vacant SF	Vac. %	Gross Abs.	Net Abs.	Spec Const.	BTS Const.	Total Const.
North Valleys	18,585,761	1,919,681	10.33%	951,800	697,773	0	770,000	770,000
I-80 East Corridor	13,792,328	2,703,254	19.60%	313,000	313,000	0	0	0
Sparks	25,568,949	2,398,793	9.38%	423,750	227,581	0	0	0
Airport	8,872,036	554,573	6.25%	303,274	166,211	0	0	0
Reno Central/West	1,410,606	151,394	10.73%	17,160	11,132	0	0	0
Reno South	9,043,313	113,845	1.26%	121,850	67,958	0	0	0
TOTALS	77,272,993	7,744,476	10.02%	2,129,834	1,483,655	0	770,000	770,000



Significant Transactions Q3 2015

Lease Transactions		
Petco - Build to Suit	US 395 & Red Rock Boulevard, Stead	770,000 square feet
Jet.com	2777 USA Parkway, McCarran	160,000 square feet
TAGG Logistics	10855 Lear Boulevard, Stead	153,000 square feet
Bi Nutraceutical, Inc.	625 Waltham Way, Suite 101, McCarran	140,000 square feet
OHL	350 Lillard, Sparks	132,450 square feet
U.S. Cabinets	1381 Capital Court, Reno	126,268 square feet

Construction

The local industrial construction volume continues at a strong pace. Freshly completed projects this quarter added 770,000-square-feet to our market size, as Panattoni completes project for Petco. Panattoni is also well along with its speculative 200,000-square-foot project and has started its new 707,000 square feet at Lemon Valley, the first of a new three-building complex. Dermody's 224,000-square-foot and 402,000-square-foot projects are finishing up in Golden Valley and their new spec project in the north valleys is nearing full entitlement. Additionally, well over three million square feet of building pads are in ready-to-go status than can accommodate large projects and firms that are prepared to immediately move ahead with a speculative or a build-to-suit project, which should keep the pipeline moving with new construction into the mid-range future.

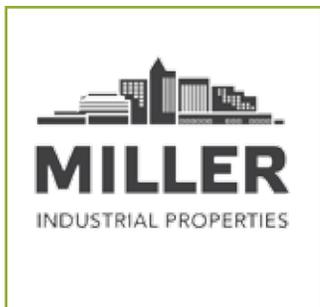
Additionally, several non-distribution projects are ongoing, including Tesla's 10 million-square-foot plant and Switch's 6.5 million-square-foot data center. Apple is doubling the size of its new data center and Deceunnick is building a new 150,000-square-foot vinyl window manufacturing facility in Fernley as well. All of these factors are supporting our robust industrial real estate construction market.

2015 Trending

Our Q2 market update stated that market "economic fundamentals have taken root ... with predictable trending emerging." This has only been reinforced by the third quarter's very strong absorption performance. All signs point toward a continuation of the same. It's interesting that this growth is despite the stock market's performance on the same period, with most major indices losing about 10%. With several large, new employers building facilities, northern Nevada's attraction to new businesses continues to grow.

2015 Fall/Winter Forecast

Our forecast remains strong for continued area growth with the caveat that we are not discounting nor ignoring the stock market. If the bear market continues, there is a potential cooling impact on continued growth as businesses may start to be concerned about the overall economy. Vacancy rates per quarter will be unsettled to a degree as large, new construction comes on the market that may not be absorbed quite yet. Overall, however, we are expecting a strong 2016 for the northern Nevada industrial real estate market.



Tom Miller, CCIM
tom@mipnv.com



Brad Lancaster
brad@mipnv.com



Beki Dobson
beki@mipnv.com