



**Market  Advisor**

ACCURATE INFORMATION - BETTER RESULTS



NORTHERN NEVADA MARKET UPDATE  
**Third Quarter 2016**  
 INDUSTRIAL VACANCY: 8.22%



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 Reno, Nevada

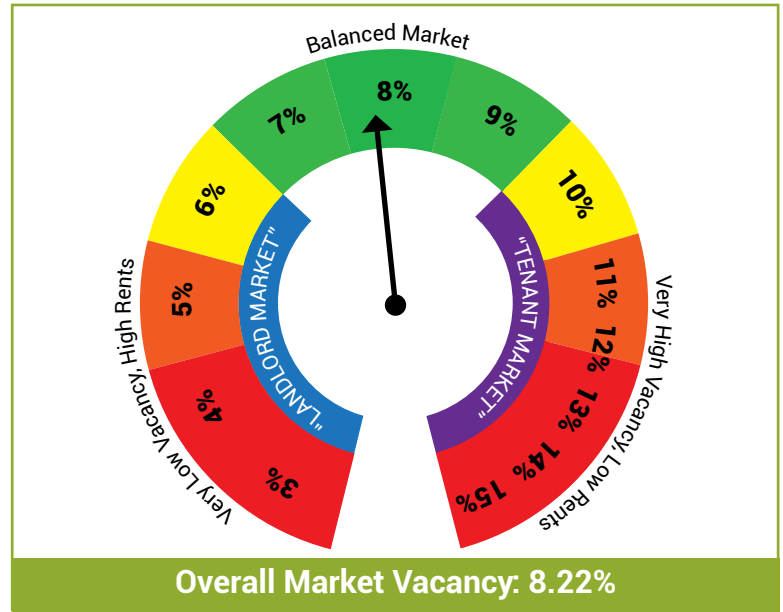


## E-Commerce Continues to Drive Area Growth

What do many consumers do when they need diapers, dog food, golf clubs or a new pair of shoes? **Most of us cue up Google and within a few minutes we're shopping away.** A few clicks and within a few days or less, our items are on our doorstep. It's a way of life now, but how does this transaction really happen? Well, a lot of these logistics are running through those large warehouses you pass along the freeways of northern Nevada. **It's called e-commerce and that distribution segment continues to drive growth in this region.**

E-commerce distributors tend to be large warehouse users, so when one relocates here or expands, **it tends to take large enough chunks of space that the transaction moves the needle on our overall market quarterly absorption and vacancy rates.** That was the case again this quarter as Jet.Com secured a new 672,000 SF space in Tahoe Reno Industrial Center. Jet leased a new speculative warehouse that is just now having its roof installed. This represents a 125% growth factor for Jet.Com locally, similar to Zulily.com and chewy.com, which both recently doubled their footprint in the area as well. **These large e-commerce transactions are absorbing the new state-of-the-art, Class A, speculative warehouse spaces that continue to expand our industrial real estate market.**

With the industrial market activity maintaining a solid pace, we are expecting some slight upward pressure on new, Class A, big-box leasing rates. **A sufficient Class A warehouse supply should keep lease prices relatively in check, but inevitably, pricing will likely creep upward as investors seek to maximize their returns on their massive capital investments.** Class A pricing tends to be the benchmark for pricing rates in the remainder of the market size ranges and classes of warehousing as well. Scarcity or oversupply in a particular size ranges tends to modify pricing accordingly, but generally our market has seen upward price creep in 2016, especially in the few investment or owner-user for sale properties in the market. Market activity remains balanced and very solid. As an example, under 1.1 million SF of new Class A warehousing put the roofs on this quarter, and all of that space is already taken.



We've just published a blog post titled ["A Look at the Tesla Effect in Northern Nevada."](#) It discusses the secondary impact of Tesla expanding to our region. Most distributors come to our area due to our excellent location to the 11 western states, our favorable tax structure and high quality of life. However it would be unfortunate to overlook the awareness factor that Tesla has brought to Reno. **There isn't a major e-commerce firm in the USA that isn't aware that Tesla chose our location to build its Gigafactory.** That type of endorsement and capital investment goes a long way to assure others that our area is a highly desirable business location. Success begets success, and we are seeing that first hand with these e-commerce expansions.

Statically, in Q3, the area absorbed 2,250,000 sf of gross SF occupied in Q3, and only 480,000 SF was returned into the market through firms vacating their space, which is about half of the 5 year average quarterly market return rate. Additionally 1,095,000 SF of new warehouse inventory was added into the market this reporting quarter yielding a net absorption of 1,769,000 SF, which is significantly above our Q2 net absorption and almost 3 times our area 5 year quarterly average. **Due to our strong quarter and low returns to market, our overall vacancy dropped 10% from 9.18% to 8.22%.** These are indicators of a strong and well balanced local industrial real estate market.

### Quick Trends

**Lease Rates** ||

Stable rent in a balanced market.

**Vacancy** ▼

Q2 2016: 9.18%  
Growing, healthy market.  
Q3 2016: 8.22%

**Construction** ▲

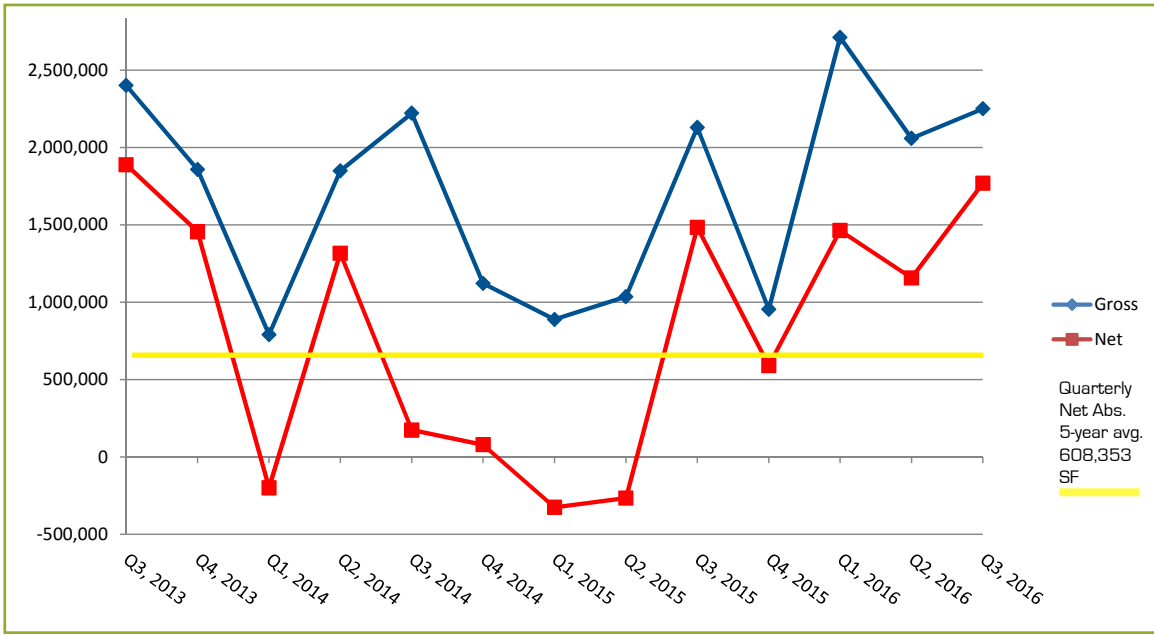
Continuing build-to-suit and spec. construction.

**Market Velocity** ▲

Strong demand continues.

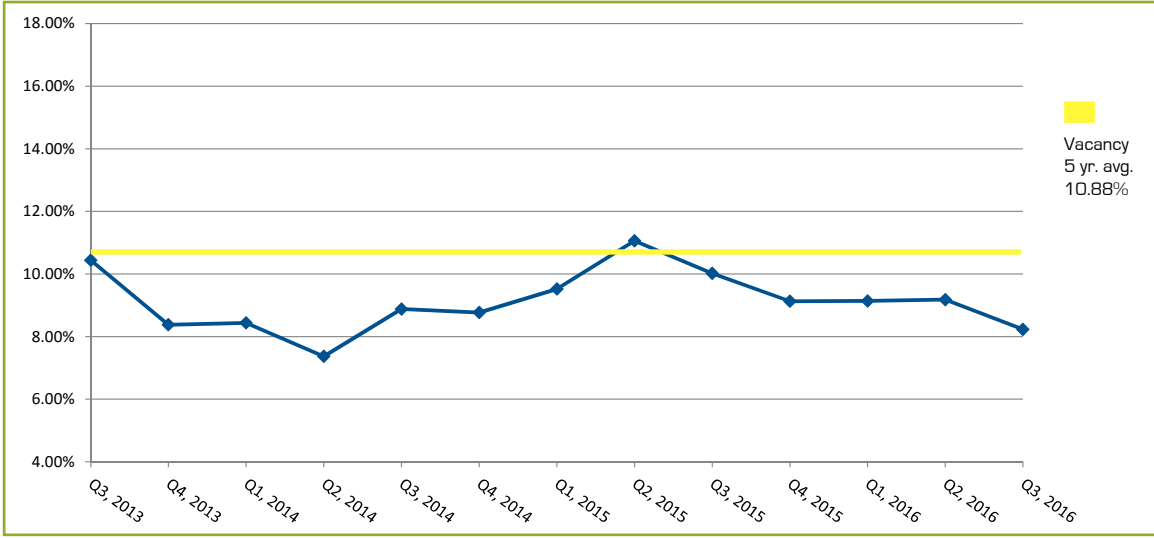
**Outlook** ▲

Adequate replacement supply over most size ranges.



## Q3 2016 Net Absorption 1,768,820 SF

- 53% Higher than Q2 2016
- 11% Higher than Q3 2015
- 19x Higher than quarterly 5-year Avg.



## Vacancy: 8.22%

- 10% Lower than Q2 2016 (9.18%)
- 18% Lower than Q3 2015 (10.02%)
- 24% Lower than quarterly 5-year Avg. (10.88%)

## Sub-Market Breakdown - Q3 2016

| Sub-Market         | Size SF           | Vacant SF        | Vac. %       | Gross Abs.       | Net Abs.         | Spec Const.    | BTS Const.     | Total Const.     |
|--------------------|-------------------|------------------|--------------|------------------|------------------|----------------|----------------|------------------|
| North Valleys      | 20,849,934        | 2,114,597        | 10.14%       | 1,234,491        | 1,169,741        | 0              | 423,001        | 423,001          |
| I-80 East Corridor | 15,557,328        | 2,317,865        | 14.90%       | 672,000          | 512,000          | 672,000        | 0              | 672,000          |
| Sparks             | 25,568,949        | 1,530,351        | 5.94%        | 272,256          | 148,567          | 0              | 0              | 0                |
| Airport            | 8,872,036         | 577,524          | 6.51%        | 19,498           | (55,396)         | 0              | 0              | 0                |
| Reno Central/West  | 1,410,606         | 180,847          | 12.82%       | 52,205           | 32,745           | 0              | 0              | 0                |
| Reno South         | 9,043,313         | 133,776          | 1.48%        | 0                | (38,837)         | 0              | 0              | 0                |
| <b>TOTALS</b>      | <b>81,302,166</b> | <b>6,691,398</b> | <b>8.22%</b> | <b>2,250,450</b> | <b>1,768,820</b> | <b>672,000</b> | <b>423,001</b> | <b>1,095,001</b> |



## Significant Transactions Q3 2016

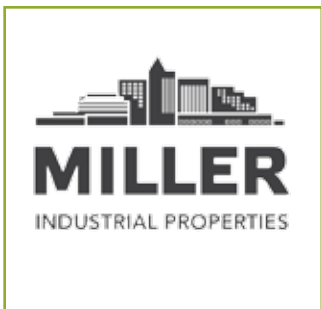
| Sales Transactions     |                             |            |                | Lease Transactions                |                      |            |
|------------------------|-----------------------------|------------|----------------|-----------------------------------|----------------------|------------|
| 4900-4904 Ampere Drive | Beretta Property Management | 213,190 SF | \$8,150,000.00 | 235 E. Sydney Drive               | Jet.com              | 672,000 SF |
| 2205 Glendale Ave      | Massie & Co.                | 48,168 SF  | \$7,100,000.00 | 9460 N Virginia Street, Bldg. A2  | Mary's Gone Crackers | 423,001 SF |
| 190 Resource Drive     | Directed Capital            | 183,435 SF | Confidential   | 9460 N. Virginia Street, Bldg. A1 | Exxel Outdoor        | 217,863 SF |
| 2301 Valley Road       | Spy Glass Nevada, LLC       | 30,125 SF  | \$1,450,000.00 | 400-450 Parr Blvd                 | Sears Outlets        | 169,027 SF |
| 535-543 Vista Blvd     | Sunset Pointe Group, LLC    | 49,040 SF  | \$1,053,495.00 | 9250 Red Rock Road                | Alltrade Tools       | 93,500 SF  |

## Construction

Construction activity continues strong in the Class A industrial product. Several new projects that can accommodate slightly smaller sized tenants are emerging as well as one new big box project at the I-80 Mustang exit adjacent to Fed Ex Freight's new facility.

## 2016 Fall /Early Winter Forecast

The number of new projects already added through 2016 – with more still underway – provides an adequate inventory of available big box space for additional absorption. Investors and developers will likely take a step back from the canvas and survey the landscape again as we enter Q4, see how the election results turn out, then go to their crystal balls to see what the additional demand will look like into 2017. It would not be a surprise to see the level of new development start to taper off a bit, as the disastrous 2006-2008 period of massive buildings sitting empty for years on end is still not forgotten and cost effective, developable land continues to evaporate.



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