

THIRD QUARTER 2017



# Market Advisor

ACCURATE INFORMATION. BETTER RESULTS.

---

NORTHERN NEVADA MARKET UPDATE  
THIRD QUARTER 2017  
INDUSTRIAL VACANCY: 7.15%

---

[mipnv.com](http://mipnv.com) | 775.828.4665 | Reno, Nevada



## Q3 2017: NORTHERN NEVADA MARKET REMAINS STRONG

Northern Nevada's industrial real estate activity was solid once again during the third quarter of 2017. Gross absorption was well over one million square feet, but lagged behind the five-year average by about one third. The space returning to the market for lease and sale was healthy, largely due to the former Kmart facility bringing over 720,000 square feet into available status. The return to market was about 50% more than the five-year average, reducing the negative net absorption to a modest 170,000 square feet, less than one-third of the average five-year net absorption. Even with over one million square feet of gross absorption, vacancy took a slight uptick from 6.42% to 7.04% due the return of the former Kmart space.

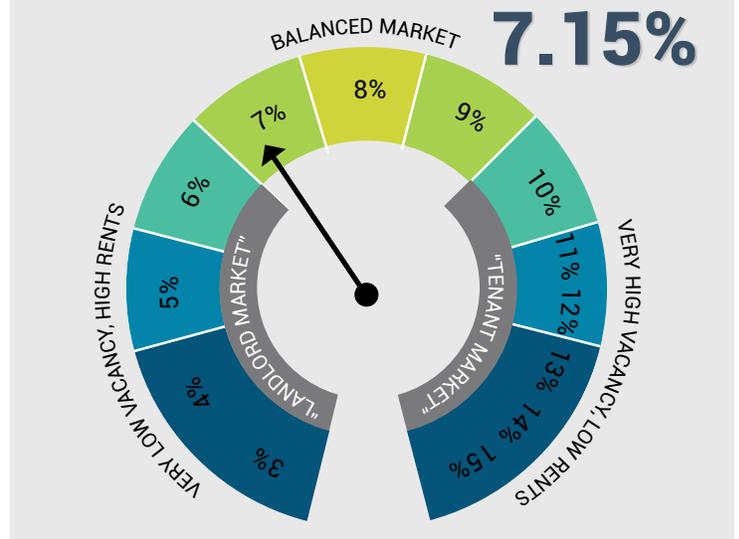
It should be noted that the Kmart facility has long been vacant and contains an additional 817,000 square feet that we have not accounted for in our return to market numbers. This portion of the property has elements that make it largely a non-competitive location for most distribution users; tight column spacing, internal docks with short truck courts, outmoded offices, 1970s construction and car parking mixed with truck traffic make the majority of this property highly undesirable for modern warehousing users.

Continuing the trend of big-box class A space being the most sought-after inventory, the new 353,000 square foot Panattoni project, located on North Virginia Street in the Stead submarket, is just coming out of the ground and is already 100% spoken for by the internet marketing firm, Trademark Global. Other developers are actively adding new class A inventory with Dermody's Logisticenter at I-80 West at Cabela's in Verdi, and Prologis' Sage Point in Stead.

Last quarter, the big story was how developers and landlords rule our market while tenants scramble to secure any type of leasing concessions. This trend of a landlord-dominated market has not changed and likely will not soften until the high level of gross absorption begins to decline. Tenants are experiencing stable but strong lease rates, requests for longer lease terms and a definite preference toward companies with strong credit, long business history and minimal tenant improvement needs.

The Reno and Sparks areas are continuing to thrive with Tesla's giga-factory construction, Apple's data center

## PERCENTAGE MARKET VACANCY WHAT DOES IT MEAN?



expansion, Panasonic taking large amounts of space to stage new equipment, Google's large land purchase for a data center and USA Parkway opening to connect Interstate 80 to US Highway 50 east of Carson City, bridging the transportation gap between the Reno/Sparks and Carson Valley markets. In downtown Reno, the midtown area continues to grow and evolve as the meeting place of choice for the new influx of millennials moving into the area, lured by the area's growing tech sector. This quarter, the new project at Plumb Lane and S. Virginia began, the Urban Market opened its doors as the first downtown location offering fresh produce for the growing downtown community, and all indications are that the university's student housing needs will spill over south of I-80 into the downtown redevelopment areas soon.

Overall, the northern Nevada industrial real estate market remains robust and highly competitive against alternate locations. Add in the state'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

THIRD QUARTER 2017

### LEASE RATES

Stable rent in a balanced market.



### VACANCY

Q2 2017: 6.42%

Growing, healthy market.

Q3 2017: 7.15%



## CURRENT QUARTER VACANCY ANALYSIS

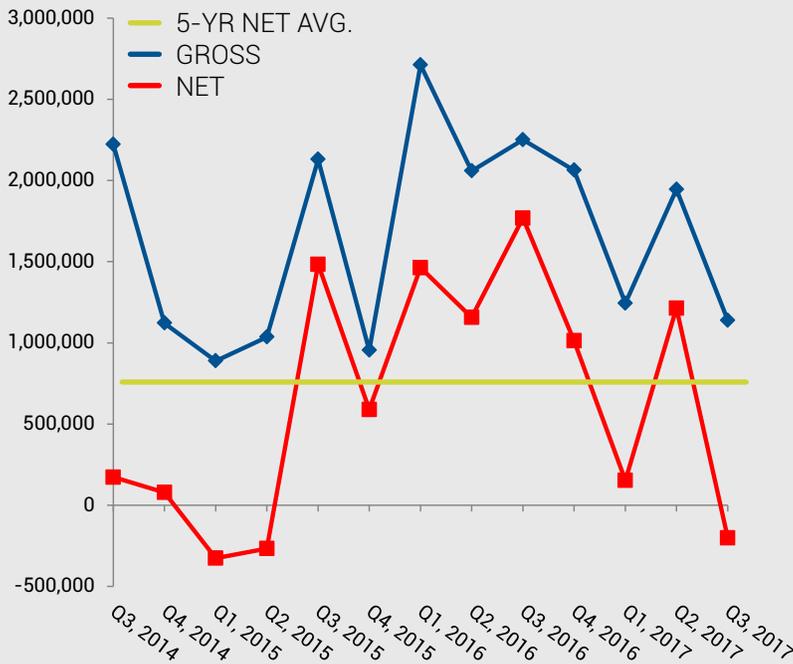
Vacancy: 7.15%



- 11% **HIGHER** than Q2 2017 (6.42%)
- 13% **LOWER** than Q3 2016 (8.22%)
- 25% **LOWER** than quarterly 5-year average (9.40%)



## HISTORIC GROSS & NET ABSORPTION



## CURRENT QUARTER NET ABSORPTION ANALYSIS



Net Absorption: -168,691 SF

- 2X **LOWER** than Q2 2017
- 2X **LOWER** than Q3 2016
- 2.5X **LOWER** than quarterly 5-year average

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

## CONSTRUCTION

Steady build-to-suit and speculative construction.



## MARKET VELOCITY

Steady demand continues.



## OUTLOOK

Shrinking to adequate inventory supply over most size ranges.



## WHAT'S HAPPENING WHERE? Q3 2017 SUBMARKET STATISTIC BREAKDOWN

SUB-MARKET	SIZE (SQ.FT.)	VACANT (SQ. FT)	VAC. %	GROSS ABS.	NET ABS.	SPEC CONST.	BTS CONST.	TOTAL CONST.
North Valleys	21,237,305	715,999	3.37%	478,287	433,037	240,500	0	240,500
I-80 East Corridor	15,900,765	1,671,124	10.51%	11,961	6,961	0	0	0
Sparks	25,568,949	2,766,002	10.82%	409,189	(697,872)	0	0	0
Airport	8,872,036	462,347	5.21%	142,732	40,694	0	0	0
Reno Central/West	1,813,606	259,298	14.30%	67,521	50,521	182,000	0	182,000
Reno South	9,482,334	217,634	2.30%	60,949	(2,032)	17,490	31,739	49,229
<b>TOTALS</b>	<b>82,874,995</b>	<b>5,928,842</b>	<b>7.15%</b>	<b>1,170,639</b>	<b>(168,691)</b>	<b>439,990</b>	<b>31,739</b>	<b>471,729</b>

## SIGNIFICANT Q3 2017 TRANSACTIONS

SALES TRANSACTIONS				LEASE TRANSACTIONS		
601 E 4th Street	EMR Land Co.	62,903	\$3,800,000.00	9085 Moya Boulevard	Big Rock Sports	96,000 SF
1150 Matley Lane	Kromer Investments	52,000	\$3,528,000.00	900 North Hills Boulevard	Fulfillment Works, LLC	88,000 SF
12085 Moya Boulevard	Massie Co.	50,446	\$3,450,000.00	10992 Lear Boulevard	NBF Service, LLC	79,300 SF
4950 Joule Street	Joule Equity Investment, LLC	74,251	\$3,000,000.00	350 Lillard Drive	Monsoon Pacific	77,969 SF
2292 Larkin Circle	Donald Franzia Trust	11,160	\$2,130,000.00	4950 Joule Street	PRC Industries	74,610 SF

## CONSTRUCTION

Construction activity continues, however at a slightly reduced pace than this time last year. Consistent with other recent construction, the projects that are emerging are state-of-the-art, class A industrial, big-box product. One new big-box project in the Stead submarket was leased immediately, kicking off a new project by the same developer in the same area. The North Valleys will have additional new warehouses coming out of the ground soon as well as new inventory in the Cabelas/Verdi area on Interstate 80, west of Reno. McKenzie Properties also has a new build-to-suit project coming online in South Reno.

## FALL /WINTER 2017-2018 FORECAST

We have definitely established our current market as landlord friendly and this trend will 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.



1485 Southern Way  
Sparks, Nevada 89431



(775) 828-4665



Tom Miller, CCIM  
tom@mipnv.com



Ali Forma  
ali@mipnv.com



Beki Dobson  
beki@mipnv.com