

THIRD QUARTER 2018



Market Advisor

ACCURATE INFORMATION. BETTER RESULTS.

NORTHERN NEVADA MARKET UPDATE
THIRD QUARTER 2018

INDUSTRIAL VACANCY: 6.01%

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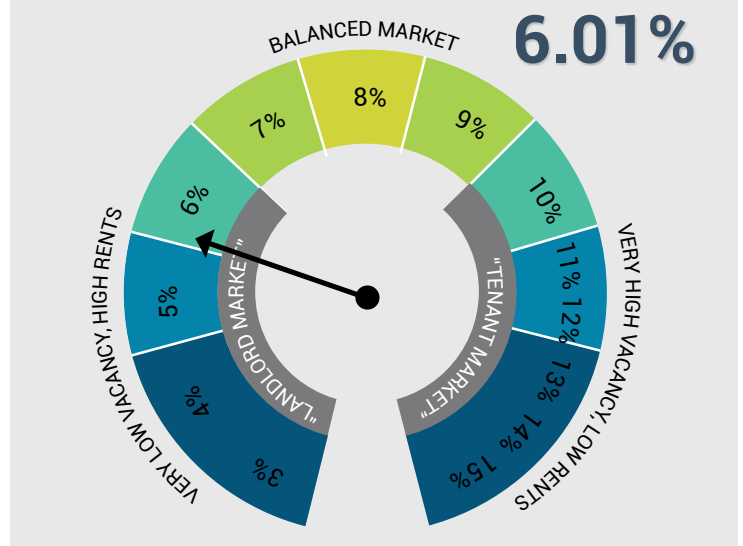
INDUSTRIAL REAL ESTATE MAINTAINING PACE IN THIRD QUARTER

Our market's first quarter statistics for 2018 were not too exciting. The second quarter came roaring back with thriving leasing activity, and while Q3 has been able to maintain that brisk pace for another quarter, the numbers were achieved in an unusual fashion. One of the less reported factors in market activity is the return to market category. In Q3, this category alone propelled the overall quarter numbers to achieve well above actual market performance. Typically, this market returns about 1,000,000 SF of inventory quarterly. In fact, in the past two quarters, we saw returns of about 1,400,000 SF. In Q3, we only returned 750,000 SF, which is roughly half of the previous two quarters. This has a strong impact on the overall market net absorption.

Gross absorption was actually slightly below the five-year average, coming in at 1,586,831 SF, and with only 29 transactions. By comparison, the second quarter of 2018 had gross absorption of 2,215,863 SF. However, even with the modest gross absorption, the low returns to market produced a quarterly net absorption of 836,265 SF, just slightly more than Q2's strong numbers and well above the five-year average. Vacancy in Q2 was 6% and Q3 produced the exact result, a 6% vacancy. Certain sizes, however, vary significantly from this 6% vacancy, with much more abundant offerings in some size ranges and far fewer in others. For a deeper understanding of this topic read our [Northern Nevada Business View article](#), which explains the importance of overall vacancy rates.

While vacancy remains in this ultra low range, landlords will continue to hold a strong lease and renewal negotiation advantage. Still, we have been seeing stable rents for the past 18 months. There is a slight price creep in the big box size, but other size ranges are stable. Rent concessions remain scarce and landlords continue to be choosy on the tenants

PERCENTAGE MARKET VACANCY WHAT DOES IT MEAN?



they go after for their vacancies, with solid credit and time in business being important factors. Tenants coming to the end of their long-term leases are continuing to experience sticker shock if they are negotiating market rate renewal options. Lucky are the tenants who have successfully timed the market to be enjoying set renewal rates.

It should be noted that the absorption size this quarter was dominated by a single transaction. Panattoni's brand new 802,000 SF North Virginia Street project was leased in total by S&S Activewear. With a quarterly total net absorption of 836,000 SF, you can see how this single transaction dominated the statistics for the quarter. Another major construction project is underway at the ex-K-Mart facility on McCarran at Greg Street. The project floorplan is being reconfigured by removing almost 300,000 SF of building to produce far more useable truck courts and traditional truck docks, in the hopes of attracting tenants to the long vacated facility. Delivery looks to be in early 2019, which will add a significant return to market in that reporting period.

Quick Trends

THIRD QUARTER 2018

LEASE RATES

Stable rates in a landlord friendly market.



VACANCY



Q2 2018: 6.01%

Low inventory.

Q3 2018: 6.01%

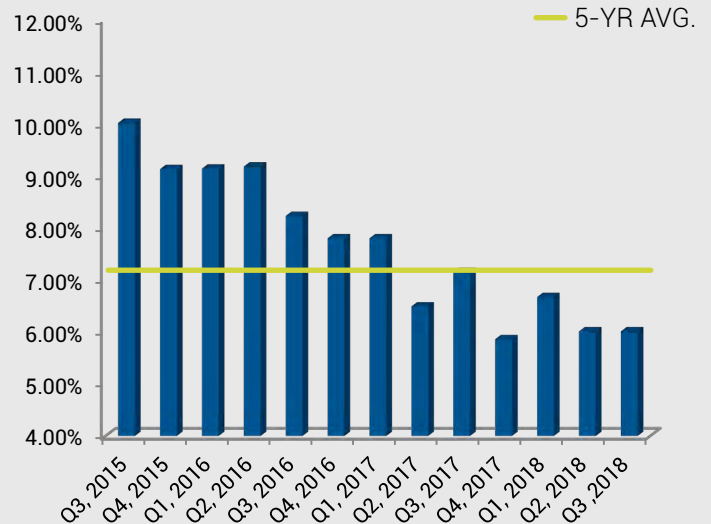
CURRENT QUARTER VACANCY ANALYSIS

Vacancy: 6.01%

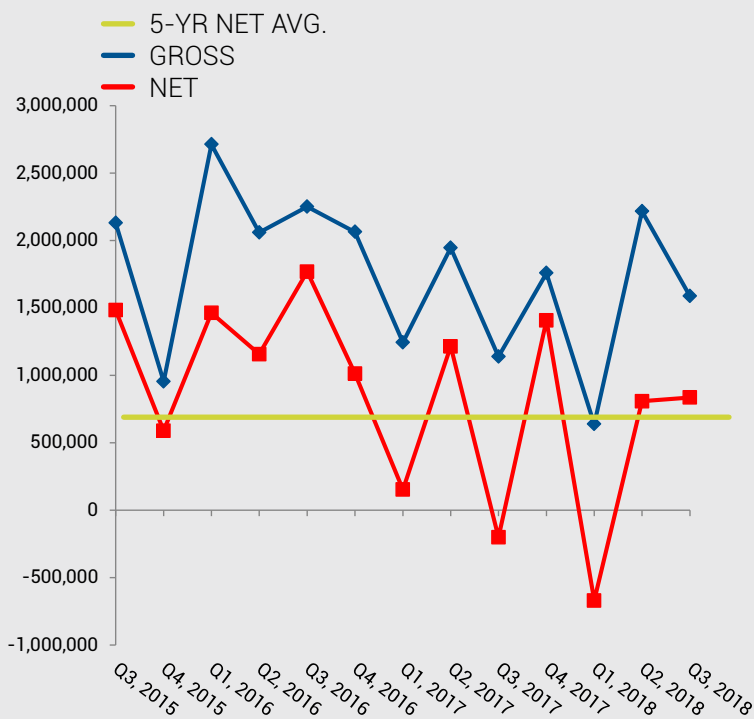


- 0% change from Q2 2018 (6.01%)
- 16% **LOWER** than Q3 2017 (7.15%)
- 26% **LOWER** than quarterly 5-year average (8.10%)

HISTORIC VACANCY



HISTORIC GROSS & NET ABSORPTION



CURRENT QUARTER NET ABSORPTION ANALYSIS



Net Absorption: 836,265 SF

- 3.5% **HIGHER** than Q2 2018
- 6X **HIGHER** than Q3 2017
- 24% **HIGHER** than quarterly 5-year average

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

CONSTRUCTION

Some build-to-suit and speculative construction.



MARKET VELOCITY

Steady demand continues.



OUTLOOK

Stable inventory supply over most size ranges.



WHAT'S HAPPENING WHERE?

Q3 2018 SUBMARKET STATISTIC BREAKDOWN

SUB-MARKET	SIZE (SQ.FT.)	VACANT (SQ. FT)	VAC. %	GROSS ABS.	NET ABS.	SPEC CONST.	BTS CONST.	TOTAL CONST.
North Valleys	22,497,371	566,581	2.52%	1,014,349	1,014,349	887,109	0	887,109
I-80 East Corridor	15,930,765	1,356,713	8.52%	14,016	(255,294)	0	0	0
Sparks	25,568,949	2,347,580	9.18%	438,745	143,894	0	0	0
Airport	8,872,036	578,427	6.52%	107,753	45,753	0	0	0
Reno Central/West	1,813,606	52,731	2.91%	0	(17,642)	0	0	0
Reno South	9,656,827	327,255	3.39%	11,968	(94,795)	0	0	0
TOTALS	84,339,554	5,065,725	6.01%	1,586,831	836,265	887,109	0	887,109

SIGNIFICANT Q3 2018 TRANSACTIONS

SALES TRANSACTIONS				LEASE TRANSACTIONS		
155 Glendale Avenue	155 JC Glendale, LLC	56,188 SF	\$5,900,000.00	9550 N. Virginia Street	S&S Activewear	802,113 SF
1040 & 1060 Freeport Boulevard	Centerbridge Partners	30,720 SF	\$3,430,000.00	8040 N. Virginia Street	Smart Warehousing	99,640 SF
1555 Crane Way	Anderson Nevada, LLC	48,000 SF	\$3,000,000.00	925 N. Hills Boulevard	Arnold Dental Supply Company	84,996 SF
520 Edison Way	REMSA	10,005 SF	\$1,900,000.00	46 Isidor Court	RHP Mechanical Systems	72,500 SF
4840 Mill Street	Westport Investment Co.	16,676 SF	\$1,860,000.00	38 Isidor Court	Fox Factory	71,800 SF

CONSTRUCTION

Construction activity continues with several new projects underway. Currently, Scannell is building the new Lowe's Home Improvement distribution center in Mustang, Panattoni is preparing for the next phase of their North Virginia Street project and Dermody Properties is finishing their new 436,000 SF warehouse on Military Road and Lemmon Drive, as well as their final two buildings at the Cabela's site on Interstate 80 west.

FALL 2018 FORECAST

We have definitely established our current market as highly landlord friendly, and this trend will continue as long as demand outpaces our supply. Tenants would be well advised not to wait for this condition to reverse itself, as we are predicting a stabilization of rents at the current levels into 2019.



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