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Northern Nevada Industrial Real Estate Market in the Fourth Quarter



We summed up the performance of the third quarter with one word – wow! – and that trend continued in Q4. The third quarter vacancy jumped significantly from 13% to 10.5%, with fourth quarter absorption exceeding

expectations – finishing the year at 8.36%. What’s more, 2013 has recorded what may be the largest single year reduction of northern Nevada’s industrial real estate inventory. We began the year with a vacancy of 13.6% and we are finishing with a vacancy of 8.36%, representing a 38.5% reduction of vacant industrial real estate properties. “What makes this even more impressive,” says Tom Miller, CCIM, of Miller Industrial Properties, “is that this massive reduction was achieved despite the addition of more than 524,000 sf in new construction added to the inventory this year.”

The big submarket winners for gross absorption were the North Valleys with over 473,000 sf absorbed and Sparks with over 524,000 sf removed from the market.

The rents for big box product are continuing to rise in Q4 based on the very small supply of available space, with new inventory being build to suit projects carrying a slightly higher rent or spec space that demands even more in rent. The rents achieved in the newest big box transactions have now almost returned to their pre-recession levels. “We expect to continue experiencing competitive rents applying to the mid and smaller sized transactions at least into early 2014,” says Miller, “due to adequate supplies with landlords seeking to fill their vacant spaces.”

We are predicting that vacancy rate reductions in 2014 will be moderate as compared to the 2013 reductions. Big box properties tend to have significant impacts on the overall vacancy rates due to their size. With almost no available inventory, big box users moving into the area will be going into build to suit projects where developers will construct a new facility for their tenant’s use. These will have nearly no impact on vacancy rates. Instead, inventory absorption will occur in the mid to smaller sized locations with a continual erosion of vacancy rates from those transactions. Sooner or later, a softening in the general reluctance to new speculative construction will occur. With the long lead time to bring new space on the market, demand will overrun supply in all size ranges and we may see this in 2014, causing rising rent rates across the board in 2014.

Investment sales were also brisk in Q4, indicating that investors are considering northern Nevada to be a solid investment market with the anticipation for rising rents and a continued demand to locate/expand in the region. IndCor's increased their investment in northern Nevada's real estate market with their latest acquisition of the 2.4MM sf Pacific Life portfolio, as well.

Northern Nevada's largest transactions in the fourth quarter include:

- Fosdick Distribution, 234,000 sf at 12040 Moya in Stead
- Charter Distribution, 89,892 sf at 1031 E. Glendale in Sparks
- Swank, 276,800 sf at the new 700 USA Parkway facility in Tahoe Reno Ind. Park
- Amerisource Bergin, 102,500 sf at 1195 Trademark in South Meadows
- New West Distributing, 128,489 sf at 325 E Nugget Ave, in Sparks
- Genco, 101,673 sf at 525 Coney Island Dr., in Sparks

With the progress of 2013, some are asking whether we have achieved a balanced market for both landlords and tenants. "In a broad sense, the 8.36% vacancy does represent what most consider a balanced market," says Miller. "However, the market vacancy in the big box sector is almost nil and we still have a considerable amount of vacant inventory available in the mid and smaller sized properties."

We are already seeing new activity for 2014. DP Partners is underway in Golden Valley with a new state-of-the-art 624,000 sf speculative facility. The new 524,800 sf warehouse at 700 USA Parkway is finishing up in early 2014. SanMar has scheduled a new 600MM+ sf facility in Spanish Springs for 2014. Zulily will also be expanding into 700,000 sf additional in the Tahoe Reno Industrial Center scheduled for Q3 2014. It's a positive sign of things to come.