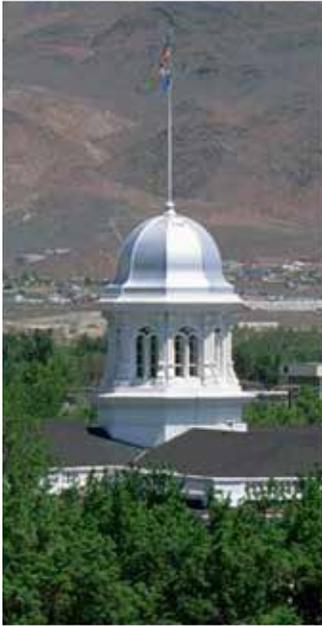




Market Advisor

ACCURATE INFORMATION - BETTER RESULTS



NORTHERN NEVADA MARKET UPDATE
Fourth Quarter, 2015
 INDUSTRIAL VACANCY: 9.13%



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Year End 2015: Reno-Sparks Industrial Real Estate Market in Balance

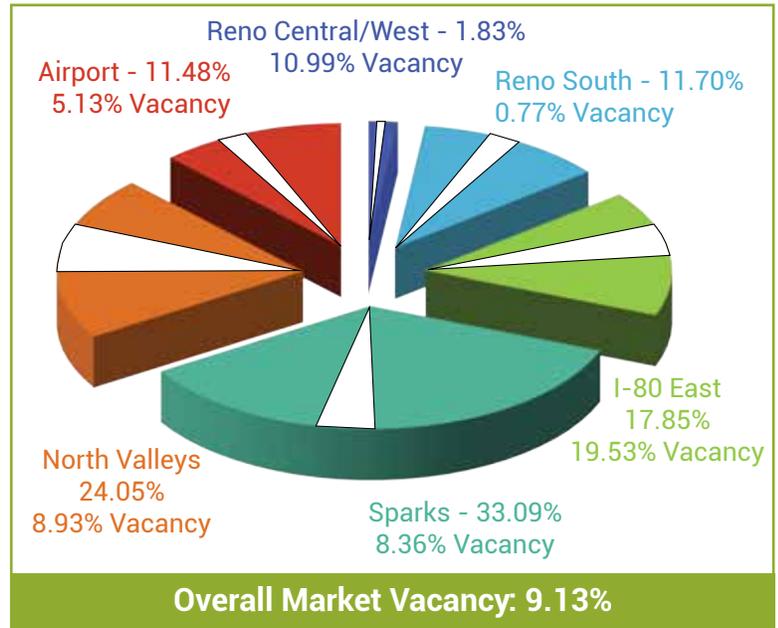
Previously, our area's industrial market updates have marked our steady recovery. 2015 will go down as a year of finishing at historical averages. While this may not sound like thrilling news, it provides strong testimony that our northern Nevada industrial real estate market is economically sound, stable and can be relied upon to produce predictable results. This predictability is highly encouraging to institutional and regional investors, developers, landlords and tenants alike.

Significant economic imbalances, created by the rapid decline of demand for industrial real estate during the recession, have normalized once again and the market is now in a healthy balance. Adequate inventory supply now satisfies a steady demand which results in stable and reasonable, pre-recession lease rates, along with sensible amounts of concessions offered to a consistent flow of tenants.

Breaking ground on new construction has become commonplace again as investors and developers are comfortable enough with market conditions to invest in a steady supply of new Class "A" warehousing, which is the product of choice for many new firms entering the market. However, developers are content to keep some hold on the reins, mindful that creating an oversupply can easily be achieved. This optimistic, yet watchful approach is demonstrated with phased projects and highly flexible designs that can accommodate several size range needs by combining proposed adjacent buildings, which can be done now as well as into in the future very easily.

New development is almost exclusively focused on state-of-the-art, big box, Class "A" warehousing that accommodates the latest high volume fulfillment concepts. These new developments include ever-increasing eave heights, heavily cross-docked projects, large truck courts with trailer parking areas and utility saving LED lighting.

The market successfully landed highly notable new projects by Switch, Ebay and Tesla and the Apple project continues to expand. All of these projects will be world class facilities, and some will be the largest examples in the world. These and others in 2015 have been quite a coup for Nevada, who also landed electric



car manufacturer, Faraday, in southern Nevada this year.

2015's statistics report an annual Gross Absorption of 5,456,000 SF (on par with the 5-yr avg of 5,400,000 SF), annual inventory returned to the market from tenants leaving the area or moving to larger or smaller space of 3,434,000 SF (5-yr avg: 3,780,000 SF) and net absorption of 2,116,000 SF (5-yr avg: 1,635,000 SF), which is higher than average and reflected in our declining vacancy rate to 9.13%. Of note, is that fewer firms left the area in 2015, whereas in 2014, 5,330,000 SF of industrial product was vacated, about 50% above the 5-year average.

In a year that was witness to roller coaster rides in the equity markets, with both the S&P 500 and the Dow finishing at a loss for the year, investors are finding that stable industrial real estate markets are providing a more favorable investment environment. Additionally, many institutional investors are seeking the tertiary markets such as northern Nevada as offering higher yields than the primary, and often overheated, capital markets. With ample availability of investment capital and developers carefully watching the inventory supply, 2016 should see more of the same activity as the Class "A" warehouses get absorbed at historical rates.

Quick Trends

Lease Rates



Stable rent in a balanced market.

Vacancy

Q3 2015: 9.89%
Growing, healthy market.
Q4 2015: 9.13%



Construction

Continuing build-to-suit and spec. construction.



Market Velocity

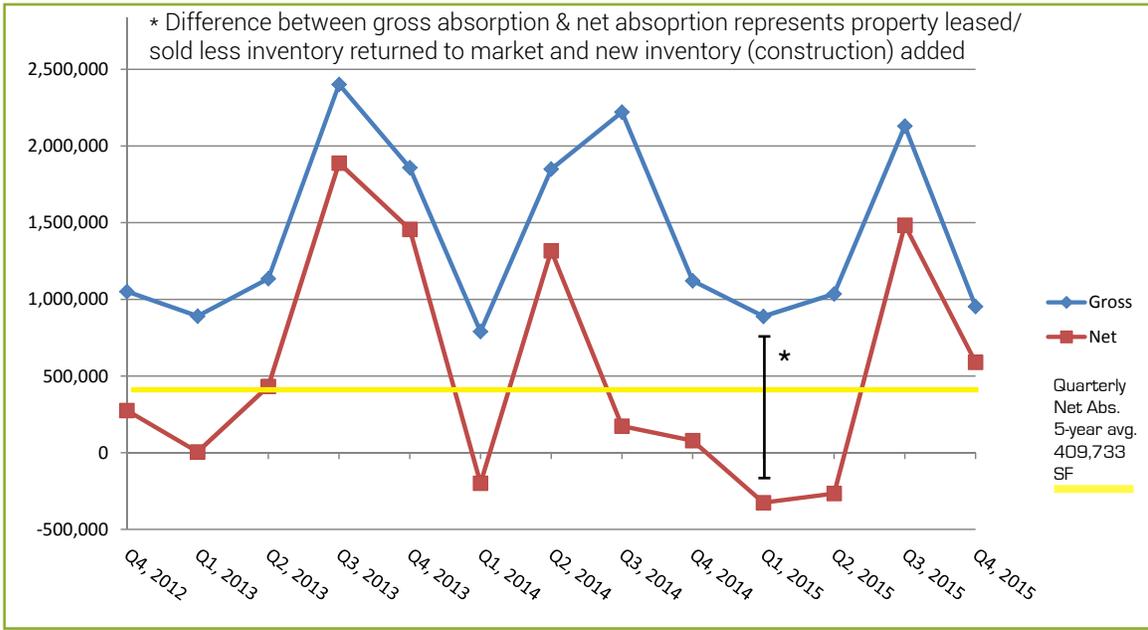
Adequate supply for average demand.



Outlook

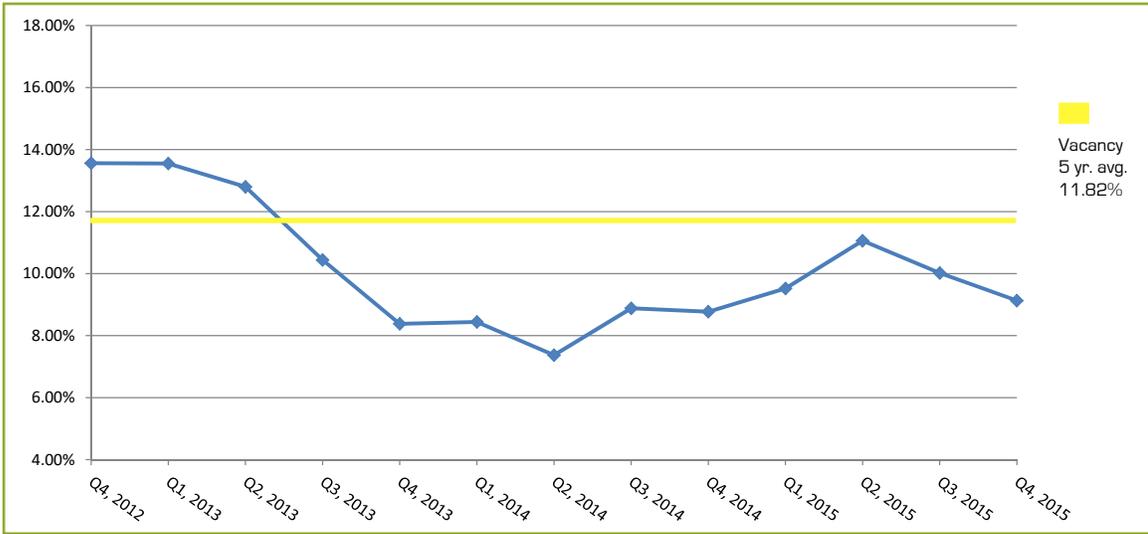
Big box, class "A" highly available





Q4 2015 Net Absorption 589,697 SF

- 6x Lower than Q3 2015
- 4x Higher than Q4 2014
- 45% Higher than quarterly 5-year Avg.



Vacancy: 9.13%

- 7% Lower than Q3 2015 (9.89%)
- 28% Lower than Q4 2014 (12.82%)
- 20% Lower than quarterly 5-year Avg. (11.82%)

Sub-Market Breakdown - Q4 2015

Sub-Market	Size SF	Vacant SF	Vac. %	Gross Abs.	Net Abs.	Spec Const.	BTS Const.	Total Const.
North Valleys	18,585,761	1,659,338	8.93%	306,878	260,343	0	0	0
I-80 East Corridor	13,792,328	2,693,069	19.53%	15,185	10,185	0	0	0
Sparks	25,568,949	2,137,922	8.36%	442,172	243,621	0	0	0
Airport	8,872,036	455,573	5.13%	71,300	24,280	0	0	0
Reno Central/West	1,410,606	155,090	10.99%	23,496	12,696	0	0	0
Reno South	9,043,313	69,607	0.77%	94,406	38,572	0	0	0
TOTALS	77,272,993	7,051,369	9.13%	953,437	589,697	0	0	0



Significant Transactions Q4 2015

Sales Transactions				Lease Transactions		
11500 Production Dr.	Cascade Designs	86,800 SF	\$5,678,000.00	14525 Industry	Better World Books	128,000 SF
350 Greg Street	Linda & Greg, LLC	41,246 SF	\$2,646,000.00	1750 Purina Way	Landstar	84,000 SF
7785 White Fir Street	Merit Electric	9,000 SF	\$1,650,000.00	1150 Trademark	UPS Supply	57,600 SF
8975 Double Diamond	Horst, Karen & Will	10,906 SF	\$1,255,000.00	690 Overmyer Rd	NV Distribution	44,000 SF
2255 Byars Lane	Big Julie, Inc.	10,563 SF	\$1,100,000.00	5360 Capital Ct.	Tool Source	43,500 SF

Construction

Construction continues to be a hot topic in the area as new development continues to roll along. As before, the nearly exclusive focus for developers is the Class "A" big box, state-of-the art facilities, as these continue to be the facility of choice for the big box users who demand the newest, cost saving features, the highest flexibility (heavy cross docks, ESFR sprinklers and few columns), highest eave heights and shortest time to occupancy.

Currently underway is Panattoni's new 707,000 SF project in the north valleys, with the roof expected on in Q1 2016. Also under construction is the 704,000 SF first building of a three building Dermody complex in Lemon Valley, with a scheduled roof completion Q2 2016. In Spanish Springs, Avenue 55 is completing their new 409,000 SF project with the roof scheduled on in Q1, 2016. This introduces 1,500,000 SF of new space early in 2016, adding to the existing inventory, including what is already spoken for.

A host of Class "A" warehouse projects are waiting in the wings ready to go. Dermody Properties has several sites that can accommodate over 2M SF, Prologis has sites that can accept over 1M SF and other developers have sites ready in TRIC and Mustang for over 1M SF of new product. These sites alone will satisfy historical property demand through 2017.

2016 Winter/Spring Forecast

Expect a short term rise in the vacancy as the construction on large warehouses comes on line and makes a big impact on the overall vacancy rate due to their relative size. Accordingly, as these projects are absorbed, the vacancy will quickly normalize and will bring the rate back down quickly as well. Expect rental rates to remain stable in 2016 even though big box users will have a wide selection of competing projects. We may see a slight increase in landlord concessions, but don't expect rental rates to drop even if demand falls a bit in early 2016.



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