



Market Advisor

ACCURATE INFORMATION - BETTER RESULTS



NORTHERN NEVADA MARKET UPDATE
Fourth Quarter 2016
 INDUSTRIAL VACANCY: 7.80%



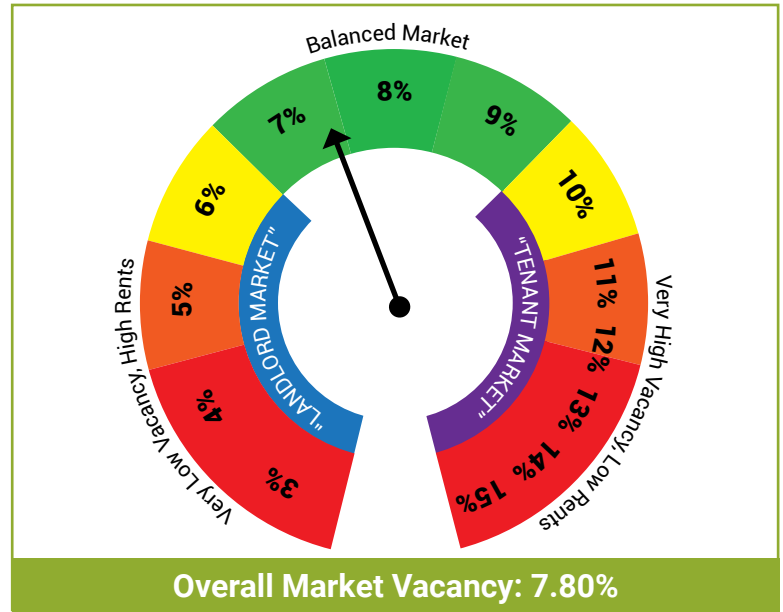
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The Trump and Tesla Effects

Before we look at our local market conditions, let us first note the state of our new national leadership. Within a few weeks, President-Elect Trump and his staff will be in place. But he's already been busy – 80% of the jobs Carrier Corp. was taking to Mexico are staying home; he also met with both Lockheed over the cost overruns for the new F-35 fighter jet and Boeing over the high cost of the new 747 Air Force 1 program. This is unprecedented and yet completely in step with how a successful businessman might act when taking over a new assignment. Trump was elected because of his atypical political stance on almost everything – the country wanted a change, and a change it will get. Like it or not, business is going to change in Washington, DC – and in no small way. In a reaction, the equities market has boiled over into record-setting heights as the business sector embraces the potential for a more business-friendly environment. Northern Nevada sits ready for the next wave of Western expansions from this business resurgence. For a closer look at Trump's early impact on commercial real estate in particular, read [our article](#) in the NNBW.

The fourth quarter of this year also showcases a more tangible, indirect effect from the Tesla gigafactory. Tesla quietly leased a large warehouse in the Tahoe Reno Industrial Center to receive product for several years. Another Tesla vendor, Daehan Solutions America, LLC (an international company supplying the automotive industry and headquartered in Incheon South Korea), leased a large space in the vacant ex-Amazon space in Fernley. These two transactions alone comprise about 60% of the total quarterly absorption. Additionally, Tesla vendors and subcontractors have leased several other spaces while the plant is being built. Tesla's positive indirect impact is becoming far more quantifiable.



The fourth quarter of 2016 is the sixth quarter in a row of declining vacancy. Over two million sf were leased in Q4, which is about 25% higher than our five-year average and over double of the same quarter results in 2015. About 23 properties were vacated in Q4, with the majority in Sparks (12). The heaviest size returns were in Stead, where three properties were vacated, totaling 433,000 sf or about 40% of the total returns. However, some of the Stead vacancies came from expanding firms. Even with over one million sf vacated, the net absorption was still a very healthy 1,015,000 sf. The result is a continuing march of a declining vacancy to 7.8%, which still indicates a real estate market with a healthy balance between available inventory and demand.

Going forward, northern Nevada has adequate new construction on the way in 2017 as well as adequate pads and pad sites ready to move ahead as demand requires. As they continue to come, we can accommodate through 2017 and beyond.

Quick Trends

Lease Rates

Stable rent in a balanced market.

Vacancy

Q3 2016: 8.22%
Growing, healthy market.
Q4 2016: 7.80%

Construction

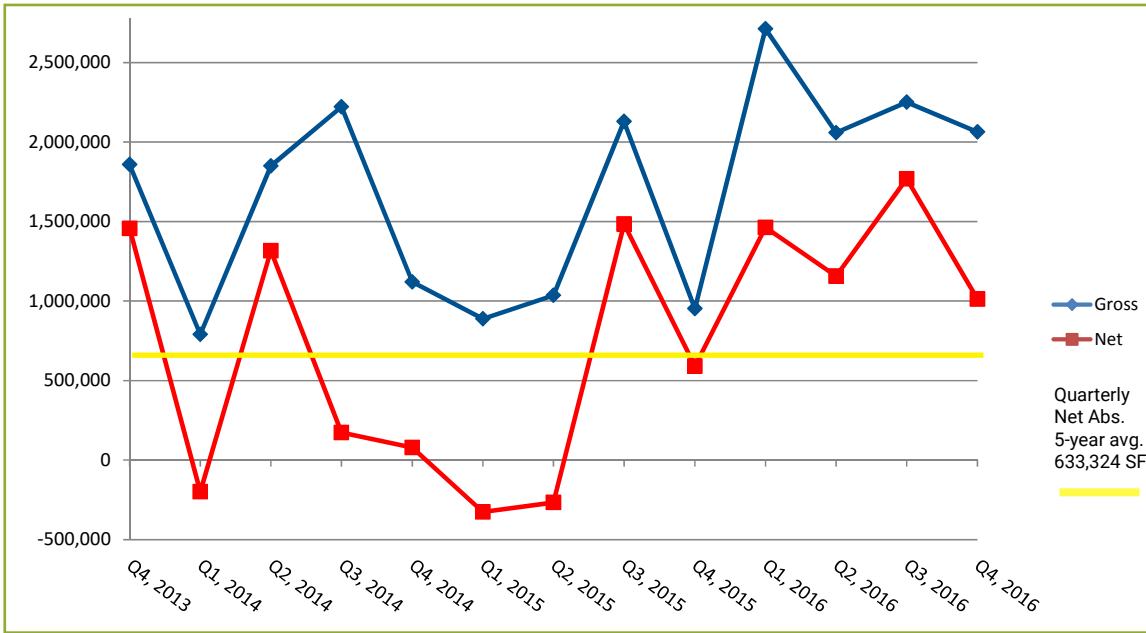
Continuing build-to-suit and spec. construction.

Market Velocity

Steady demand continues.

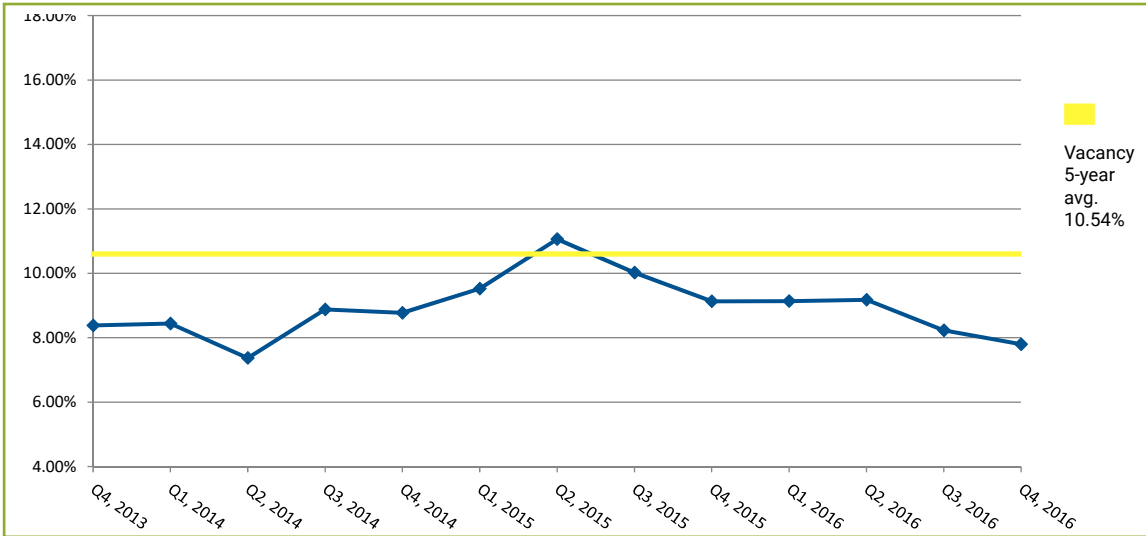
Outlook

Adequate inventory supply over most size ranges.



Q4 2016 Net Absorption 1,012,962 SF

- 43% Lower than Q3 2016
- 71% Higher than Q4 2015
- 60% Higher than quarterly 5-year Avg.



Vacancy: 7.80%

- 5% Lower than Q3 2016 (8.22%)
- 34% Lower than Q4 2015 (11.82%)
- 26% Lower than quarterly 5-year Avg. (10.54%)

Sub-Market Breakdown - Q4 2016

Sub-Market	Size SF	Vacant SF	Vac. %	Gross Abs.	Net Abs.	Spec Const.	BTS Const.	Total Const.
North Valleys	20,849,934	2,003,472	9.61%	543,775	111,125	0	0	0
I-80 East Corridor	15,900,765	1,872,145	11.77%	971,157	789,157	0	343,437	0
Sparks	25,568,949	1,389,410	5.43%	474,781	140,141	0	0	0
Airport	8,872,036	583,485	6.58%	73,455	(5,961)	0	0	0
Reno Central/West	1,410,606	192,347	13.64%	0	(11,500)	0	0	0
Reno South	9,432,313	522,776	5.54%	0	0	389,000	0	0
TOTALS	82,034,603	6,400,073	7.80%	2,063,168	1,012,962	389,000	343,437	732,437



Significant Transactions Q4 2016

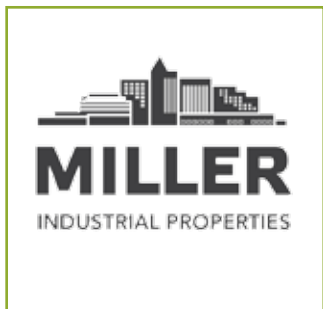
Sales Transactions				Lease Transactions		
GLP Industrial Portfolio (Tranche 2)	Dalfen America Corp.	1,250,084 SF	\$55,300,000.00	12501 Mustang Road	FedEx	343,437 SF
GLP Industrial Portfolio (Tranche 1 & 3)	Westcore	1,170,151 SF	\$54,500,000.00	1600 E. Newlands Drive	Daehan Solutions America, LLC	323,520 SF
550-656 Dunn Circle	Mancini Properties	61,179 SF	\$3,550,000.00	201 Ireland Drive, Suite 108	Confidential	304,200 SF
1195 E. Glendale Avenue	Lyle Realty	10,000 SF	\$1,425,000.00	620 & 630 Spice Islands Drive	Geodis Logistics	263,435 SF
				8040 N Virginia Street	Almo	250,000 SF

Construction

This is getting repetitive, but once again construction activity continues strong in the Class A big box industrial product, almost exclusively. Several new projects that can accommodate slightly smaller-sized tenants tried to emerge but got leased up in their entirety by a single big box transaction. Some exceptions, such as Apple's never-ending data center expansions, Switch's huge data center facility and of course the gigafactory, are all underway as well. Plenty of pad sites are ready to continue the trend well into 2017.

Winter 2016 and Early 2017 Forecast

The year's activity added plenty of new Class A inventory, and with new projects still coming out of the ground as well, the market will have an adequate inventory of available big box space for additional absorption. However, with a steady pace of absorption, a few good quarters back to back could put big box availability in moderately short supply, especially if prospects are looking for specific locational vacancies. With the business sector's reaction to the Trump presidency, we would logically assume a strong demand for top Western distribution locations to continue – and Reno is always naturally at the top of that list. With California's ever-increasing business regulations, the flow of firms giving up on trying to stay competitive and profitable in the Golden State and heading for the exit door will continue to fill vacant northern Nevada locations into the foreseeable future as well. Investors continue to look for opportunities in our market, as the yields here are superior to the overheated southern California markets. Our market seems poised for another bright industrial real estate year ahead.



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