FOURTH QUARTER 2017

Market Advisor

ACCURATE INFORMATION. BETTER RESULTS.

NORTHERN NEVADA MARKET UPDATE
FOURTH QUARTER 2017
INDUSTRIAL VACANCY: 5.86%

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RENO-SPARKS INDUSTRIAL MARKET POSTS HISTORICALLY LOW VACANCY

Northern Nevada's industrial real estate market ends 2017 with a very low vacancy rate of 5.86%. To put this into perspective, our area saw its highest vacancy of 15.61% in the second quarter of 2010. Its lowest rate is where we are today. For the past ten years, the five-year average vacancy has been falling steadily from a high of 14.25% in late 2013 to its current 9%. The five-year average, picking up twenty quarters of vacancy reporting. is a good gauge for a normalized, balanced market. Our firm has arbitrarily established a balanced market as 8%, so it's easy to see that 5.86% is an extreme.

In a balanced 8% vacancy market, there is adequate availability for tenants to choose from several location opportunities and negotiate competitive rental rates and lease terms from a few different landlords. However, as the vacancy swings upward or downward, there are definite winners and losers. Our recent quarterly reports have chronicled the steady lowering of vacancy rates. We also described the market as being 'landlord friendly,' even at a much higher vacancy. What does this historically low vacancy rate mean for our real estate market? Is it good or bad?

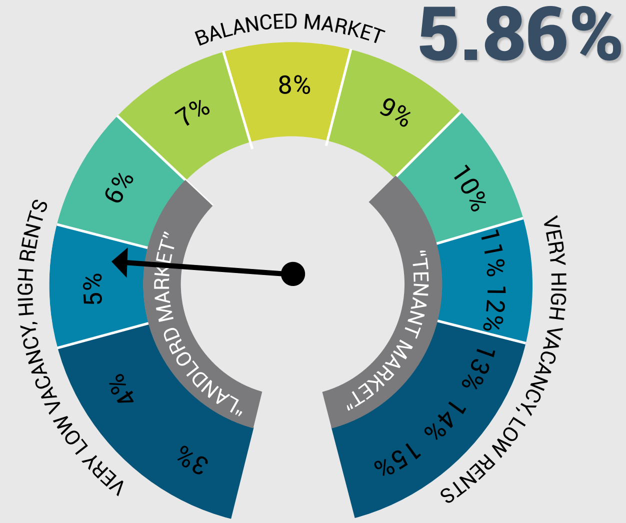
Landlords will certainly enjoy the advantage of negotiating leases with the knowledge that tenant options are limited. Landlords will feel no pressure to aggressively compete for any particular transaction, since there's likely another one around the corner. This clearly translates into rising rental rates. Beyond that, landlords will not feel compelled to grant shorter lease terms or lease concessions in the forms of free rent, free tenant improvements, or early occupancies. Additionally, landlords are not readily granting many lease language changes. In this market, landlords will simply have no reason to bend very much to secure a beneficial tenant for their vacancy.

You may ask, how long will this imbalance last? For the needle to begin moving back to a balanced playing field, certain events must occur. New space must become available, which can happen in two ways. One is new construction, which takes quite some time to bring on line. In our area, new product is being leased as it's coming out of the ground, before the roof is even on on the building. This means that using new construction to solve the matter isn't a quick fix - or even a guaranteed fix. The other path to new space lies with firms that move out of the area, freeing up space for a new tenant. This 'return to market' inventory varies by the quarter and frankly was a compelling reason we have the historically low vacancy we have – we had very little RTM in the fourth quarter, about one third of the five-year average. It's tough to predict the return to market numbers going forward, but with northern Nevada's economic engine running like it is, not too many firms are eager to close their locations here and leave. Another factor that would help swing the balance is a slowdown in the economy, decreasing demand for space. But with economists predicting another strong growth year in 2018 and beyond, slowing demand isn't a factor we will likely experience here soon either.

Tenants should therefore plan accordingly, and those renewing long-term leases in 2018 will be in for quite a shock. While tenants have been enjoying the low rent rates secured during times of far higher vacancies, now it's the landlords' turn to recover some or all of the losses they absorbed in the past by leasing space at very low rates just to fill their long-vacant space. Tenants submitting budgets for future year operating costs would be well served to contact their real estate professional for guidance, rather than assuming a typical 2.5% - 3% annual rent bump going forward. With limited options to move into alternative vacancies and costs of moving factored in, most renewing tenants will come to the disappointing conclusion that staying put at the offered rate is likely their best choice. Plus, they'll sidestep any work disruption.

What we are experiencing now is the result of a few years of highly successful economic diversification in the area combined with the addition of several huge new industries. Northern Nevada's economy is at a high level and forecasts see more of the same in 2018. Our previous market report titled "Landlords Rule" will remain the drumbeat for a while.

PERCENTAGE MARKET VACANCY
WHAT DOES IT MEAN?



Quick Trends

FOURTH QUARTER 2017

LEASE RATES

Rates rising in a landlord friendly market.

VACANCY

Q3 2017: 7.15%

Low inventory.

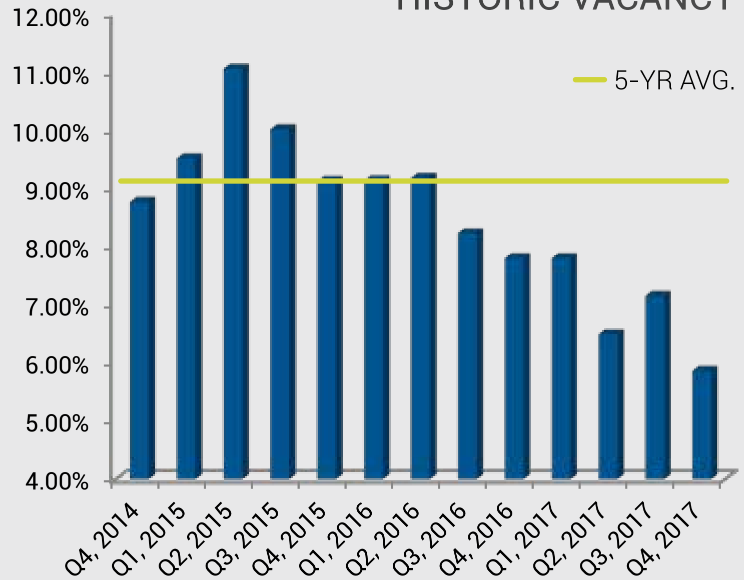
Q4 2017: 5.86%

CURRENT QUARTER VACANCY ANALYSIS

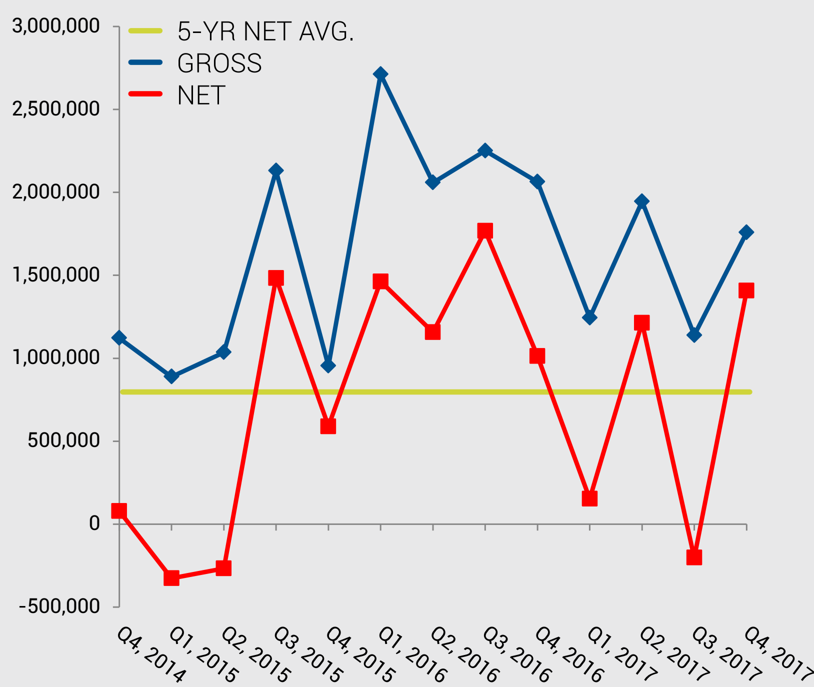
Vacancy: 5.86%

- 18% LOWER than Q3 2017 (7.15%)
- 25% LOWER than Q4 2016 (7.77%)
- 35% LOWER than quarterly 5-year average (9.02%)

HISTORIC VACANCY



HISTORIC GROSS & NET ABSORPTION



CURRENT QUARTER NET ABSORPTION ANALYSIS

Net Absorption: 1,407,569 SF

- 9X HIGHER than Q3 2017
- 95% HIGHER than Q4 2016
- 91% 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

Shrinking inventory supply over most size ranges.

WHAT'S HAPPENING WHERE?
Q4 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	21,590,262	633,799	2.94%	613,407	435,157	0	352,957	352,957
I-80 East Corridor	15,900,765	1,067,825	6.72%	615,260	603,299	0	0	0
Sparks	25,568,949	2,427,646	9.49%	405,413	338,356	0	0	0
Airport	8,872,036	447,598	5.05%	61,082	14,749	0	0	0
Reno Central/West	1,813,606	291,382	16.07%	14,836	(32,084)	0	0	0
Reno South	9,482,334	169,543	1.79%	48,091	48,091	0	0	0
TOTALS	**83,227,952**	**4,874,231**	**5.86%**	**1,758,089**	**1,407,568**	**0**	**352,957**	**352,957**

SIGNIFICANT Q4 2017 TRANSACTIONS

SALES TRANSACTIONS				LEASE TRANSACTIONS		
9480 N Virginia Street	LBA Realty	409,829 SF	$29,550,000.00	9470 N Virginia Street	Trademark Global	352,957 SF
600 Spice Islands Drive	Carpenters Union	72,500 SF	$7,000,000.00	700 Milan Drive	Tesla / Panasonic	328,000 SF
305 E Glendale Ave, 840-890 Bergin	305 E. Glendale Industrial, LLC	121,348 SF	$5,272,000.00	1600 E. Newlands Drive	Confidential	266,000 SF
3445 Airway Drive	No. Nevada Commercial	37,636 SF	$4,500,000.00	10880 Lear Boulevard	Turn 14 Distribution	161,200 SF
1005 Standard Street	Fuchs Investments, LLC	58,630 SF	$2,400,000.00	9550 Gateway Drive	RC5475, LLC	36,988 SF

CONSTRUCTION

Construction activity continues at the slightly reduced pace we reported in Q3. Consistent with other recent construction, the projects that are emerging are state-of-the-art, class "A" industrial, big-box product. A developer is kicking off a new and very large big-box project in the Stead submarket, adding to the growing North Valleys submarket.

WINTER 2017 & SPRING 2018 FORECAST

We have definitely established our current market as highly landlord friendly, and this trend will continue as long as the supply is weak with adequate to strong demand levels. Tenants would be well advised not to wait for this condition to reverse itself, as we are predicting a continuation of rising lease rates well into 2018.

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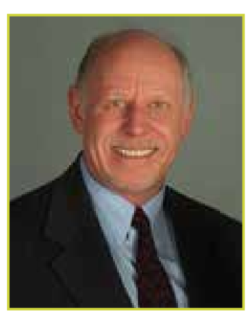
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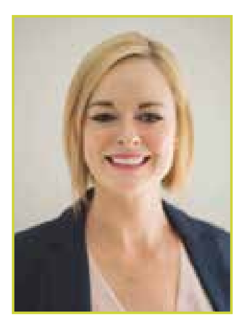
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