

FOURTH QUARTER 2018



Market Advisor

ACCURATE INFORMATION. BETTER RESULTS.

NORTHERN NEVADA MARKET UPDATE
FOURTH QUARTER 2018
INDUSTRIAL VACANCY: 7.44%

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2018 YEAR END AND Q4: EARLY SIGNS OF A MARKET SHIFT?

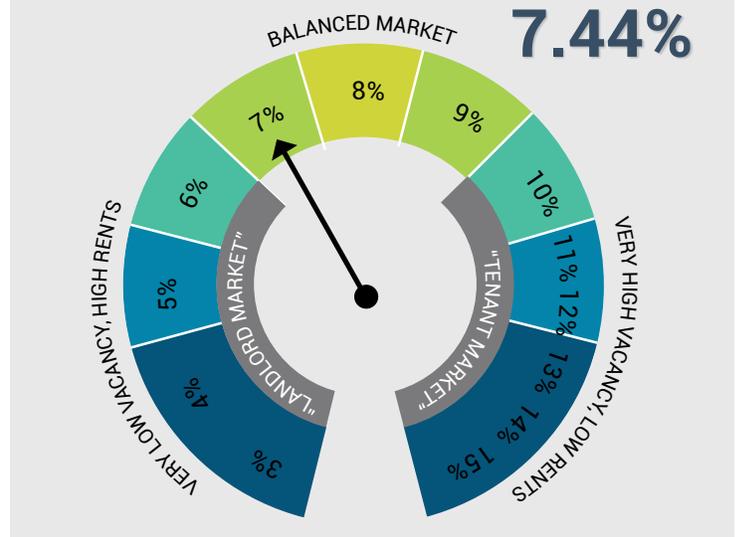
Over the past three years, the Reno-Sparks industrial real estate market in Nevada has posted significant vacancy drops for 2016 and 2017. However, in Q4 2018 the vacancy actually jumped up by a significant 27%. Our reports commonly caution not to read too much into quarterly vacancy variations, but an annual variation of over 25% from the years prior might be something worth noting. When you factor in the amount of new construction planned, you have two of the three required factors to create a slightly overbuilt situation. The third factor is decreased demand and the fourth quarter of 2018 did indeed see low absorption. Time will tell if this is a developing pattern or just an anomaly.

The fourth quarter of 2018 was rather dull for northern Nevada's industrial real estate market. The short story is that we had a very large amount of property returned to the market coupled with very modest gross absorption, resulting in a negative net absorption. High market returns and low absorption combined with a large amount of new construction yielded a rise in the overall market vacancy rate, taking it up almost 1.5%, from a 6.01% vacancy to 7.44%.

The Q4 market returns were double those of Q3 and 50% higher than our five-year average. One driver for this was the addition of the former Kmart building back into the market. As we had previously noted, as this huge property comes back into the market, it will impact vacancy. Additionally, a large Tahoe-Reno Industrial Center warehouse was returned to market at 566,000 sf. These two properties alone comprised 70% of the market return number. Almost any quarterly absorption would be hard pressed to show positive gains with market returns of this size. While negative net absorptions are somewhat rare, our market has experienced three of them in the past six quarters.

A good question to ask is whether a 7.44% vacancy rate results in a more balanced market than the previous super low vacancy rates. It does seem, at least in the big-box size, that more inventory exists. It wasn't long ago that a prospect looking for a larger space in the Reno-Sparks market had to accept a relatively limited list of options. That situation has changed. Currently we have twelve properties ranging from as small as 180,000 sf up to 630,000 sf available, totaling over 3.5 million sf. Additionally, we have eight new projects coming out of the ground for availability between Q2 and Q4 of 2019, which will add another 2.4 million

PERCENTAGE MARKET VACANCY WHAT DOES IT MEAN?



sq. ft. of big box product. And we're not done. Waiting in the wings, to start as needed, are at least nine more new projects planned to add another 3.7 million sf. Having more options available could lead to heightened competition for tenants than we've seen in the past year or so. More competition for tenants could potentially lead to a relaxation in landlord concessions. We would expect this to be more prevalent than a relaxation of lease rates, however.

Another reason for the dull quarter was the fact that several larger deals that were investigating expansion into our market failed to pull the trigger. Each company had their particular reasons but there seemed to be a sense of uncertainty from corporate America during the end of 2018. The broad stock market indices took significant tumbles of 15 to 18% in Q4. New tariffs on imports had far reaching impacts both on the economy today and on economic forecasting into the next few years. These uncertainties have a calming effect on expansion planning and corporate growth. The tariff war, however, will not last forever. Tariffs will be lifted sooner or later, with a more balanced foreign/domestic economic playing field hopefully in place as a result. The GDP output of this country is like a volcano; while nothing may seem to be going on, when it erupts it is dramatic. When these tariff issues are put to rest and federal policies become more predictable and balanced, Wall Street and business expansions will get into high gear quickly and Reno-Sparks will be the center of the target for expanding firms. When that occurs, our current level of new construction will be up and ready to accommodate them.

Quick Trends

FOURTH QUARTER 2018

LEASE RATES

Stable rates in a landlord friendly market.



VACANCY

Q3 2018: 6.01%

Moderate inventory.

Q4 2018: 7.44%



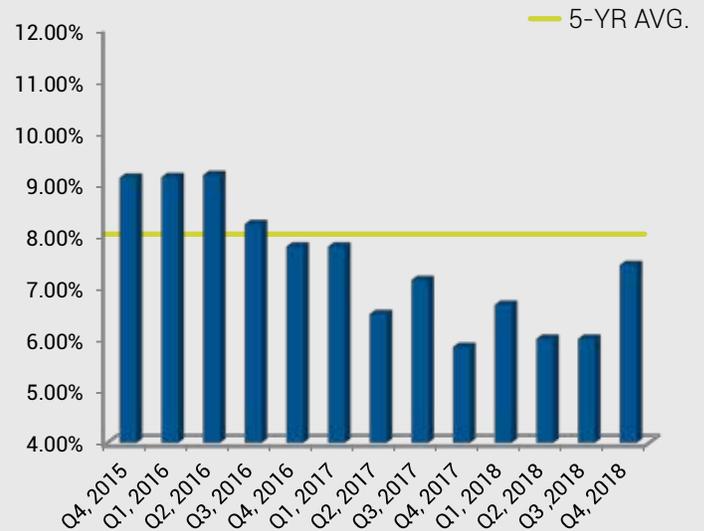
CURRENT QUARTER VACANCY ANALYSIS

Vacancy: 7.44%

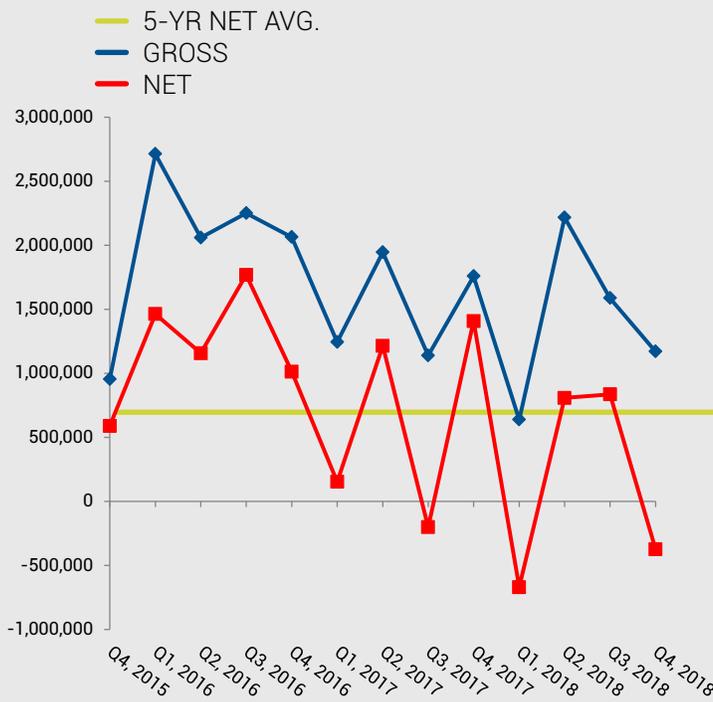


- 24% **HIGHER** than Q3 2018 (6.01%)
- 18% **LOWER** than Q4 2017 (9.02%)
- 7% **LOWER** than quarterly 5-year average (8.04%)

HISTORIC VACANCY



HISTORIC GROSS & NET ABSORPTION



CURRENT QUARTER NET ABSORPTION ANALYSIS



Net Absorption: -373,892 SF

- 144% **LOWER** than Q3 2018
- 126% **LOWER** than Q4 2017
- 153% **LOWER** than quarterly 5-year average

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

CONSTRUCTION

Continued large build-to-suit and speculative construction.



MARKET VELOCITY

Steady demand continues.



OUTLOOK

Stable inventory supply over most size ranges.



WHAT'S HAPPENING WHERE? Q4 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	23,021,477	951,347	4.13%	62,500	51,234	436,000	0	436,000
I-80 East Corridor	18,745,672	1,931,793	10.31%	652,750	55,160	630,240	0	630,240
Sparks	25,568,949	2,868,521	11.22%	232,681	(520,941)	0	0	0
Airport	8,892,236	527,740	5.93%	123,129	70,887	0	20,200	20,200
Reno Central/West	1,813,606	47,687	2.63%	53,750	5,044	0	0	0
Reno South	9,656,827	362,531	3.75%	45,285	(35,276)	0	0	0
TOTALS	87,698,767	6,526,057	7.44%	1,170,095	(373,892)	1,066,240	20,200	1,086,440

SIGNIFICANT Q4 2018 TRANSACTIONS

SALES TRANSACTIONS				LEASE TRANSACTIONS		
860 Trademark Drive	ECOL Partnership, LLC	174,493 SF	\$11,946,451.00	55 Milan Drive	Confidential	566,875 SF
1330 Capital Boulevard	Capital Blvd, LLC	45,840 SF	\$6,400,000.00	2555 USA Parkway	CASS, Inc.	85,875 SF
13805 Mt. Anderson Street	Sustainable Furniture	61,132 SF	\$5,060,500.00	350 Lillard Drive, #171	Tobi.com	77,281 SF
725 Trademark Drive	Hammond Enterprises, Inc.	19,864 SF	\$3,350,000.00	4745 Longley Lane	Darby Dental	45,329 SF
525 Reactor Way	Hamilton Company	16,000 SF	\$3,000,000.00	365 Cabela Drive	Power-Sonic	40,750 SF

CONSTRUCTION

Construction activity continues with several new projects underway. Currently, Scannell is building the new speculative property in Mustang; Panattoni has a very bullish position by taking on several new projects totaling eight new buildings and 1.7 million sf; and Dermody Properties has finished its new 436,000 sf warehouse on Military Road and Lemon Drive, as well as its final two buildings at the Cabela's site on I-80 west. The former Kmart warehouse repositioning will be completed in the second quarter of 2019, adding over one million new square feet into the market as well.

SPRING 2019 FORECAST

While 2018 maintained a very landlord-friendly market, we may see a mild weakening of those positions going in 2019. Vacancy will likely continue to slowly turn toward a more balanced market and construction activity remains strong, producing adequate inventory choices for tenants. We are not expecting rents to drop, but rather possible easing on the lack of concessions or potentially a softening on tenant selectivity.



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