

FOURTH QUARTER 2019



Market Advisor

ACCURATE INFORMATION. BETTER RESULTS.

NORTHERN NEVADA MARKET UPDATE
FOURTH QUARTER 2019
INDUSTRIAL VACANCY: 7.05%

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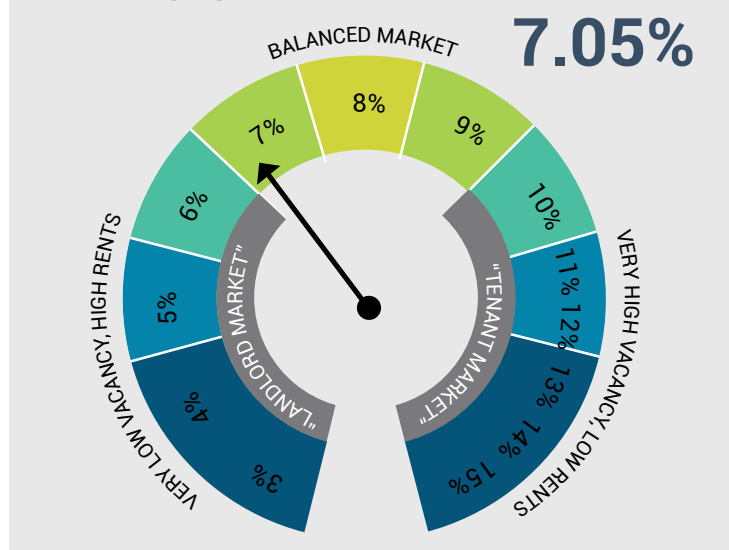
Q4 2019: VOLUME LEADS TO EXCELLENT ANNUAL PERFORMANCE

In 2019, our three previous quarterly reports listed the area's gross absorption as "modest," "average," and "dull." We were on track for an annual gross absorption almost 35% below the previous five-year averages. And then we had Q4. The Reno-Sparks industrial real estate market absorbed more space in Q4 2019 than in any other quarter in our decade of record keeping, and probably much longer. At just under four million square feet absorbed, it was definitely a record quarter. This performance propelled the annual statistics from potentially 35% below average to 15% over average – an annual 50% turnaround from one quarter's results.

The impact of this massive gross absorption was compounded by a very low return-to-market of inventory – about one-half of normal quarterly returns – resulting in a net absorption over three times the average. This significant jump in occupancy resulted in a depletion of the available vacancies from 8.5% to 7.0%. It is also significant to note that we finished 2019 at this low vacancy despite adding a massive 2.5 million SF of new construction to the market in this quarter alone and a total of 4.4 million SF of new construction this year.

Despite business confidence being tested by global influences, 2019 was a year in which we saw an annual gross absorption of almost 8 million SF and an annual vacancy rate averaging around 8%. The US-China trade war and subsequent deals, UK Brexit status uncertainty, and an increase in Middle East tensions with Iran are all scenarios with worldwide impacts, and northern Nevada is not immune. Many distribution and manufacturing operations in our region operate globally, and many others are owned outright by internationally

PERCENTAGE MARKET VACANCY WHAT DOES IT MEAN?



based companies. Plus, a number of local suppliers and customers of West Coast businesses are likewise internationally based.

As we begin 2020, two of the biggest constraints to the world economy have been resolved to some degree. China and the United States have struck a phase-one trade deal, while the Brexit outlook is also moderately clearing up thanks to recent elections and parliament actions. These resolutions have led to experts predicting a brighter business outlook for the start of 2020, which should result in increased business investment. Improved business confidence will likely spur global trade volume, business inventory rebuilding, and global expansion investment.

Looking ahead, Forbes has ranked Nevada as the fourth fastest growing state in the US. With an adequate supply of industrial real estate product in the area, and more in the wings, northern Nevada enters 2020 ready to accept the new growth.

Quick Trends

FOURTH QUARTER 2019

LEASE RATES

Stable rates in a landlord friendly market.



VACANCY

Q4 2019: 7.05%



Spotty inventory over some size ranges.

Q3 2019: 8.48%

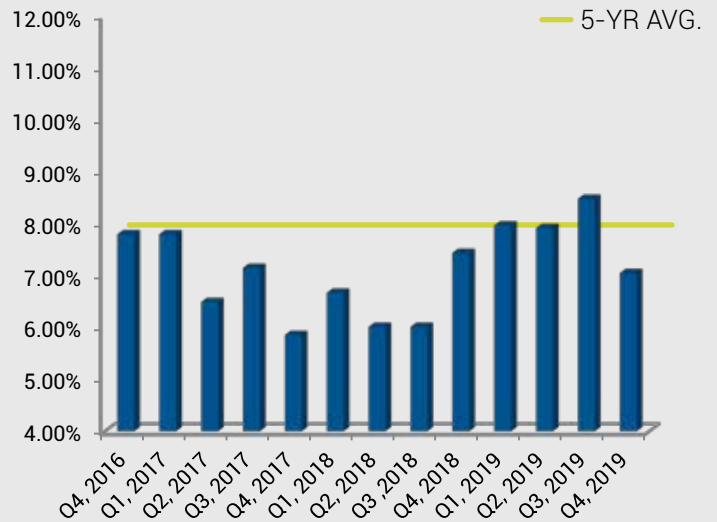
CURRENT QUARTER VACANCY ANALYSIS

Vacancy: 7.05%

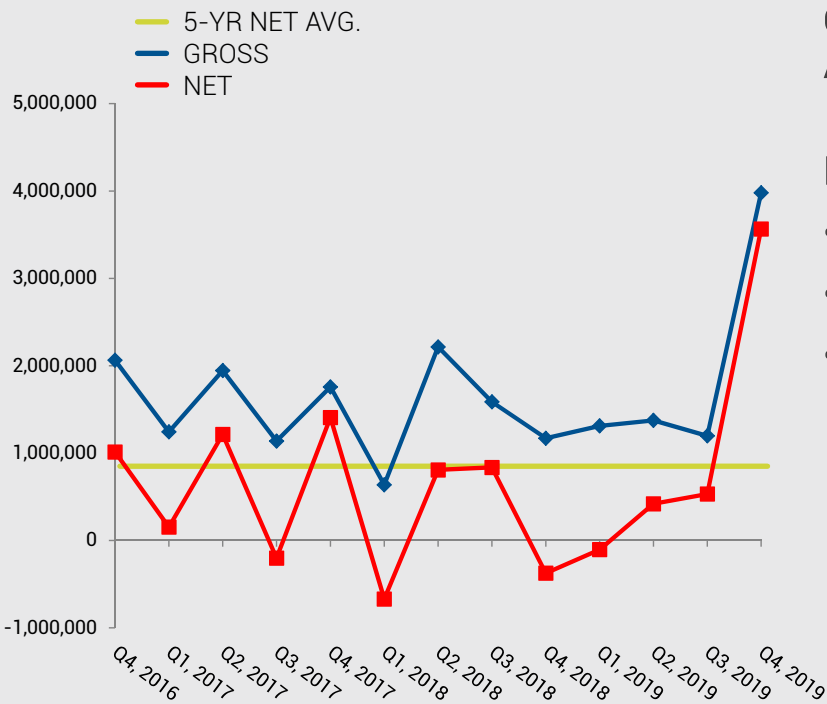


- 17% **LOWER** than Q3 2019 (8.48%)
- 5% **LOWER** than Q4 2018 (7.44%)
- 10% **LOWER** than quarterly 5-year average (7.85%)

HISTORIC VACANCY



HISTORIC GROSS & NET ABSORPTION



CURRENT QUARTER NET ABSORPTION ANALYSIS



Net Absorption: 3,979,922 SF

- 6.5x **HIGHER** than Q3 2019
- 11.5x **HIGHER** than Q4 2018
- 3.5x **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

Continued large build-to-suit and speculative construction.



MARKET VELOCITY

Solid demands continue.



OUTLOOK

Stable market, balanced supply and demand.



WHAT'S HAPPENING WHERE? Q4 2019 SUBMARKET STATISTIC BREAKDOWN

SUB-MARKET	SIZE (SQ.FT.)	VACANT (SQ. FT)	VAC. %	GROSS ABS.	NET ABS.	SPEC CONST.	BTS CONST.	TOTAL CONST.
North Valleys	24,867,783	1,114,658	4.48%	1,756,184	1,713,773	841,581	1,004,114	1,845,938
I-80 East Corridor	20,615,942	2,707,328	13.13%	448,000	448,000	610,400	0	610,400
Sparks	25,568,949	1,977,051	7.73%	1,148,747	1,087,280	0	0	0
Airport	8,892,236	552,871	6.22%	80,271	74,605	0	0	0
Reno Central/West	2,202,356	97,653	4.43%	127,558	127,558	0	0	0
Reno South	9,927,802	203,310	2.05%	419,162	113,597	0	0	0
TOTALS	92,075,068	6,489,309	7.05%	3,979,922	3,564,813	1,451,981	1,004,114	2,456,338

SIGNIFICANT Q4 2019 TRANSACTIONS

SALES TRANSACTIONS				LEASE TRANSACTIONS		
8730 & 8800 Military Road	Uline, Inc.	841,824 SF	\$54,579,144.00	1402 S. McCarran Boulevard	Fracht FWO, Inc.	523,961 SF
7 Building Sparks Industrial Portfolio	Seagate Properties	584,866 SF	\$50,150,000.00	1600 Newlands Drive	Case New Holland	266,000 SF
350 Greg Street	Just Refiners	40,656 SF	\$4,500,000.00	1402 S. McCarran Boulevard	Fracht FWO, Inc.	261,992 SF
6990 Resource Drive	Fabexco, LLC	55,104 SF	\$4,220,000.00	1160 Trademark Drive, Suite 103	Penguin Random House	254,362 SF
55 Freeport Boulevard, Suite 55	55 Freeport, LLC	18,903 SF	\$2,400,000.00	2555 USA Parkway	Holder Construction	182,000 SF

2020 CONSTRUCTION AND FORECAST

Absent anything upsetting the global appplecart, historical absorption indicates developers should keep looking for more raw land to keep the concrete flowing and the walls tilting in 2020. On the books for 2020 is approximately 5.7 million square feet of new construction. These are primarily big-box projects: Panattoni continuing construction at North Valley Commerce Center with another three buildings totaling 1.35 million SF; Avenue 55 at Spanish Springs planning two buildings totaling 630,000 SF; Prologis' project at Military Road with two buildings totaling 770,000 SF; West America Commerce Center in the Tahoe-Reno Industrial Center (TRIC) for 610,000 SF; Dermody Properties developing the former University of Nevada farms area with two buildings at 420,000 SF and a build-to-suit project on Military Road totaling 841,000 SF; a new project in Stead on Echo Avenue for 286,000 SF; new projects in the wings with 490,000 SF in TRIC for Conco; and another 1.2 million SF in the North Valleys submarket by a Southern Californian developer.

While economists are watchful for signs of the eventual economic downturn from the longest running expansion market in recent history, the overall opinion is that it probably will not occur in 2020. Barring an unforeseen, world-rattling event, news about the economy will no doubt take a backseat to forthcoming US election mania.



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