

SECOND QUARTER 2020



Market Advisor

ACCURATE INFORMATION. BETTER RESULTS.

NORTHERN NEVADA MARKET UPDATE
SECOND QUARTER 2020
INDUSTRIAL VACANCY: 6.22%

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2020 MIDYEAR REPORT: Q1 & Q2 SUMMARY

The most common question our office has received recently is "How do you think the Covid-19 pandemic will affect our market and our economy, and when?" While an ideal market update would be completely devoid of any reference to Covid-19, ignoring the possible effects of the pandemic on northern Nevada's industrial real estate would be ignoring the gorilla in the room.

"According to historians, pandemics typically have two types of endings: the medical, which occurs when the incidence and death rates plummet, and the social, when the epidemic of fear about the disease wanes" -New York Times, 2020.

While the United States has not reached the medical end, we can't help but notice that the general public seems to have become impatient and frustrated with the pandemic and the "new normal". We are all sick of seeing websites and businesses with their Covid-19 notices and new rules of operation. We are all weary of hearing the casualty and infection rates. We are all bored of staying home. And we are all very tired of wearing masks in public, standing six feet apart, and doing those awkward elbow bumps and air handshakes. This pandemic is as pervasive as the air we breathe, both literally and figuratively, and it's very impactful, so here goes.

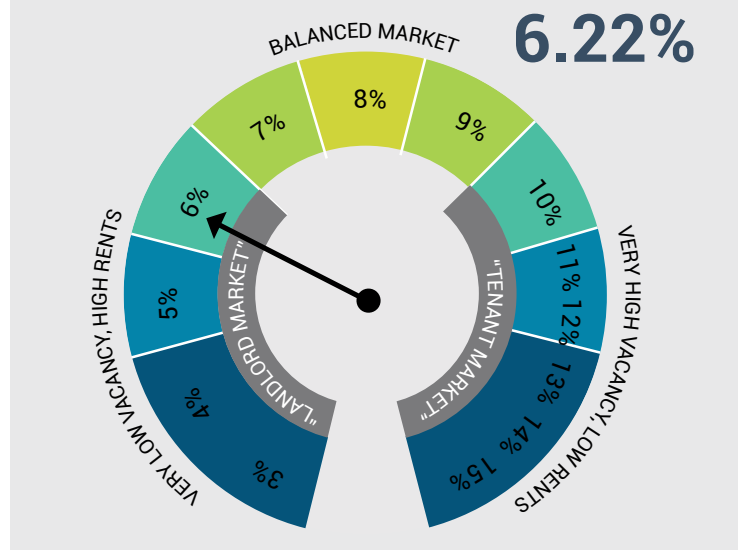
What impact has the virus and subsequent pandemic had on the northern Nevada industrial real estate market? Only time will tell.

The second quarter of 2020 encompasses the timeframe when we shifted from learning about the disease, to acting accordingly to new information on a daily basis. Offices, schools, and most businesses were shut down and we were all told to shelter at home. Virtually almost all business ground to a halt, including industrial real estate leasing and sales. While we are reporting a net absorption almost equal to the same quarter one year prior, mid to large sized industrial transactions tend to take between 3-6 months to finalize, so the absorption we report lags the actual market velocity by one to two quarters. The space absorbed in Q2 2020 is reflective of the deals that gained traction in late 2019 and the first quarter of 2020.

Q2 2020 will be referred to and remembered as "the quarantine quarter," while the impact of that initial shutdown and widespread uncertainty should be showing up in the absorption numbers for the final two quarters of 2020. It is interesting to note that while we saw little to no impact on square footage of industrial product leased in Q2, the number of completed transactions was roughly one-half the number of transactions done in Q2 2019. This shows us a slight reduction in the smaller transactions, that do not take 3-6 months to complete. However, in later Q2, many states began the process of reopening business and we started to receive more inquiries in our market and in response began conducting more tours with new protocols in place, such as video based virtual tours.

As we enter Q3, we are seeing a definite uptick in market velocity despite the big spikes in new CV-19 infections being reporting across

PERCENTAGE MARKET VACANCY WHAT DOES IT MEAN?



the country. Large, class A products seems to be getting the majority of the current action and even the equity markets are booming again so it seems the US economy cannot be held back, even now.

Through the first half of 2020, new construction was less than average and market returns (where tenants vacate space) were very low, with gross absorption at a moderate 3,000,000 sf resulting in a reduction of vacancy from 7% to 6.22%. Pricing on all property sizes has been inching up over the past several quarters as demand has been steady in all size ranges. Demand is strong for the newest locations, which have continued to be absorbed as fast as they are built. Landlords are filling their vacancies with longer term, credit tenants - at, or very close to, asking rates. Prospect tenants who are looking to enter the market and are seeking anything less than a five-year lease term, those with shaky credit and financials, and start-up companies are finding it challenging to locate a landlord willing to accept them. This type of market results in landlords offering minimal concessions other than a bit of free base rent with five, seven, or ten-year terms. Some REIT's are cash heavy currently and not unwilling to fund some tenant specific improvements, amortizing the outlay into higher rent over the entire term. We are still in an owner friendly market where all transactions are based on term, tenant size, length of time in business, and credit strength.

Going forward, it's difficult to predict how willing institutional funding will be to venture into new \$40 million projects until we see a trend of virus decline and the economy showing signs of being less volatile. If those funding sources start to pump the brakes on their commercial real estate investment portfolios and if demand remains constant, we can expect a fairly rapid market shift with rising prices, even higher selectivity on tenants, and sudden class A space shortages.

Quick Trends

SECOND QUARTER 2020

LEASE RATES

Mild increase in lease rates.



VACANCY

Q1 2020: 7.05%



Spotty inventory over some size ranges.

Q2 2020: 6.22%

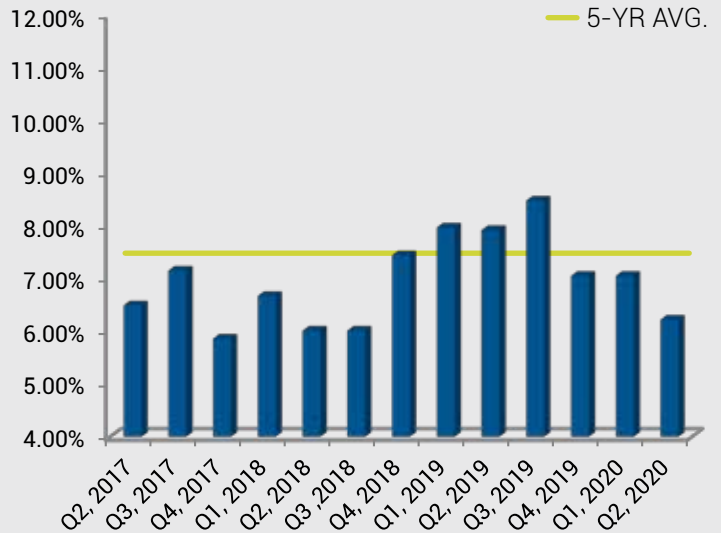
CURRENT QUARTER VACANCY ANALYSIS

Vacancy: 6.22%

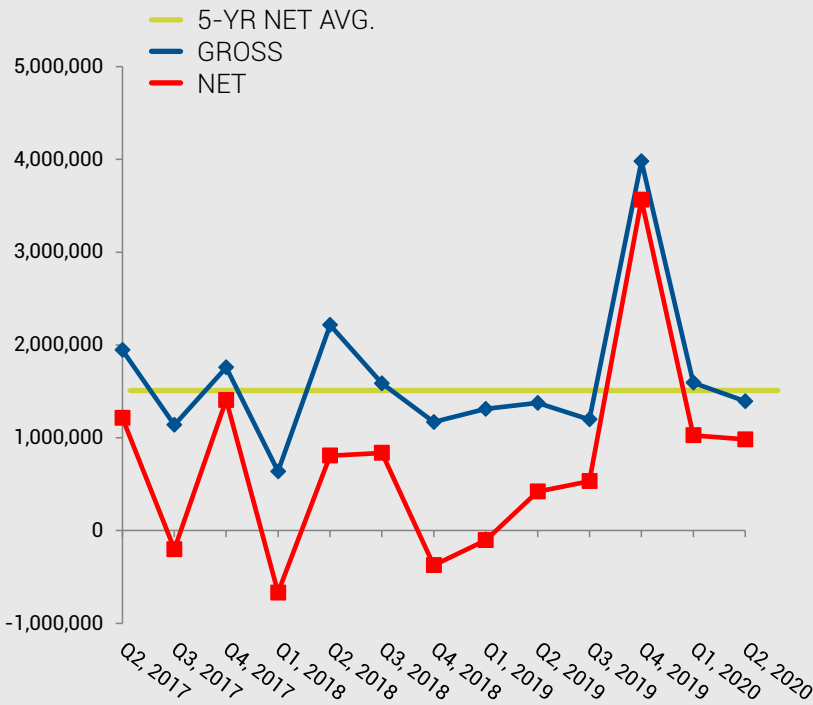


- 12% **LOWER** than Q1 2020 (7.05%)
- 21% **LOWER** than Q2 2019 (7.92%)
- 18% **LOWER** than quarterly 5-year average (7.55%)

HISTORIC VACANCY



HISTORIC GROSS & NET ABSORPTION



CURRENT QUARTER NET ABSORPTION ANALYSIS



Net Absorption: 1,393,896 SF

- 12.5% **LOWER** than Q1 2020
- 6% **HIGHER** than Q2 2019
- 20% **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

Solid demands continue.



OUTLOOK

Balanced supply and demand.



WHAT'S HAPPENING WHERE? Q2 2020 SUBMARKET STATISTIC BREAKDOWN

SUB-MARKET	SIZE (SQ.FT.)	VACANT (SQ. FT)	VAC. %	GROSS ABS.	NET ABS.	SPEC CONST.	BTS CONST.	TOTAL CONST.
North Valleys	26,201,490	876,402	3.34%	609,696	544,888	228,547	0	228,547
I-80 East Corridor	20,615,942	2,608,423	12.65%	129,620	98,905	0	0	0
Sparks	25,568,949	1,733,221	6.78%	591,944	243,830	0	0	0
Airport	8,892,236	452,389	5.09%	107,482	100,482	0	0	0
Reno Central/West	2,202,356	103,539	4.70%	5,154	(5,886)	0	0	0
Reno South	9,927,802	203,310	2.05%	0	0	0	0	0
TOTALS	93,408,775	5,813,722	6.22%	1,393,896	982,219	228,547	0	228,547

SIGNIFICANT Q2 2020 TRANSACTIONS

SALES TRANSACTIONS				LEASE TRANSACTIONS		
1550 S. McCarran Boulevard	Velocity Dealership Acq.	33,562 SF	\$5,000,000.00	1402 S. McCarran Boulevard	Confidential	374,400 SF
705 Trademark Drive	Late Out, LLC	19,848 SF	\$3,000,000.00	10875 Lear Boulevard	Lasko	181,455 SF
905 Linda Way	Scott Davis NV	35,000 SF	\$2,900,000.00	8730 Military Road	Ernest Packaging	133,108 SF
Dean Foods Industrial Portfolio	Gould Properties	63,651 SF	\$2,561,000.00	9560 North Virginia Street	Compass Health	117,000 SF
525 Spice Islands Drive	Velocity Dealership Acq.	22,250 SF	\$1,500,000.00	12475 Mustang Drive	Greenfield World Trade	109,620 SF

LATE 2020 CONSTRUCTION AND FORECAST

Despite the recent upset of the global applecart, developers continue looking for more raw land to keep the concrete flowing and the walls tilting through 2020. On the books for the remainder of 2020 and 2021 is approximately 5.7 million square feet of new construction. These are primarily big-box projects: Panattoni continuing construction at North Valley Commerce Center on the final 405,000 SF building; Avenue 55 at Spanish Springs finishing 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 Park at McCarran with two buildings at 1.1 million 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.

The forecast for the northern Nevada industrial market is almost completely dictated by the national and global economy. Getting the global engines running at pace again is linked directly to our market future, as well as when we can return to an office-based work environment, the re-opening of public schools, and when the entertainment and sporting industries go live again with fans in attendance. This all hinges on the timing of an effective vaccine and acceptance by the public be vaccinated. While we have several promising preliminary test results, the timing of developing and distributing an effective vaccine will continue to impact northern Nevada's industrial market. We are hopeful that by year end we will have a much clearer picture of that situation. Until that time, we are only making wild guesses on economic forecasts.



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