

Reno Industrial

Market Summary

Trends

Absorption	↑
Vacancy	↓
Rental Rate	↔
New Construction	↑

Notable Lease Transactions

Jet.com
235 E. Sydney Drive
672,000 s.f.

Mary's Gone Crackers
9460 N. Virginia Street
423,001 s.f.

Exxel Outdoors/Kelty
9460 N Virginia Street
217,863 s.f.

Sears Outlet
400-450 Parr Boulevard
169,027 s.f.

Notable Sale Transactions

Dalfen America Corp
GLP Tranche 1
1,250,084 s.f. (Portfolio Investment)

Franmar Company
4900 Ampere Drive
212,959 s.f. (Investment)

Universal Printing and Graphics
4835 Longley Lane
19,498 s.f. (Owner/User)

The Reno industrial real estate market boomed in the third quarter of 2016, with 1,885,718 square feet of positive net absorption shooting the year-to-date gain in occupied space past 4.7 million square feet. Direct vacancies dipped from 7.58% to 6.64% despite 1,095,001 square feet of new construction deliveries, as the rapid growth in demand outpaced the steady increase in supply. Asking rents were largely unchanged marketwide, at a bulk-rate average of \$0.36 per square foot, but varied widely by size, from \$0.34 for vast distribution spaces over 100,000 square feet to \$0.57 for smaller offerings in the tight South Reno submarket. Leasing and sale activity surged to 2,555,169 square feet over 46 transactions, including three deals encompassing over 200,000 square feet apiece. The construction projects underway at quarter's end were short of the volume necessary to meet demand, which portends decreasing vacancies and stiff or rising rental rates for the near future.

For the second consecutive quarter, all six of Reno's industrial submarkets recorded positive net absorption. North Valleys led the way with 1,137,743 square feet gained and has now added more than 2 million square feet of occupied industrial space over the past six months. The North Valleys Commerce Center, at 9460 N. Virginia Street, accounted for 641,864 square feet of that total, playing host to two of the three largest lease deals signed this quarter. Next up, the East-I80 corridor tacked on 544,891 square feet of positive net absorption, largely thanks to a three-fold expansion by Jet.com, which first arrived in Reno in January. Direct vacancies in North Valleys plunged from 14.26% to 9.59%, leaving East-I80 as the loosest submarket in the area, with 11.09% of its industrial stock sitting empty at the end of the third quarter. South Reno was the tightest submarket, at just 0.87% vacancy, and Sparks, the largest submarket with 25,628,241 square feet of industrial

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Area Review

Submarket Statistics

Submarket	Total SF	Direct Vacant SF	Direct Available	Gross Absorption SF	Total Average Bulk Rate	Under Construction
North Valleys	20,753,540	1,990,841	9.59%	1,234,491	\$0.347	0
Sparks	25,628,241	1,118,784	4.37%	383,693	\$0.303	0
Airport	8,970,456	407,421	4.54%	39,738	\$0.397	0
South Reno	8,963,019	78,308	0.87%	23,591	\$0.400	389,792
Central & West Reno	1,267,960	29,673	2.34%	52,205	N/A	0
I-80 East Corridor	16,334,788	1,811,208	11.09%	821,451	\$0.323	0
Totals	81,918,004	5,436,235	6.64%	2,555,169	\$0.36	389,792

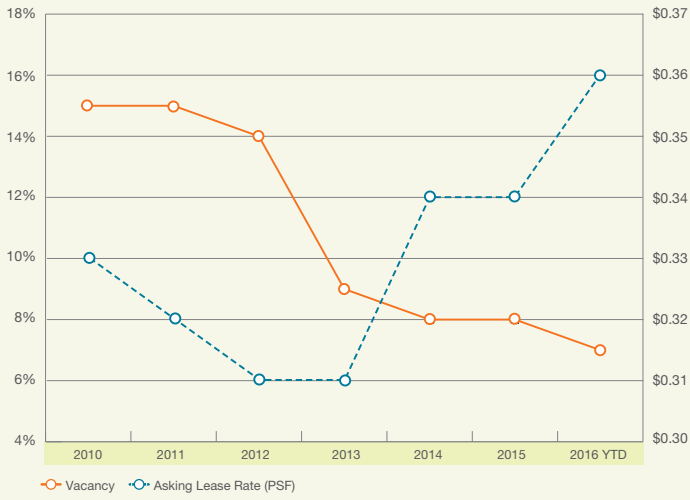
inventory, saw its vacancy rate shaved to 4.37%, down 100 basis points since the start of the year.

Leasing and sale activity this quarter jumped to 2,555,169 square feet over 46 transactions, and six of the seven largest transactions were consummated by firms that are new to the Reno market. Average deal size grew to 55,547 square feet from 43,375 square feet last quarter. That increase was chiefly attributable to Jet.com's expansion into 235 E. Sydney Drive, where the online retailer leased 672,000 square feet to go with its original Reno location on USA Parkway, scaling its West Coast fulfillment operation while planning to employ 500 workers in the city by 2021. Economic development officials also expect considerable job growth from Mary's Gone Crackers, which is relocating from Gridley, California, and setting up its new manufacturing facility in a 423,001-square-foot space at the North Valleys Commerce Center. Reno's logistical advantages also attracted Colorado-based Exxel Outdoors, which will join Mary's Gone Crackers at North Valleys Commerce Center, after choosing the area over alternatives like Phoenix and Salt Lake City. On the sale front, the year-to-date average price ticked up to \$48.32 per square foot, down from \$52.16 last year, when the mean was inflated by the sale of a Class A Amazon-leased property that traded for more than \$70 per square foot. Dalfen America Corp. turned in the largest investment buy, acquiring GLP Tranche 1, a 1,250,084-square-foot portfolio in the Sparks submarket for \$55.3 million or

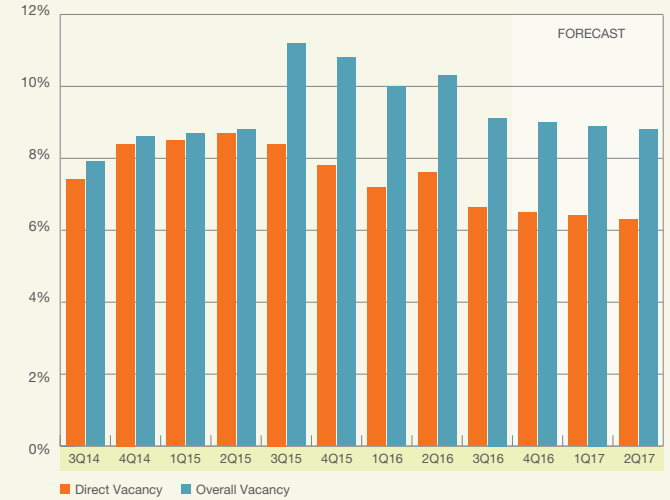
\$44.24 per square foot. Franmar Company bought 4900 Ampere Drive in the Airport area for \$8.15 million or \$38.27 per square foot. Also in the Airport submarket, Universal Printing and Graphics, an owner/user, took 4835 Longley Lane for \$2.05 million, or \$105.13 per square foot.

Approximately 5,436,235 square feet of Reno-area industrial real estate was available on a direct basis at the end of the third quarter, with another 1,618,175 square feet listed for sublease, down from second-quarter availabilities, which were 6,064,880 and 2,302,910 square feet, respectively. The North Valleys section topped the Reno market with 1,990,841 square feet worth of direct listings marketed at a median lease rate of \$0.35 per square foot. Sparks, where 1,118,784 square feet of industrial space was being marketed on a direct basis, offered a lower-priced alternative, with median asks at \$0.30 for some of the largest spaces available at quarter's end. South Reno and Central/West Reno could only accommodate smaller tenants, under 20,000 square feet, with asking rents exceeding \$0.50 for most listings. Fernley hosted the largest direct availability on the market, with 589,520 square feet offered at just under \$0.30. As inbound demand for space outstrips construction, industrial users eyeing Reno facilities figure to face stiff competition and firm rental rates in the coming quarters.

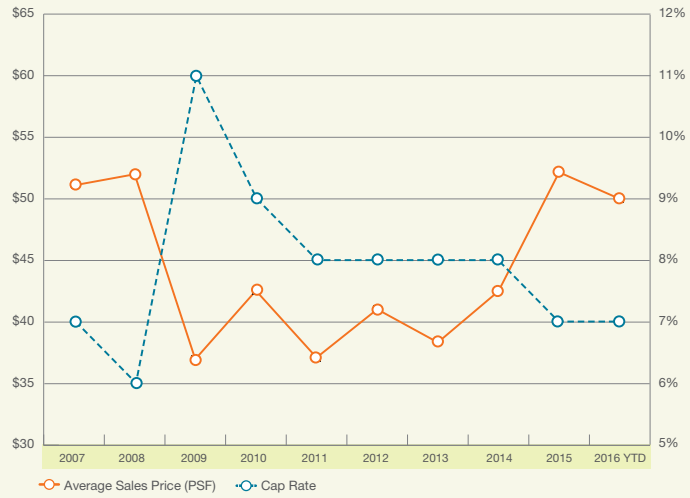
VACANCY VS ASKING LEASE RATE



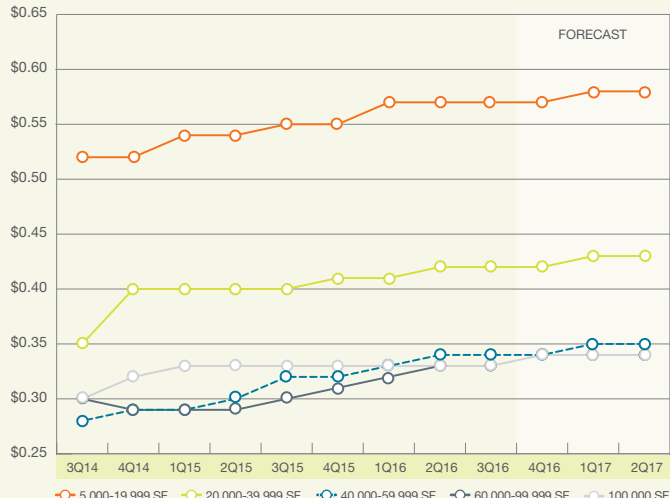
DIRECT VACANCY VS OVERALL VACANCY



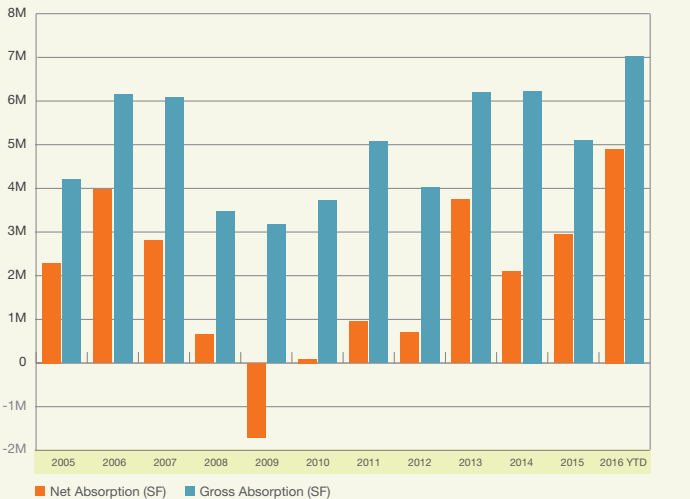
AVERAGE SALES PRICE & CAPITALIZATION RATE



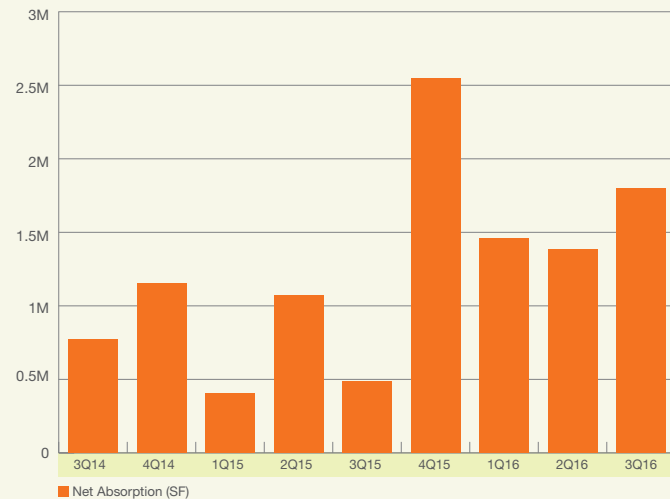
ASKING LEASE RATE



NET ABSORPTION - HISTORICAL



NET ABSORPTION - QUARTERLY



Offices

Seattle
206.296.9600

Bellevue
425.454.7040

South Seattle
206.248.7300

Tacoma
253.722.1400

Olympia
360.705.2800

Portland
503.221.9900

San Francisco
415.229.8888

Redwood Shores
650.769.3600

Silicon Valley
408.970.9400

Sacramento
916.970.9700

Roseville
916.751.3600

Orange County
949.557.5000

San Diego
858.509.1200

Carlsbad
760.430.1000

Reno
775.301.1300

Phoenix
602.513.5200

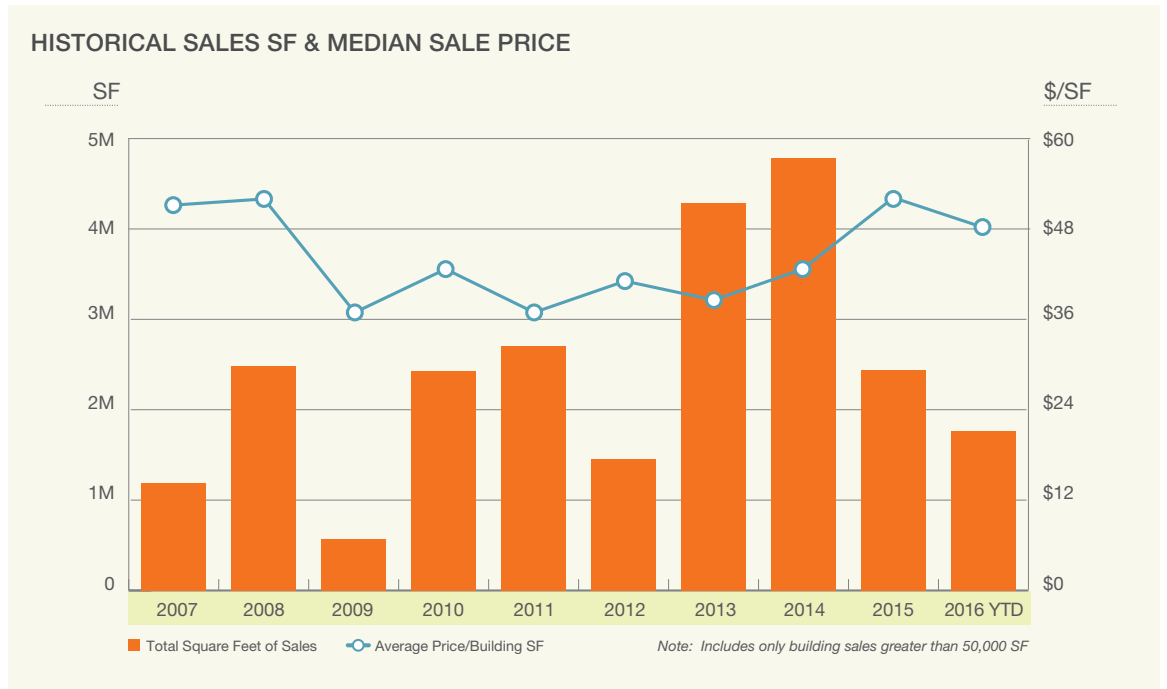
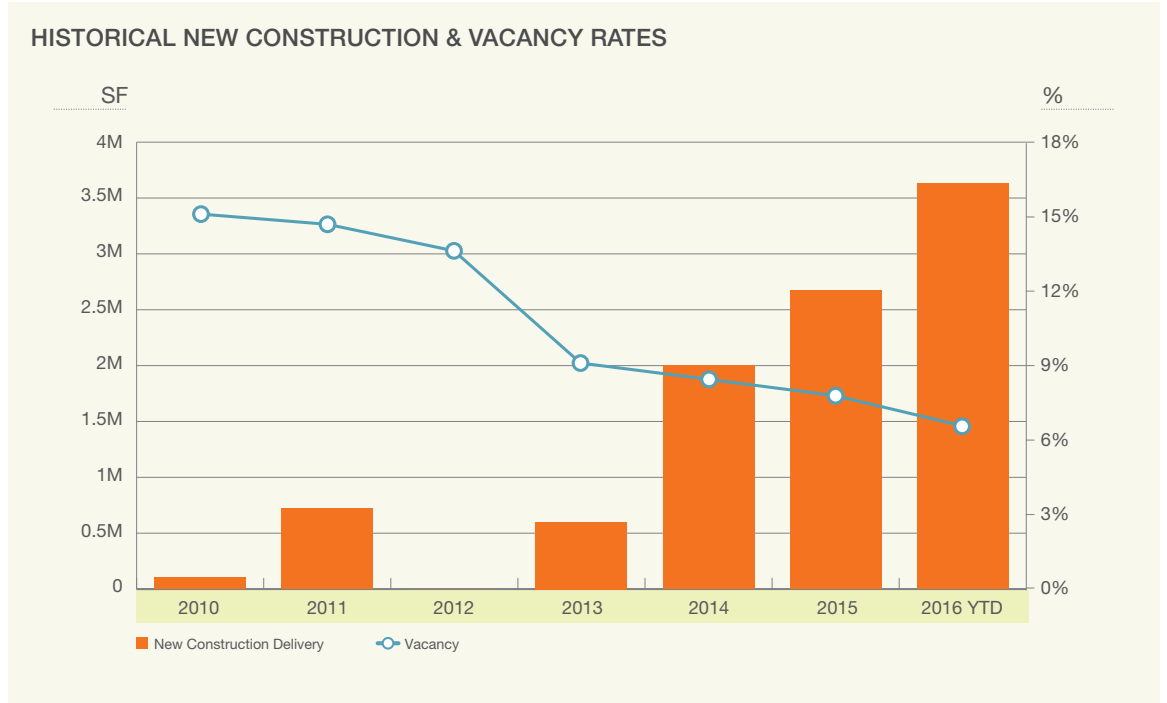
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Market Breakdown

	3Q 2016	2Q 2016	3Q 2015	Annual % Change
Vacancy Rate	6.64%	7.58%	8.40%	-20.95%
Availability Rate	9.12%	10.40%	11.20%	-18.57%
Asking Lease Rate	\$0.36	\$0.34	\$0.33	9.09%
Leased SF	2,348,596	1,922,317	1,332,999	76.19%
Sold SF	206,573	203,081	53,760	284.25%
Net Absorption	1,885,719	1,383,704	487,565	286.76%



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