

# Reno Industrial

## Market Summary

Trends

|                  |   |
|------------------|---|
| Absorption       | ↑ |
| Vacancy          | ↓ |
| Rental Rate      | ↑ |
| New Construction | ↑ |

## Notable 2016 Lease Transactions

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

ITS  
555 Vista Boulevard  
629,552 s.f. Leased

Chewy  
385 Milan Drive  
566,660 s.f. Leased

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

## Notable 2016 Sale Transactions

Dalfen America Corp  
GLP Tranche 1  
1,250,084 s.f. | \$55.3M or \$44.24/s.f.

Westcore Properties  
GLP Tranche 2 and 3, Sparks  
1,170,151 s.f. | \$4.5M or \$46.58/s.f.

Libitzky  
665-667 and 945 Spice Islands Dr, Sparks  
254,100 s.f. | \$11.375M or \$44.77/s.f.

2016 was a year like no other. The Reno industrial real estate market turned in an outstanding fourth quarter, as a rush of national investors paired with the “Tesla Effect” yielded an excellent end to a record-breaking year. Net absorption in the fourth quarter was positive 1,420,333 square feet, bringing the yearly gain to a record 6,322,759 square feet. At least four of this quarter’s transactions, totaling nearly 1 million square feet, were driven by the growing Tesla Gigafactory, including the arrival of Tesla’s battery partner, Panasonic. Asking rents stayed at a bulk-rate average of \$0.35 per square foot, but varied from \$0.30 for vast distribution spaces to \$0.65 for smaller offerings in South Reno. Leasing and sale activity reached 2,380,996 square feet in the fourth quarter, fueled by four separate lease transactions over 300,000 square feet and the trading of Tranches 2 and 3 of the Global Logistic Properties portfolio. Demand growth continues to outstrip supply increases in the Reno market, as numerous firms make the move across the California state line, and investors’ bullishness about Reno’s industrial assets suggests that rental rates could be on the rise in the coming quarters.

All six Reno industrial submarkets reported positive net absorption during the fourth quarter, amounting to a 1,420,333 square foot gain in occupied space marketwide. The East-I80 submarket led the way with 1,029,502 square feet of positive net absorption, bringing the year-to-date figure there to 3,162,882 square feet, or about half of the market’s gain for the year. Vacancies in the East-I80 area dropped by more than 610 basis points over the course of 2016. Sparks was this quarter’s runner-up, with 263,617 square feet of positive net absorption, while North Valleys saw just 59,349 square feet of newly occupied industrial space after pacing the Reno market with 1,137,743 square feet of positive absorption during the third quarter. All told, Reno has added 6,322,759

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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        | 1,931,492        | 9.31%            | 476,238             | \$0.348                 | 0                  |
| Sparks              | 25,628,241        | 879,345          | 3.43%            | 488,910             | \$0.320                 | 0                  |
| Airport             | 8,970,456         | 373,717          | 4.17%            | 90,410              | \$0.377                 | 0                  |
| South Reno          | 9,352,811         | 473,481          | 5.06%            | 44,836              | \$0.400                 | 60,000             |
| Central & West Reno | 1,267,960         | 16,750           | 1.32%            | 6,100               | N/A                     | 408,070            |
| I-80 East Corridor  | 16,678,235        | 1,061,653        | 6.37%            | 1,274,502           | \$0.314                 | 0                  |
| <b>Totals</b>       | <b>82,651,243</b> | <b>4,736,438</b> | <b>5.74%</b>     | <b>2,380,996</b>    | <b>\$0.35</b>           | <b>468,070</b>     |

square feet of occupied industrial space since the start of 2016, trimming direct vacancies from 7.81% to 5.73%, despite 4,361,904 square feet of new construction.

Leasing and sale activity this quarter continued to boom throughout the Reno market, pushing the fourth-quarter gross absorption total to 2,380,996 square feet. The East-I80 area played host to all four of the quarter's largest lease deals, each of which cleared 300,000 square feet. FedEx Ground, the small-package delivery subsidiary of FedEx Corp., paced the market with a 343,447 square foot lease at a new automated distribution center on Mustang Road in East Sparks. The global electronics giant Panasonic, drawn to Reno through its affiliation with Tesla, grabbed 303,335 square feet at the West America Commerce Center in McCarran. In the largest lease deal outside of the East-I80 submarket, OHL Logistics signed on for 263,435 square feet in two buildings at 620 and 630 Spice Islands Drive in Sparks.

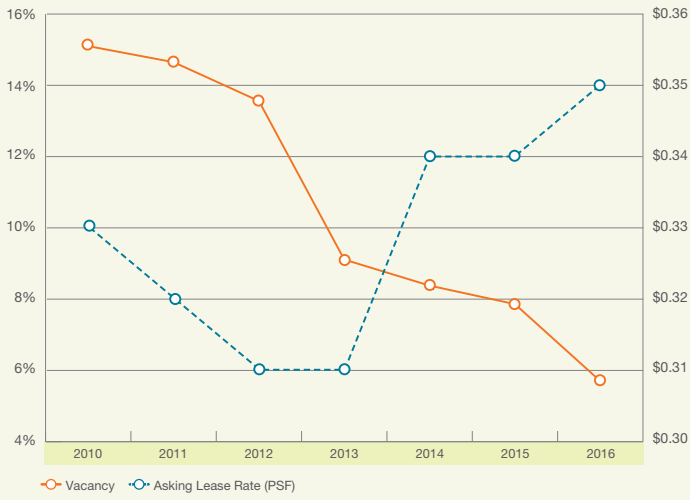
On the investment front, Reno assets continued to appeal to buyers from across the United States and beyond. San Diego-based Westcore Properties acquired Tranches 2 and 3 of the Global Logistic Properties (GLP) portfolio for \$54.5 million or \$46.58 per square foot, one quarter after Dallas-based Dalfen America Corp. bought Tranche 1. Libitzky, a San Francisco investment firm, bought 665-667 and 945 Spice Islands Drive for \$11.375 million or \$44.77 per square foot, and Mancini Properties, also out of the Bay Area, spent \$3.55 million or \$56.53 per square foot on Building 9 at Turner Crossing in Sparks. These were just the latest in a long line of newcomers to the Reno industrial market, which also attracted Brennan Investment Group in Chicago,

Zuno Properties in Ohio, and Arn Investments LLC in Irving, Texas, among others, in 2016. After a record-high 8,090,574 square feet in sale volume over the year, the average price per square foot marketwide rose to a cycle-high \$53.33. Coupled with an influx of investors from outside the area, the rising price tag for Reno industrial real estate indicates the potential for further demand growth and increasing rental rates in the coming 18-24 months.

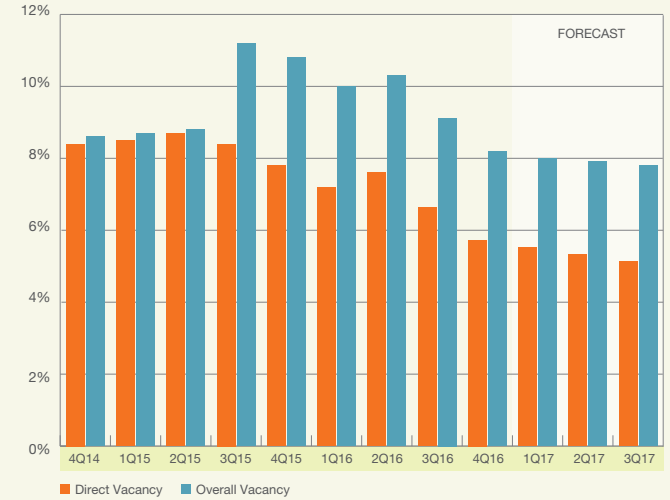
Availabilities at year's end totaled 6,990,987 square feet, including 4,736,438 square feet on a direct basis and 2,254,549 square feet in sublease listings. The Sparks submarket had the most available space at the close of 2016, with 2,643,628 square feet on the market, 1,556,709 square feet of which was in a sublease offering at the Kmart Distribution Warehouse at 1400 S McCarran Blvd. North Valleys had the most direct availabilities, at 1,931,492 square feet, with two individual listings of over 450,000 square feet apiece. Asking rents in North Valleys averaged approximately \$0.35 per square foot on a blended triple-net basis, equal to the overall market mean for the quarter, while Sparks was at \$0.32. South Reno topped the market, at \$0.40, mainly because most listings there were in the smaller size range. As inbound demand continues to outpace new construction, and national investors see profit opportunities in the market, industrial users considering Reno can expect stiff rental rates and fierce competition for space in the new year.

*Data Source: Kidder Mathews Market Research*

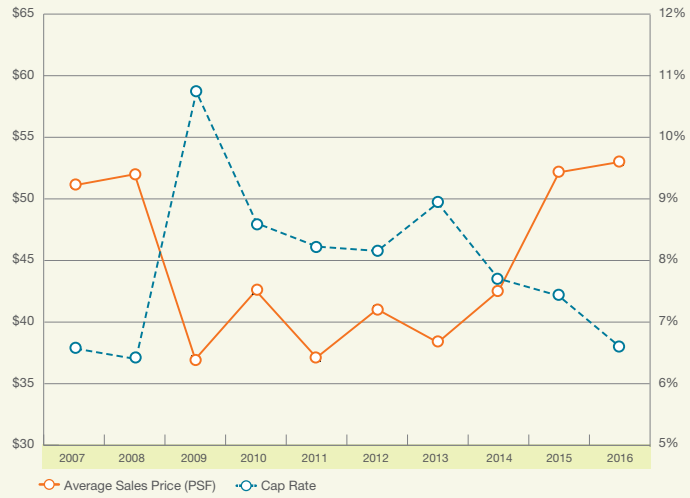
### VACANCY VS ASKING LEASE RATE



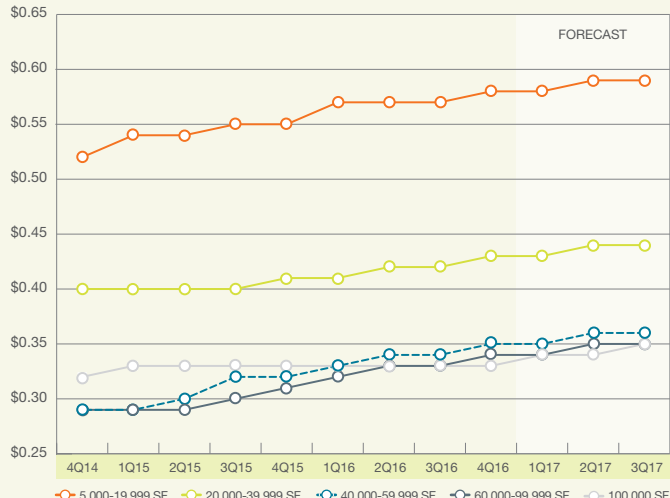
### DIRECT VACANCY VS OVERALL VACANCY



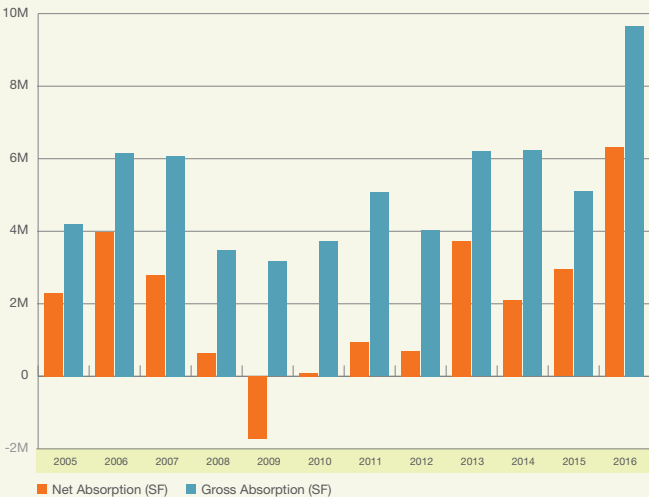
### AVERAGE SALES PRICE & CAPITALIZATION RATE



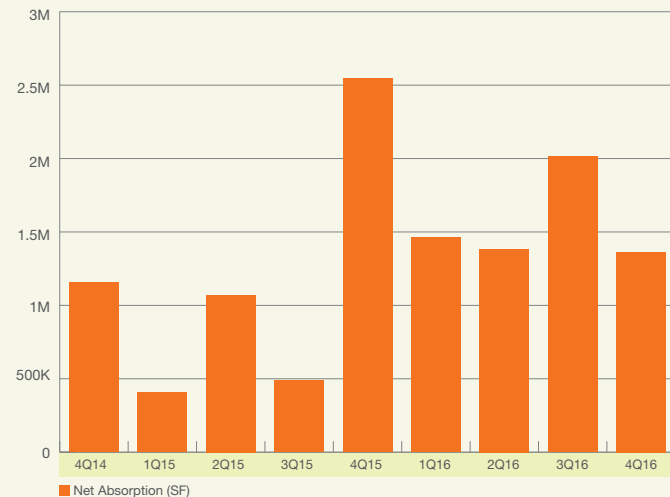
### ASKING LEASE RATE



### 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

Inland Empire  
909.764.6500

San Diego  
858.509.1200

Carlsbad  
760.430.1000

Reno  
775.301.1300

Phoenix  
602.513.5200

**Contact**

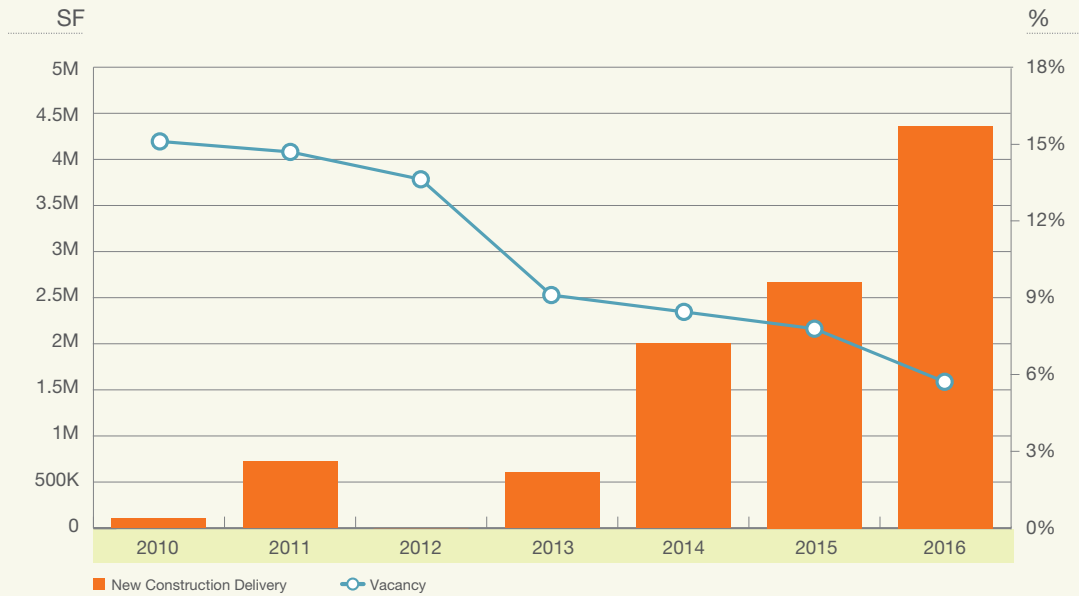
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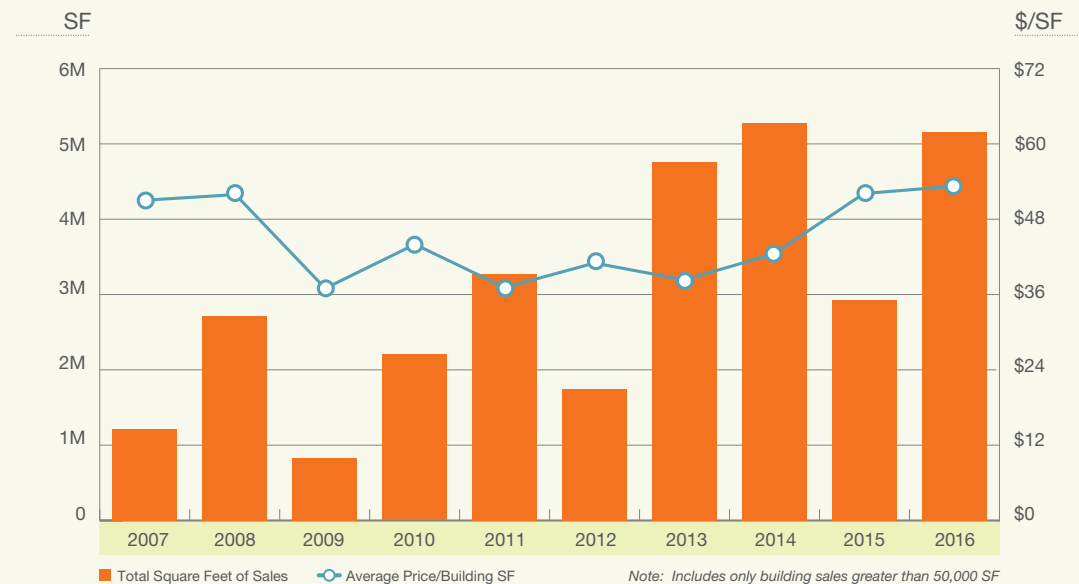
**Market Breakdown**

|                        | 2016      | 2015      | 2014      | Annual % Change |
|------------------------|-----------|-----------|-----------|-----------------|
| Direct Vacancy Rate    | 5.7%      | 7.8%      | 8.4%      | -26.6%          |
| Overall Vacancy Rate   | 8.2%      | 8.6%      | 10.8%     | -4.7%           |
| Asking Bulk Lease Rate | \$0.36    | \$0.34    | \$0.34    | 2.9%            |
| Leased SF              | 9,065,130 | 4,622,101 | 3,108,926 | 96.1%           |
| Sold SF                | 5,154,000 | 2,930,417 | 5,282,761 | 75.9%           |
| Net Absorption         | 6,322,759 | 2,950,050 | 2,097,834 | 114.3%          |

**HISTORICAL NEW CONSTRUCTION & VACANCY RATES**



**HISTORICAL SALES SF & AVERAGE SALE PRICE**



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