

Reno Industrial

Market Summary

Trends

Absorption	↓
Vacancy	↑
Rental Rate	↑
New Construction	↔

Notable Lease Transactions

Fosdick Fulfillment
8730 Military Rd, Reno
269,620 s.f. Leased

Syncreon Technology
2555 USA Parkway, McCarran
182,000 s.f. Leased

Zazzle
811 Sandhill Rd, Reno
180,792 s.f. Leased

Tagg Logistics
9175 Moya Blvd, Reno
149,760 s.f. Leased

Notable Sale Transactions

Mt. Anderson, LLC
12035 Moya Blvd, Reno
545,550 s.f. | \$35.46M or \$65/s.f.

STAG Industrial Inc.
325 E Nugget Ave, Sparks
162,000 s.f. | \$8.4M or \$52/s.f.

ACH Foam
13965 Mt. Anderson St, Reno
102,000 s.f. | \$5.61M or \$55/s.f.

The Reno industrial real estate market took a brief pause in the first quarter, catching its breath after a record-setting 2016. Nonetheless, this quarter's 246,547 square feet of negative net absorption is not indicative of a decline in demand, as the vacated spaces will backfill quickly and leasing activity picked up toward the end of the period. Asking rents inched up to a bulk-rate average of \$0.36 per square foot on a blended triple-net basis, with the increase primarily occurring in the 50,000-150,000 square foot range, as mid-size landlords responded to strong demand. Rates varied from \$0.30 for vast distribution spaces to \$0.75 for smaller availabilities in South Reno. Leasing and sale activity slowed, to 1,016,859 square feet and 838,370 square feet, respectively, as the "Tesla Effect," which drove more than a million square feet of gross absorption last quarter, took a breather to begin 2017. Construction starts were delayed up to two months by the winter weather, further constraining market growth. Demand for industrial space in Reno remains remarkably strong, suggesting a return to absorption gains, lower vacancies, and rising rents in the coming quarters.

Reno's industrial properties endured 246,457 square feet of negative net absorption during the first quarter, the result of numerous small give-backs, most of which will soon be refilled by new tenants, leaving no long-term impact on vacancy. Individual submarkets were a mixed bag, as the North Valleys area gained 380,277 square feet of occupied industrial space and East I-80 dropped 343,327 square feet. The other four submarkets were somewhere in the middle, with Sparks shedding 284,019 square feet and South Reno adding 96,329 square feet. Direct vacancies marketwide ticked up 40 basis points, from 5.73% to 6.13%, still well below the 7.2% rate

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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	1,540,508	7.40%	682,386	\$0.368	146,871
Sparks	25,628,241	1,300,742	5.10%	53,882	\$0.320	0
Airport	8,970,456	450,554	5.00%	72,681	\$0.373	0
South Reno	9,352,811	272,771	2.90%	198,588	\$0.400	105,000
Central & West Reno	1,267,960	35,720	2.82%	0	\$0.390	408,070
I-80 East Corridor	16,678,235	1,468,480	8.80%	182,000	\$0.325	0
Totals	82,651,243	5,068,775	6.13%	1,189,537	\$0.36	659,941

reported at this time last year despite more than 4.3 million square feet of new construction.

Leasing activity cooled during the first quarter, to 1,016,859 square feet over 16 transactions, or an average of 63,554 square feet per deal. Fosdick Fulfillment made the largest commitment, taking 269,620 square feet at 8730 Military Rd in Reno, Phase 2 Building 1 of the LogistiCenter development. The supply chain services provider Syncreon Technology grabbed 182,000 square feet at 2555 USA Parkway in the I-80 Corridor. Zazzle, Inc., signed on for 180,792 square feet in the newly constructed Building B of the South Valleys Commerce Center at 811 Sandhill Road in Reno. Finally, TAGG Logistics landed 149,760 square feet at 9175 Moya Blvd. Leasing was tempered in part during the first quarter by the stormy winter, which delayed construction projects by up to two months. Activity picked up toward the end of the quarter, portending a potential increase in space taken in the coming three months.

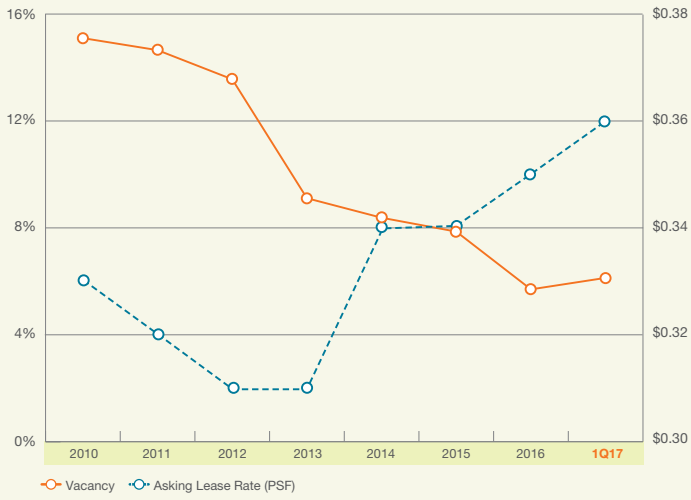
Investment activity this quarter totaled 981,048 square feet sold at an average price tag of \$57/sf and an average cap rate of 6.6%. In the largest single transaction, Mt. Anderson LLC acquired Building 1 of the Logisticourt at Silver Lake, a 545,550 square foot warehouse at 12035 Moya Blvd in North Valleys, for \$35,460,750 or \$65/sf. Over in Sparks, STAG Industrial bought the Nugget Industry Center, a 161,986 square foot multi-tenant distribution property at 325 E Nugget Ave, for \$8,400,000 or \$52/sf. STAG Industrial, which is

headquartered in Boston, is the latest in a long line of national investors betting on the Reno market in recent quarters. The rising price tag for industrial real estate in the area reflects investor confidence in further demand growth and increasing rental rates.

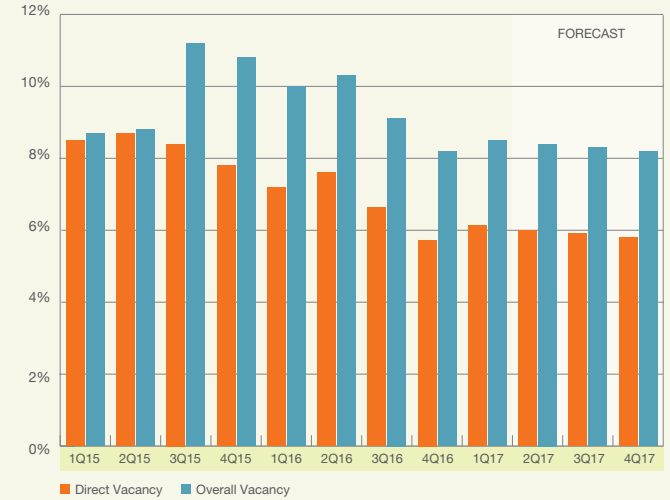
Availabilities at the end of the quarter totaled 7,021,284 square feet, including 5,068,775 square feet listed on a direct basis and 1,952,509 square feet being marketed for sublease. The Sparks submarket had the highest volume of available space at the close of the first quarter, with 2,927,647 square feet on the market, including a demisable 1,556,709 square foot sublease offering at 1402 McCarran Blvd. Another 1,745,535 square feet of space was on the market in North Valleys, led by a pair of bulk-space availabilities at the North Valleys Commerce Center on Virginia Street. The I-80 Corridor had 1,468,480 square feet available at quarter's end, spread across six listings for over 100,000 square feet apiece. Asking rental rates averaged approximately \$0.36 on a blended triple-net basis, up about 3% year over year, with mid-level spaces (between 50,000 and 150,000 square feet) seeing the largest rise in rents. Industrial users considering Reno continue to face firm rental rates and strong competition, as inbound demand in the market remains ahead of new construction, but it remains one of the most affordable industrial markets in the west.

Data Source: Kidder Mathews Market Research

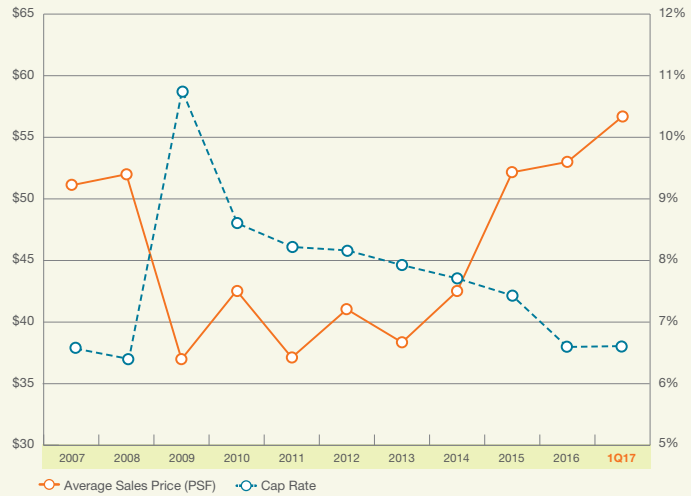
VACANCY VS ASKING LEASE RATE



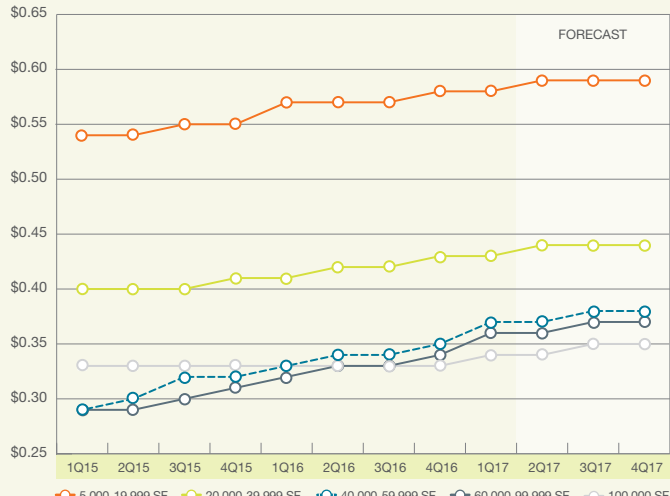
DIRECT VACANCY VS OVERALL VACANCY



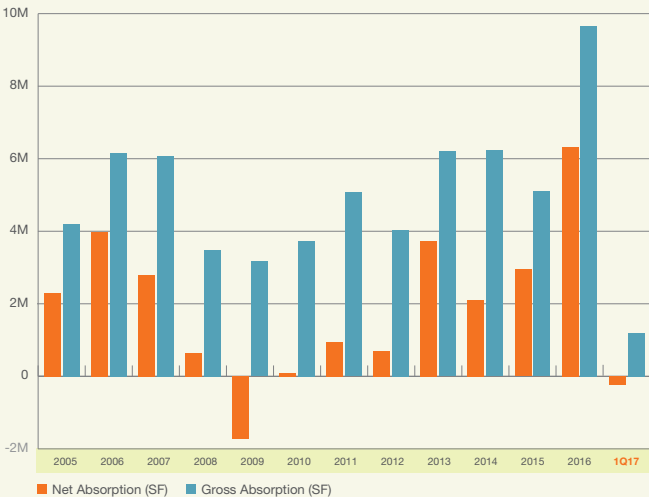
AVERAGE SALES PRICE & CAPITALIZATION RATE



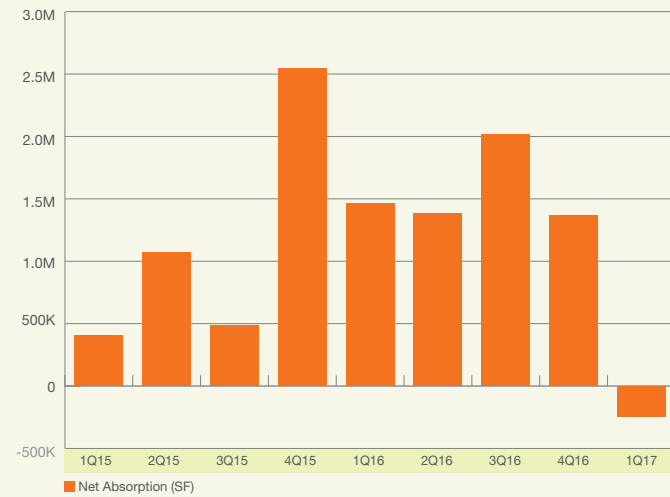
ASKING LEASE RATE



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

Los Angeles
213.880.5250

Long Beach
562.472.0071

Commerce
323.727.1144

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

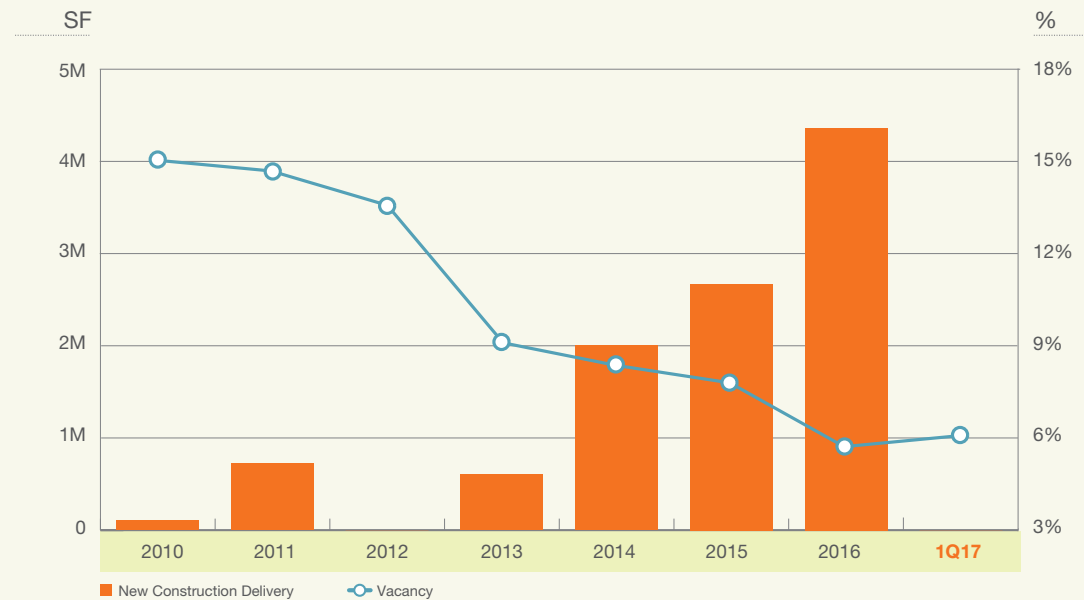
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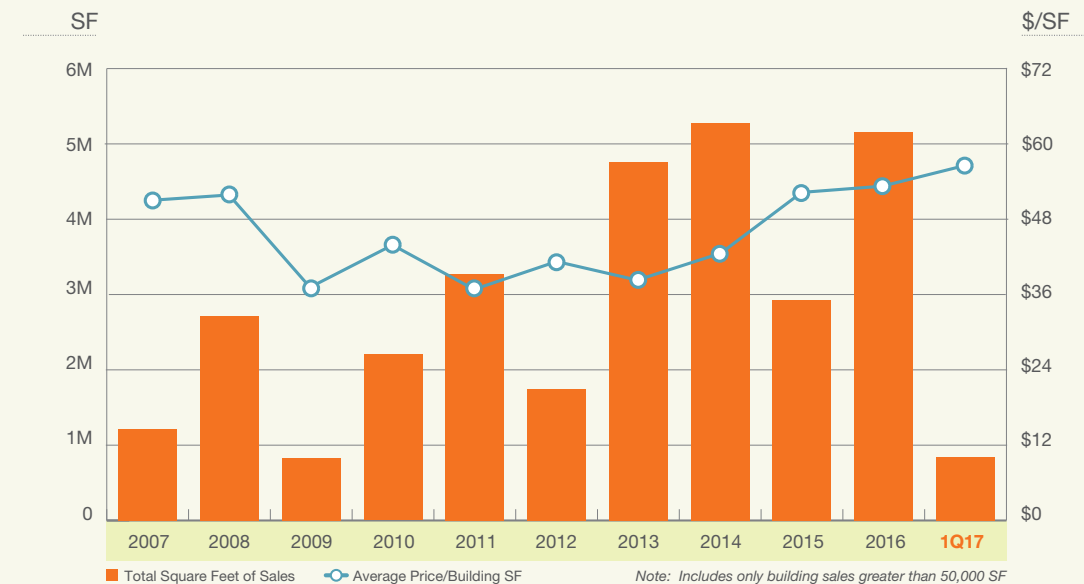
Market Breakdown

	1Q17	4Q16	1Q16	Annual % Change
Direct Vacancy Rate	6.1%	5.7%	7.2%	-15.3%
Overall Vacancy Rate	8.5%	8.2%	10.0%	-15.0%
Asking Bulk Lease Rate	\$0.36	\$0.35	\$0.35	2.9%
Leased SF	1,016,859	2,349,335	1,539,673	-33.9%
Sold SF	838,370	1,376,863	699,564	19.8%
Net Absorption	-246,547	1,420,333	1,504,722	N/A

HISTORICAL NEW CONSTRUCTION & VACANCY RATES



HISTORICAL SALES SF & AVERAGE SALE PRICE



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