

Reno Industrial

Market Summary

Trends

Absorption



Vacancy



Rental Rate



New Construction



Notable Lease Transactions

Ansell

9460 N Virginia Road
271,000 s.f. Leased

Patagonia Works

355 Cabela Drive, Reno
221,000 s.f. Leased

Panasonic

2777 USA Parkway, Sparks
220,000 s.f. Leased

CV Oils

12995 Echo Court, Reno
112,000 s.f. Leased

Fulfillment Works LLC

900 North Hills Boulevard, Reno
88,000 s.f. Leased

Record levels of inbound demand, coupled with strong local tenant growth, produced an excellent second quarter for the Reno industrial market. More than 2.1 million square feet came off the market in leases and owner/user sales this quarter, as a wide array of companies continued to be drawn to Reno’s logistical advantages and business friendly climate. Industrial vacancies across the market are at or near record lows, and the quarter’s 1,306,493 square feet of positive net absorption pulled the direct vacancy rate below 5% for the first time this cycle. While leasing volume increased to 1,975,752 square feet, the average deal size fell to 32,846 square feet, amid a surge in small-tenant expansions to the 10,000-50,000 square foot range. That growth was accompanied by a record number of new companies visiting the Reno area, and the fierce competition for industrial space portends further absorption gains and rental rate hikes in the coming quarters.

The Reno market enjoyed 1,306,493 square feet of positive net absorption during the second quarter, bringing direct vacancies down to 4.94%. North Valleys remains Reno’s most rapidly growing industrial submarket, adding 449,831 square feet of occupied industrial space this quarter and hosting the market’s largest lease, a 271,000-square-foot lease signed by Ansell at 9460 N Virginia Road. The North Valleys submarket has seen 830,108 square feet of positive net absorption in the year to date, and vacancies there have plunged

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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	1,162,704	5.60%	719,850	\$0.363	1,029,825
Sparks	25,628,241	1,320,639	5.15%	268,968	\$0.325	0
Airport	8,970,456	240,923	2.68%	283,339	\$0.335	0
South Reno	9,352,811	132,279	1.41%	234,568	\$0.380	0
Central & West Reno	1,488,960	48,300	3.24%	276,675	\$0.400	182,000
I-80 East Corridor	17,040,432	1,204,740	7.06%	318,760	\$0.325	0
Totals	83,234,440	4,109,585	4.93%	2,102,160	\$0.350	1,211,825

from 14.3% to 6.2% over the past 12 months. Meanwhile, South Reno tightened to a market-low 2.6% vacancy rate during the second quarter, following 146,069 square feet of positive net absorption, as Elemental LED and Advanced Precision secured midsize spaces there. Market wide, total vacancies are down 280 basis points year-over-year, to 7.6%, despite more than 2.4 million square feet of new construction.

After a relatively quiet first quarter, the Reno market roared back to life with 2,102,160 square feet of gross absorption over the past three months. The protection products manufacturer Ansell, the outdoor clothing and gear retailer Patagonia, and the Tesla-partnered electronics giant Panasonic each signed a lease for more than 200,000 square feet of distribution space in the Reno area this quarter. Those deals were augmented by considerable activity in the 10,000-100,000 square foot range, as smaller tenants expanded their operations in the market and California-based firms made their way into business friendly Nevada. Developers are increasingly taking a speculative, “if you build it, they will come” approach to take advantage of the sizzling market, and the vast majority are successfully securing tenants before completing construction.

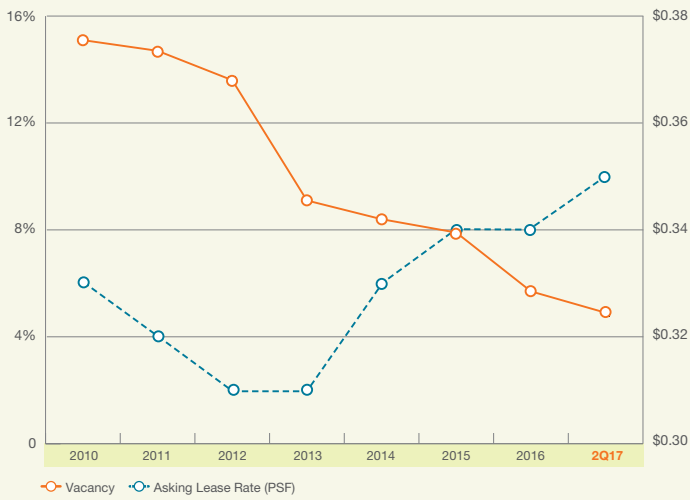
Availabilities at the end of the quarter totaled 6,297,988 square feet, including 4,109,585 square feet of direct space and 2,188,403 square feet listed for sublease. An additional 1,211,825 square feet was available in buildings that are under construction or soon to break ground. By submarket, Sparks reported the highest volume of availabilities, at

1,320,639 square feet (excluding subleases), most of which was in midsize offerings smaller than 100,000 square feet. Bulk spaces were most readily available in the I-80 East Corridor, which had 1,204,740 square feet of available space, including three listings for more than 250,000 square feet each.

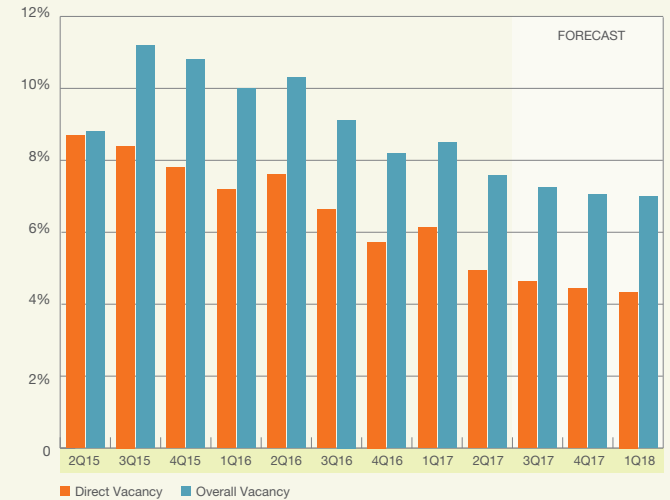
Asking rental rates averaged \$0.35 on a blended triple-net basis, an 4.2% increase from this time last year, ranging from \$0.59 for small spaces below 20,000 square feet to \$0.35 for bulk offerings over 50,000 square feet. Midsize spaces (between 25,000-75,000 square feet) have seen the sharpest surge in rates, with quality product achieving rents around \$0.40, 15% higher than in the second quarter of 2016. The market’s rapid growth over the past few years is now impacting long-term tenants up for renewal, as landlords push the envelope with 20-25% rate jumps, knowing that the demand for space in Reno will refill any vacancies in short order.

Data Source: Kidder Mathews Market Research

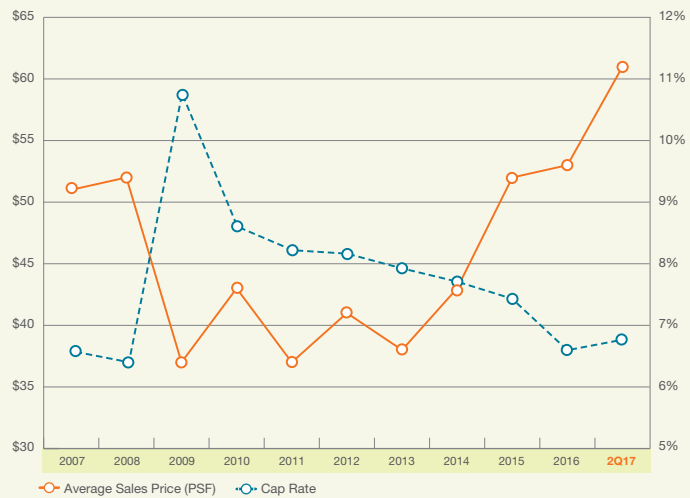
VACANCY VS BULK ASKING LEASE RATE*



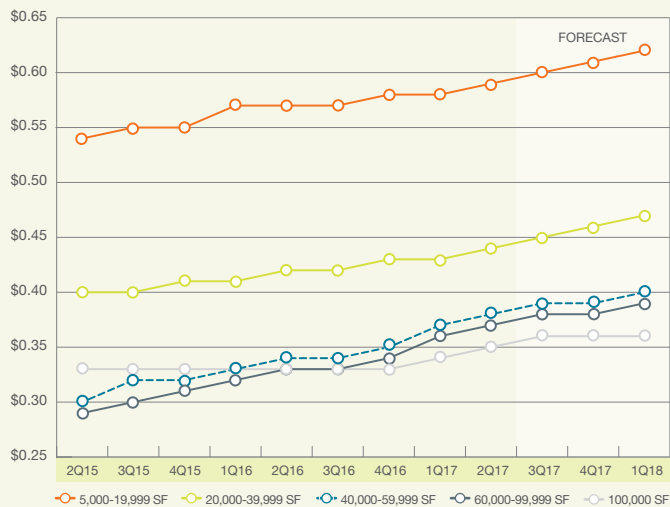
DIRECT VACANCY VS OVERALL VACANCY



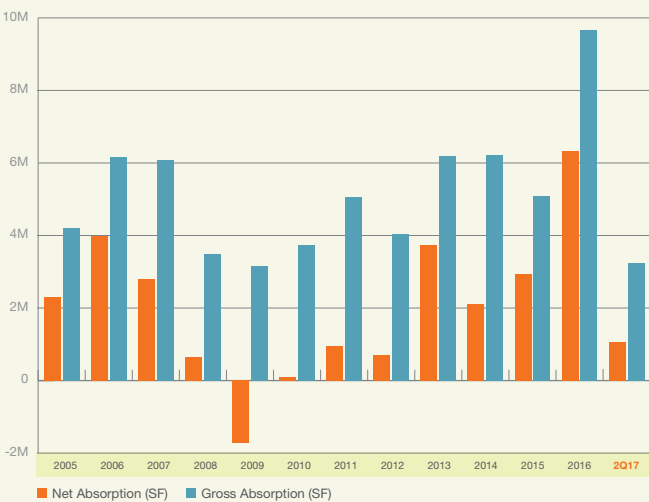
AVERAGE SALES PRICE & CAPITALIZATION RATE



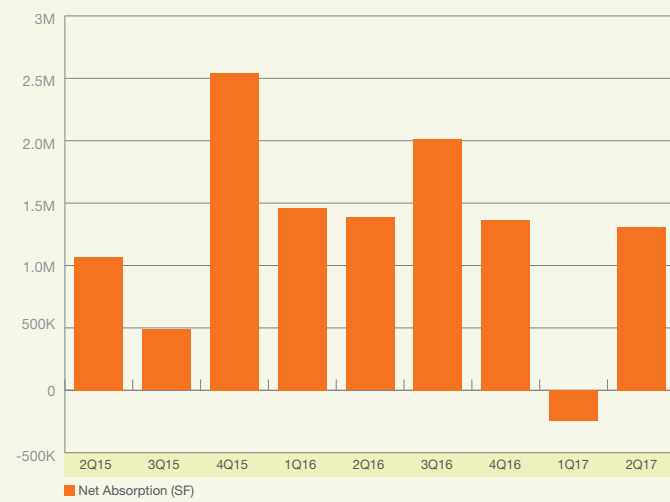
ASKING LEASE RATE



NET ABSORPTION - HISTORICAL



NET ABSORPTION - QUARTERLY



*BULK SPACES ARE DEFINED AS 50,000 SQUARE FEET AND UP

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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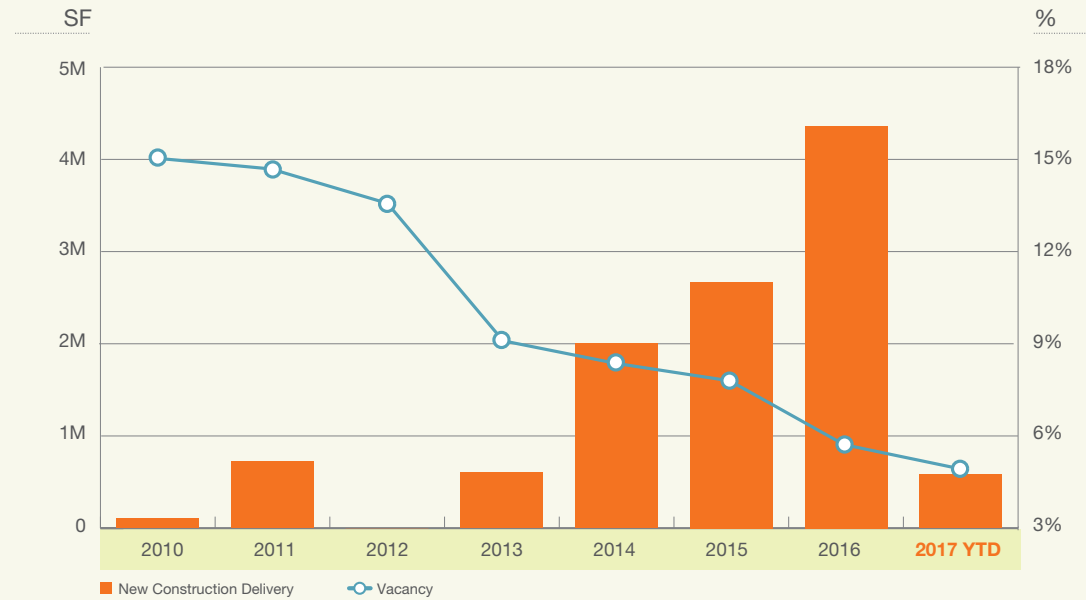
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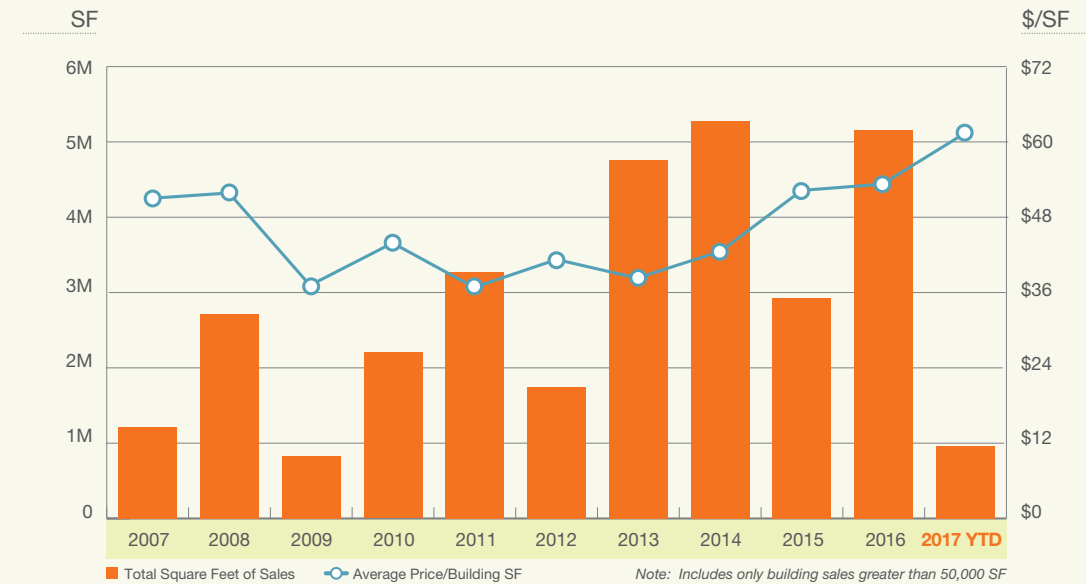
Market Breakdown

	2Q17	1Q17	2Q16	Annual % Change
Direct Vacancy Rate	4.94%	6.13%	7.58%	-34.8%
Overall Vacancy Rate	7.57%	8.50%	10.37%	-27.0%
Asking Bulk Lease Rate	\$0.35	\$0.34	\$0.34	4.2%
Leased SF	1,975,752	1,016,859	1,847,042	7.0%
Sold SF	126,408	838,370	278,356	-54.6%
Net Absorption	1,306,493	-246,547	1,383,704	N/A

HISTORICAL NEW CONSTRUCTION & VACANCY RATES



HISTORICAL SALES SF & AVERAGE SALE PRICE



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