

## Real Estate Market Review

# Reno Industrial

A steady but relatively quiet first quarter in the Reno industrial market promises to give way to more activity in the months to come, as showings, property inquiries, and letters of intent signaled the early stages of considerable second and third-quarter transactions. The Reno industrial market experienced 909,811 square feet of gross absorption during the quarter, driving the direct vacancy rate down to 3.61%. Interest in this market remains high supporting the theme of increasing popularity of the region. Decreasing supply and increasing demand for all industrial product types has resulted in rental rate increases across the board. Tenants are recognizing the rising market and starting to carefully assess their real estate needs for the long haul.

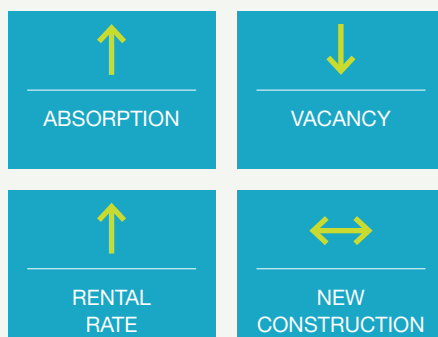
The Sparks industrial submarket captured 19 of the 36 total deals completed for the first quarter resulting in 337,938 square feet of gross absorption. The next most active submarket was the South Reno submarket which recorded eight deals totaling 257,329 square feet. The submarkets with the lowest vacancy levels are the South Reno and Airport submarkets with 1.88% and 2.81% vacancy rates respectively. There was 256,408 square feet of positive net absorption during the first quarter which dropped availability rate below 5%.

Vacant spaces below 50,000 square feet saw an uptick in activity this quarter. Consequently, asking prices have soared for both new leases and renewals from 5,000 to 25,000 square feet. Tenants are having difficulties finding industrial space in this size range, and the demand for these offerings means considerable competition for the remaining availabilities on the market.

Industrial sales were flat this quarter. There were seven transactions total, five of which were investment purchases.

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## Market Forecast Trends



## Notable Lease Transactions

SupplyHouse.com  
190,871 s.f. leased

Elite Spice  
174,493 s.f. leased

Bridgestone  
65,088 s.f. leased

## Notable Sale Transactions

550 Spice Island  
AIC Ventures

1455 Glendale  
Jeanine Landsinger MV GST Trust

7950 Sugar Pine Court  
Patagonia Inc.

# Area Review

## Submarket Statistics

Submarket	Total SF	Available SF	Availability Rate	Gross Absorption SF	Total Average Bulk Rate	Under Construction
North Valleys	21,698,368	1,053,496	4.86%	232,921	\$0.36	1,398,481
Sparks	25,698,241	1,961,736	7.65%	337,938	\$0.41	0
Airport	8,970,456	168,521	1.88%	33,653	\$0.46	20,200
South Reno	9,587,304	269,522	2.81%	257,329	\$0.38	0
Central & West Reno	1,748,211	221,094	12.65%	47,970	\$0.40	27,000
I-80 East Corridor	18,115,432	598,635	3.30%	0	\$0.31	550,500
<b>Total</b>	<b>85,748,012</b>	<b>4,273,004</b>	<b>4.98%</b>	<b>909,811</b>	<b>\$0.38</b>	<b>1,996,181</b>

The largest transaction was 550 Spice Island Drive in Sparks which is a stand alone single tenant building of 184,878 square feet on 11.43 acres. This investment was sold off-market at an undisclosed cap rate for \$10.5 million. Other investment purchases include the Case Equipment building of 22,650 square feet on roughly five acres. This sold for \$5.8 million which equated to a 6.39% cap rate. Cap rates and building prices continue to trend favorably to sellers.

The most notable sale in the region was the 67,125-acre land purchase in the Tahoe-Reno Industrial Center by the company Blockchains LLC for approximately \$175 million. This sale covered roughly 104 square miles and was the majority of the remaining land available in the 107,000-acre Tahoe Reno Industrial Center. Though the details of the project remain a secret, the buyer indicated they intend to use the land for a technology/research park and cryptocurrency related business.

Availabilities at the end of the quarter totaled 4,273,004 square feet, including 3,099,305 square feet of direct space and 1,173,699 square feet listed for sublease. An additional 174,493 square feet of new construction was added to the market this quarter solely from the McKenzie Properties' build to suit for Elite Spice in South Reno. By submarket, Sparks reported the highest volume of availabilities at 1,961,736 square feet, consisting of spaces mostly under 100,000 square feet.

The momentum of the industrial market's demand at the end of 2017, along with declining vacancy, has spurred new development projects. Panattoni announced their new Longley

Commerce Center project which will be a 270,975 square foot flex/bulk building located in the South Reno submarket. The project is scheduled to be complete in the fourth quarter of this year and will accommodate tenants' requirements in the desirable range of 8,000-100,000 square feet. Panattoni has 802,113 square feet under construction at the North Valleys Commerce Center, Building D, with delivery anticipated by the beginning of the fourth quarter of 2018. Also under construction in the North Valley is Dermody Properties with a 436,368 square foot building. In the I-80 East submarket, Conco has begun construction on a 550,500 square foot facility within the Tahoe-Reno Industrial Center.

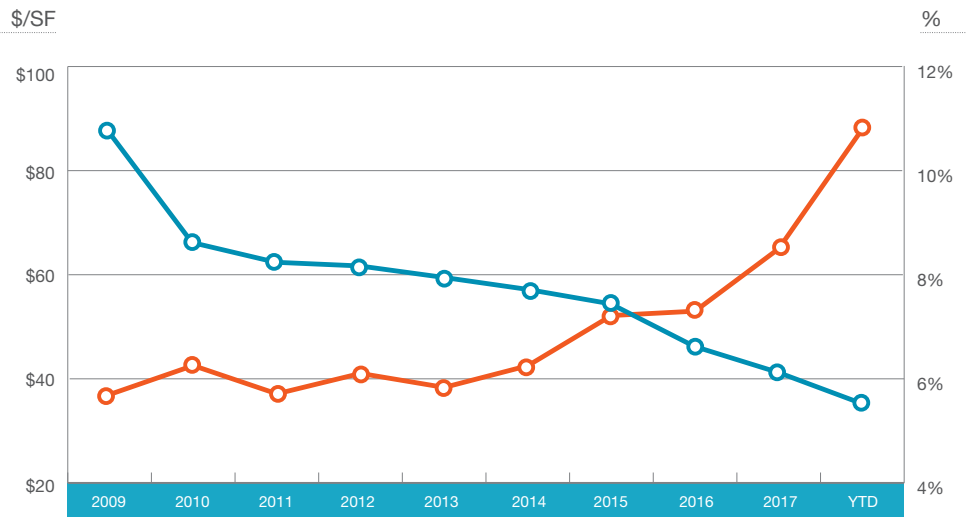
The tightening market trends and persistent demand has maintained upward pressure on asking lease rates. The asking lease/renewal rates for bulk spaces slowly increased every quarter and it is anticipated that rates will increase through the end of the year for smaller flex spaces.

Following Tesla's venture into the market, Silicon Valley companies (among others) are increasingly viewing Northern Nevada as a viable real estate alternative to California. With the ongoing need for industrial space, it is believed that the real estate market will continue to see an increase in industrial demand and development throughout the year.

*Data Source: Kidder Mathews Market Research & CoStar*

### AVERAGE SALES PRICE & CAPITALIZATION RATES

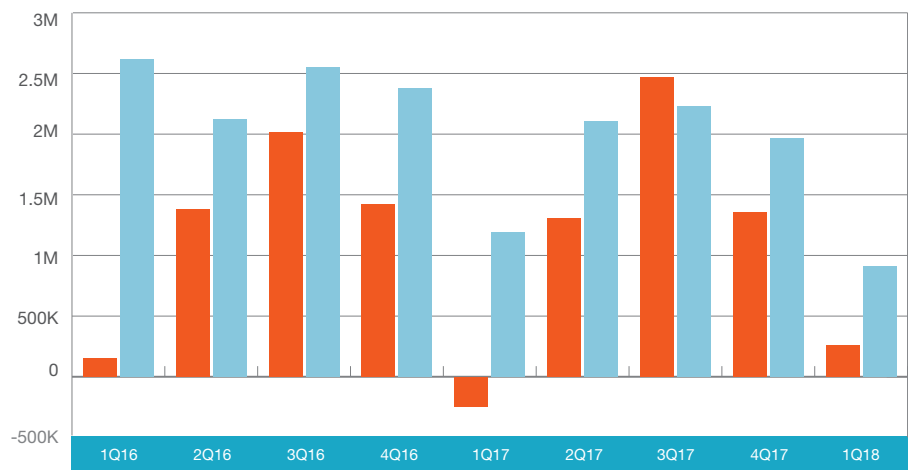
○ Average Sales Price (PSF)  
○ Cap Rate



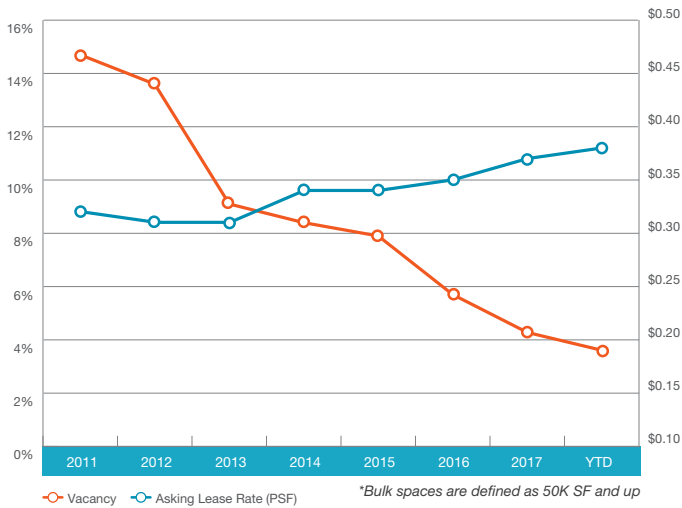
Note: Includes only building sales greater than 50,000 SF

### NET & GROSS ABSORPTION - HISTORICAL

■ Net Absorption (SF)  
■ Gross Absorption (SF)

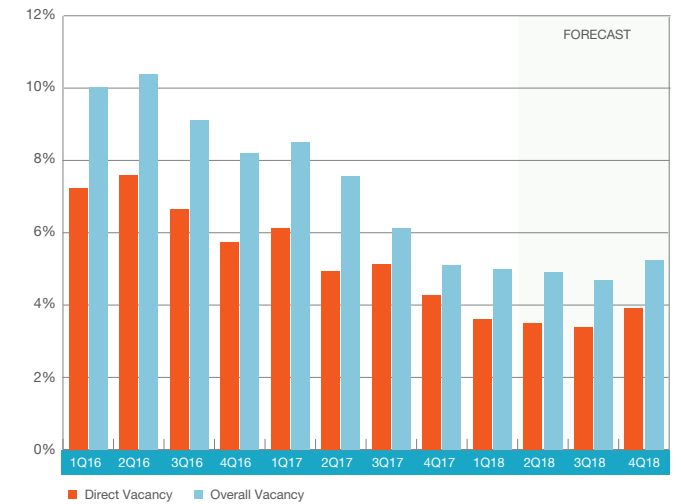


### VACANCY VS BULK ASKING LEASE RATE\*



\*Bulk spaces are defined as 50K SF and up

### DIRECT VACANCY VS OVERALL VACANCY



## Market Breakdown

### 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

Commerce  
323.727.1144

El Segundo  
310.807.0880

Long Beach  
562.472.0071

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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	1Q18	4Q17	1Q17	Annual % Change
Vacancy Rate	3.61%	4.28%	6.10%	-40.65%
Availability Rate	4.98%	5.09%	8.50%	-41.29%
Asking Lease Rate	\$0.38	\$0.37	\$0.36	5.55%
Leased SF	872,841	1,796,943	1,016,859	-14.16%
Sold SF	36,970	1,864,229	838,370	-96.30%
Net Absorption	256,408	1,357,478	-246,574	N/A

