

FIRST QUARTER 2019



Market Advisor

ACCURATE INFORMATION. BETTER RESULTS.

NORTHERN NEVADA MARKET UPDATE
FIRST QUARTER 2019
INDUSTRIAL VACANCY: 7.97%

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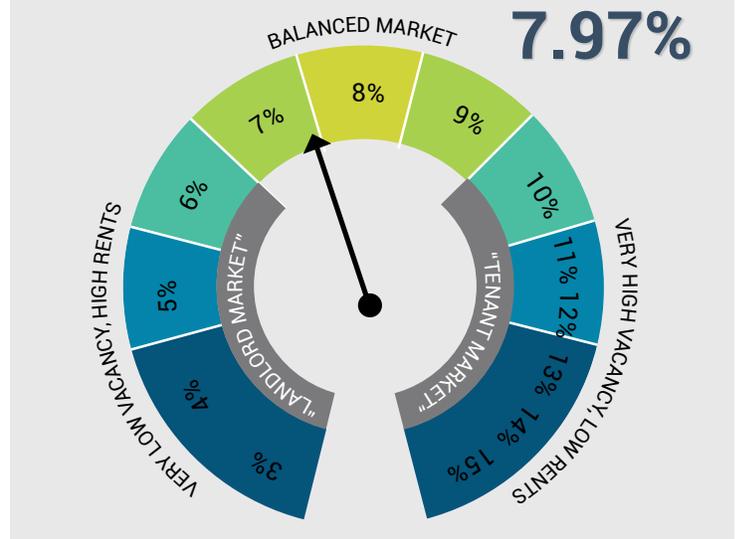


Q1 2019: ANOTHER AVERAGE PERFORMANCE QUARTER

Each quarter I look for interesting observations from the volumes of statistics we track and collect. I try to make the reporting of the industrial real estate market relevant and worth reading, instead of just posting statistics. This quarter is an especially tough one. In Q1 2019, we recorded a modest gross absorption of 1.3 million sf; this is vacant space taken by tenants. The market also had quite a healthy return to market of 1.4 million sf; this is vacated space that is now coming available to lease again (move outs). We also had new construction of 388,000 sf added to the available space this quarter. The net result is almost a push, or a balance, between the incoming and outgoing, with a slight negative net absorption of about 100,000 sf. There was a slight shift of vacancy from 7.44% to 7.97%, versus our five-year average of 8.01%. All together, you could say we had kind of an average quarter all around. Zoom out to a 10,000 foot look and, well, yawn.

In spite of that, here is an interesting point: the total industrial real estate market size is between 88 and 90 million sf, depending on which agency is doing the counting. Let's say 89 million sf, which is about the size of 46,000 average-sized single family homes or about a quarter of the number of all of the residential living units in Reno-Sparks. If you think this sounds like a very large amount of space, you're right. But how do we compare with other markets? Portland is a little over twice our size. Sacramento is about double our size. Vegas is about 40% larger. Los Angeles is over ten times our market size. However, the interesting fact is that Reno ranks second in the west, just behind Denver, for having the largest sized industrial real estate market as compared to the population. That means we're small but we have a massive industrial market. Reno-Sparks has a significant set of unique advantages that draws distributors and manufacturers, and those features likely won't be changing anytime soon. In other words, if you wanted any further proof

PERCENTAGE MARKET VACANCY WHAT DOES IT MEAN?



that our early founders were right when they selected our area logo, here it is. We truly are the biggest little city.

Our 2018 year-end report noted, "The tariff war, however, will not last forever. Tariffs will be lifted sooner or later and a more balanced foreign/domestic economic playing field will hopefully be in place as a result." Well, this is why I'm not a fortune teller, nor an economist. If anything, the parties seem to be further apart now that they were three months ago. With increasing tariffs flying in both directions, the equities markets on both sides are taking massive hits. With the U.S. position not likely to soften and China's continued economic growth so heavily linked to a favorable trade deal, someone has to blink for this one to move ahead. But a resolution may not happen soon and with so much distribution activity linked to foreign trade, the trade war may well have a cooling effect on this area's absorption numbers. If the demand side cools with fewer new tenants shopping for space and new projects keep rolling into inventory along with slowly increasing vacancy rates, we may see a relaxation of the long held landlord position of very few concessions and even possibly a small erosion on the asking rates. If this were to occur, this would be another step toward a more balanced market.

Quick Trends

FIRST QUARTER 2019

LEASE RATES

Stable rates in a landlord friendly market.



VACANCY

Q4 2018: 7.44%

Moderate inventory.

Q1 2019: 7.97%



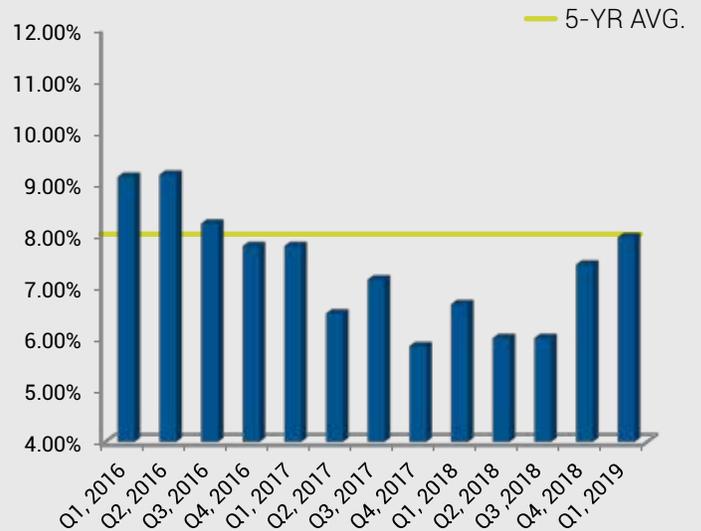
CURRENT QUARTER VACANCY ANALYSIS

Vacancy: 7.97%

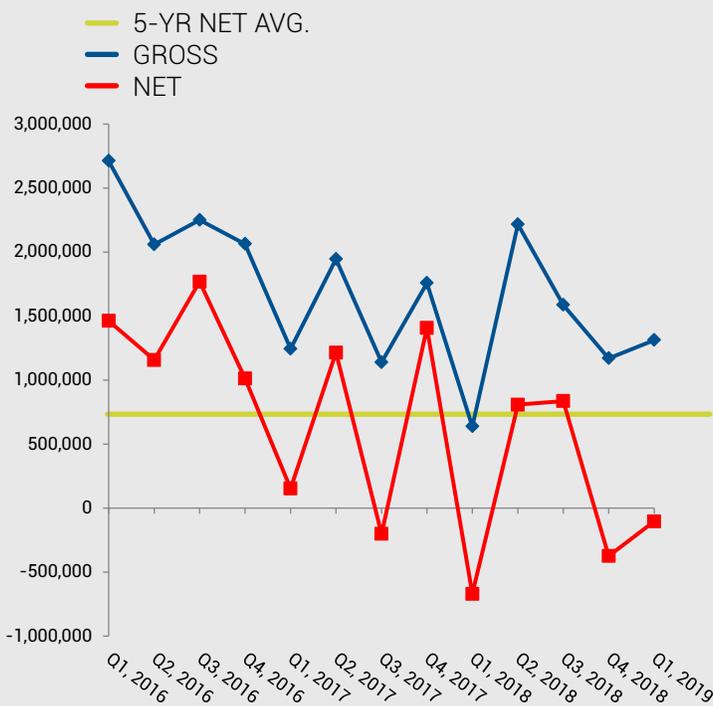


- 7% **HIGHER** than Q4 2018 (7.44%)
- 8% **LOWER** than Q1 2018 (8.68%)
- 0.5% **LOWER** than quarterly 5-year average (8.01%)

HISTORIC VACANCY



HISTORIC GROSS & NET ABSORPTION



CURRENT QUARTER NET ABSORPTION ANALYSIS



Net Absorption: -104,006 SF

- 72% **HIGHER** than Q4 2018
- 85% **LOWER** than Q1 2018
- 114% **LOWER** than quarterly 5-year average

Net Absorption: The measure of gross absorption less the space that tenants vacated and the new, vacant construction.

CONSTRUCTION

Continued large build-to-suit and speculative construction.



MARKET VELOCITY

Steady demand continues.



OUTLOOK

Stable inventory supply over most size ranges.



WHAT'S HAPPENING WHERE? Q1 2019 SUBMARKET STATISTIC BREAKDOWN

SUB-MARKET	SIZE (SQ.FT.)	VACANT (SQ. FT)	VAC. %	GROSS ABS.	NET ABS.	SPEC CONST.	BTS CONST.	TOTAL CONST.
North Valleys	23,021,477	1,293,266	5.62%	128,577	(341,919)	0	0	0
I-80 East Corridor	18,745,672	2,154,793	11.49%	256,000	(223,000)	0	0	0
Sparks	25,568,949	2,728,445	10.67%	462,948	140,076	0	0	0
Airport	8,892,236	444,774	5.00%	135,466	82,966	0	0	0
Reno Central/West	2,202,356	203,947	9.26%	323,352	232,490	388,750	0	388.750
Reno South	9,656,827	357,150	3.70%	5,381	5,381	0	0	0
TOTALS	88,087,517	7,018,813	7.97%	1,311,724	(104,006)	388,750	0	388,750

SIGNIFICANT Q1 2019 TRANSACTIONS

SALES TRANSACTIONS				LEASE TRANSACTIONS		
205 Parr Boulevard	Brockway, LLC	192,226 SF	\$12,302,000.00	2775 Newlands Drive	Webstaurant Store, Inc.	256,000 SF
2302 Larkin Circle	Omega Partners	30,368 SF	\$4,919,000.00	205 Parr Boulevard	Bender Warehouse	192,226 SF
276 Parr Boulevard	Southland Equities	9,632 SF	\$3,615,000.00	365 Cabela Drive	Patagonia, Inc.	143,000 SF
9728 S. Virginia Street	Scandia Realty Group	19,440 SF	\$3,292,000.00	2070 Brierley Way	LA T Sportwear Holding, LLC	110,000 SF
2401 E. 5th Street	Johansen Family Trust	12,500 SF	\$3,150,000.00	385 Cabela Drive	Patagonia, Inc.	104,000 SF

CONSTRUCTION

Construction activity continues with several new projects underway. Currently, Scannell is building the new 560,000 sf speculative property in Mustang; Panattoni is showing a very bullish position by taking on several new projects totaling five new buildings and 1.7 million sf; and Dermody Properties is finishing their new 436,000 sf warehouse on Military Road and Lemmon Drive, as well as their final two buildings at the Cabela's site on I-80 west. The former Kmart warehouse repositioning will be completed in late Q2 2019, adding over one million new square feet into the market as well. Tire Rack is expanding into 140,000 sf of new space, leaving another 140,000 sf available.

SPRING 2019 FORECAST

The trade wars may well have a trickle down impact on demand for new warehousing. If the economic impasse stays for a few more months, and the markets continue their resultant nosedive, we will be seeing a definite softening of landlord positions to help secure the fewer tenants seeking space. Plus, with new projects in the pipeline coming on board, this will definitely have a further impact on the vacancy numbers and could cool off some projects still in the wings waiting for absorption to catch up with the current inventory. Investors and developers already have a watchful eye on the market as everyone still remembers the 2008 overbuilt situation we experienced. No one wants to hold a vacant warehouse for two years. We are not forecasting a gloomy picture, just one of watchful concern.



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