

THIRD QUARTER 2019



# Market Advisor

ACCURATE INFORMATION. BETTER RESULTS.

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NORTHERN NEVADA MARKET UPDATE  
THIRD QUARTER 2019  
INDUSTRIAL VACANCY: 8.48%

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## Q3 2019: A "DULL" QUARTER YIELDS A BALANCED MARKET

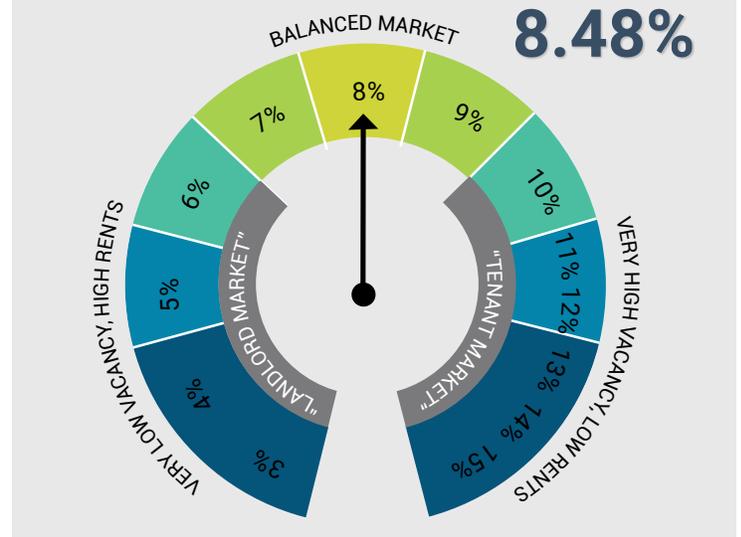
A quick look at statistics from previous quarters shows a low gross absorption, low net absorption, low return to market, and a low number of lease transactions – the term "dull" could be used to describe the activity. Vacancy rose to 8.48%, which in our view indicates a perfectly balanced market. At this point, you could yawn, turn the page, take a look at the quick facts and charts, and move on. However, if you want to understand the industrial real estate market in northern Nevada, you need to dig deeper.

For a more detailed view, market trends need to be considered. Trends tend to put dry data point facts into improved overall perspectives for a greater sense of true conditions. Northern Nevada, on average, has absorbed about 1.5 million SF of vacant space each quarter. To get a better understanding of that statistic, the next time you're watching a football game, check out the field from the sidelines to the end zones closely; it's pretty big! Imagine a typical business working in that large space with employees, machinery, lighting, products being trucked in and shipped out, an administrative staff in the office, and a few managers. Now line up over 30 of those fields full of businesses side by side – that's what northern Nevada brings into our community each quarter on average. This picture should give you a far better perspective of the scale of our local industrial market. And while we only filled 25 football fields this quarter, even a "dull" quarter has produced quite an impact on the real estate market and our community in general. Additionally, rather than just redistributing dollars between local businesses, many of those products are shipped out of Nevada, bringing new capital into our community from other areas and thereby growing our local economy.

The transaction size also tells of a somewhat slower quarter, when the five most significant lease transactions average only to about 64,000 SF. The number of total lease transactions above 5,000 SF was only about two-thirds of average. Sales to business users were also lower than average, as all significant sales were investment portfolio sales, in which one investment group or a merchant developer sells to another investment group. Digging deeper on the sales, however, five investment sales totaled approximately \$190 million dollars. This is a sign that northern Nevada is still a highly attractive industrial real estate investment market.

Gross absorption was 1.2 million SF and market space returns were 665,000 SF, yielding a net absorption of only 532,000 SF. That's about 75% of our five-year average. Vacancy started the quarter at about 7.9% and rose to about 8.5%, largely due to the addition of a sizeable new vacant warehouse at the Mustang exit, east of Sparks. As a note, Polaris' new 475,000 SF facility in Fernley is staffed and operating now as well.

## PERCENTAGE MARKET VACANCY WHAT DOES IT MEAN?



Our own vacancy chart indicates a balanced market. Defined as it pertains to leasing: i) adequate to plentiful supply of inventory, ii) steady and plentiful supply of quality tenants, and iii) reasonably motivated landlords. First, a count at the end of Q3 indicated about a half dozen big-box spaces available, which is an adequate amount of big-box options. In middle-sized properties from 45 to 70k SF, we have about eight availabilities which, while a bit low, still offers an adequate amount of choices. In the smaller sized spaces, 5 to 15k SF, we have about 16 options – more than adequate for most users to find a space. Adequate inventory is available in the northern Nevada market.

Next, our market velocity for tenant activity is about average for this time of the year. Lastly, we are not experiencing what we would characterize as motivated landlords. Rather, landlord portfolios are sufficiently occupied to produce acceptable returns of invested capital, leaving landlords still choosy about the deals they'll consider. For landlords to be highly interested in a potential transaction, tenants need to have solid credit, be open to lengthy lease terms, pay close to asking lease rates with escalations, and accept minimal concessions. Tenants are experiencing a competition to secure the most desirable spaces as they come available. The balance in the tenant-landlord remains tilted to the landlords' advantage, despite what our charts indicate should be taking place based on vacancy alone. The bottom line is that sometimes while basic economic conditions should produce predictable results, occasionally what happens at the point of sale isn't exactly what we would expect. That would be what we are seeing now in our market.

## Quick Trends

THIRD QUARTER 2019

### LEASE RATES

Stable rates in a landlord friendly market.



### VACANCY

Q3 2019: 8.48%



Moderate inventory over most size ranges.

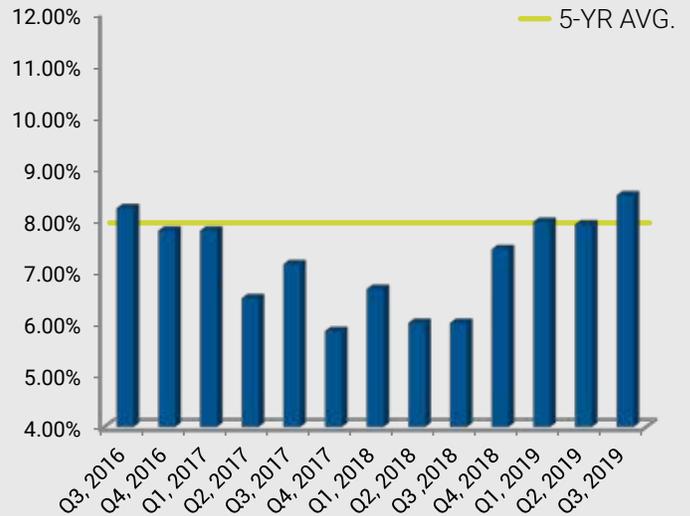
Q2 2019: 7.92%

## CURRENT QUARTER VACANCY ANALYSIS

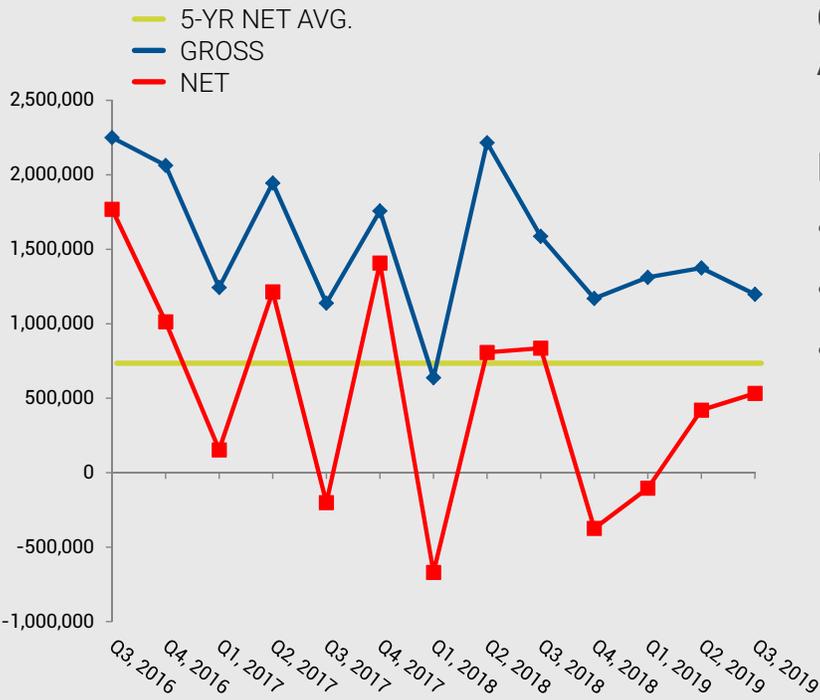
Vacancy: 8.48% 

- 7% **HIGHER** than Q2 2019 (7.92%)
- 45% **HIGHER** than Q3 2018 (5.85%)
- 6% **HIGHER** than quarterly 5-year average (8.00%)

## HISTORIC VACANCY



## HISTORIC GROSS & NET ABSORPTION



## CURRENT QUARTER NET ABSORPTION ANALYSIS

Net Absorption: 532,287 SF

- 27% **HIGHER** than Q2 2019
- 36% **LOWER** than Q3 2018
- 24% **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? Q3 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	23,021,845	982,493	4.27%	187,596	178,796	0	0	0
I-80 East Corridor	20,005,542	2,544,928	12.72%	515,500	515,500	560,850	555,500	1,116,350
Sparks	25,568,949	3,064,331	11.98%	234,071	(180,869)	0	0	0
Airport	8,892,236	627,476	7.06%	127,206	(3,730)	0	0	0
Reno Central/West	2,202,356	225,211	10.23%	22,100	7,800	0	0	0
Reno South	9,927,802	316,907	3.19%	111,290	14,790	0	0	0
<b>TOTALS</b>	<b>89,618,730</b>	<b>7,597,784</b>	<b>8.48%</b>	<b>1,197,763</b>	<b>532,287</b>	<b>560,850</b>	<b>555,500</b>	<b>1,116,350</b>

## SIGNIFICANT Q3 2019 TRANSACTIONS

SALES TRANSACTIONS				LEASE TRANSACTIONS		
355-385 Cabela Drive	Black Creek Group	792,547 SF	\$72,322,250.00	9175 Moya Boulevard	1A Auto, Inc.	149,196 SF
8020 & 8040 N. Virginia Street	Black Creek Group	402,321 SF	\$53,900,000.00	4900 Ampere Road	Whole Hog Hospitality	64,086 SF
Southern Way Portfolio	The Bendetti Company	631,580 SF	\$34,750,000.00	880 North Hills Boulevard	Sherrill	38,400 SF
960 & 970 United Way	Stockbridge Real Estate	227,762 SF	\$14,399,652.00	6550 Longley Lane, Suite 135	Hammond Power Solutions	36,000 SF
4690 Longley Lane	Simon Levi Company	107,337 SF	\$13,130,000.00	6550 Longley Lane, Suite 150	Atlantic Packaging	34,650 SF

## EARLY WINTER 2019 FORECAST

While the trade war issues seem to be too complex to try to resolve, there is hope that some degree of resolution is beginning to take place. Still, trade tariffs look like they will remain the status quo into 2020. New projects are coming out of the ground that will be available late this year and early next year. If the mild slowdown of absorption remains, we could see an elevation of the vacancy rates and probable slight pricing adjustments accordingly. There has been talk of a new large spec. distribution center for Fernley, but time will tell if that new inventory gets built now or waits for a user to step up first. With these 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 waiting in the wings 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 overbuild situation of 2008 that we experienced. No one wants to hold a vacant warehouse for two years. As we said last quarter, we are not forecasting a gloomy picture, but rather one of watchful concern.



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