

SECOND QUARTER 2019



Market Advisor

ACCURATE INFORMATION. BETTER RESULTS.

NORTHERN NEVADA MARKET UPDATE
SECOND QUARTER 2019

INDUSTRIAL VACANCY: 7.92%

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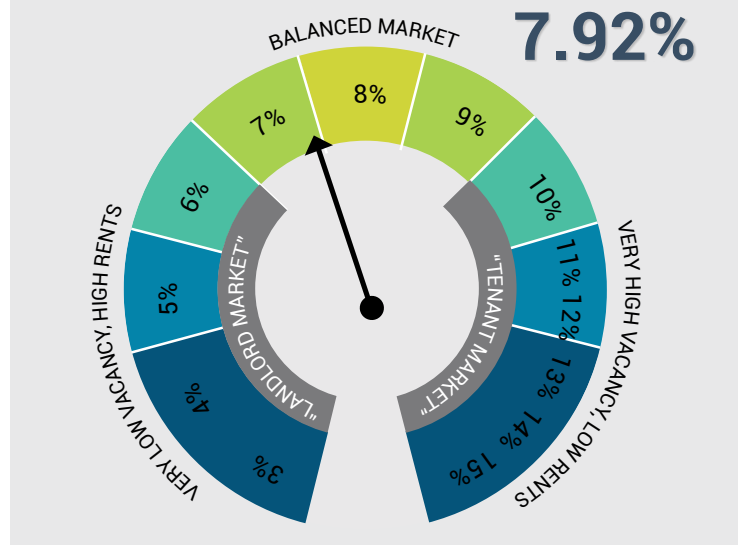
Q2 2019: MAINTAINING OUR BATTING AVERAGE

When the quarterly commercial real estate absorption is tallied, the chatter in the CRE industry revolves around whether we're seeing a slowdown in activity. There will be reports of a continued bull market, as well as naysayers purporting to see a trend of slowing activity. Either way, one thing is certain – to judge industry trends based on one or two quarters of activity is not prudent. If we zoom out and take a more broad-based look at absorption with respect to five-year averages, we can observe more balanced data points. It's also important to remember that northern Nevada has experienced record growth for the past few years so. If our growth appears a bit slowed, it's coming down from all-time record highs.

In Q2, the Reno-Sparks industrial market had above average performance in gross absorption at 1,375,000 square feet, roughly 15% lower than our five-year average. However, our net absorption was a low 420,000 square feet, 38% below our five-year average of 685,000 square feet. This low net absorption was due to a healthy return of properties to the market, which was close to our five-year return to market average. This year to date has been lackluster, with no absorption or construction records being set. But are we ready to say we are seeing a general market slowdown? Let's look deeper at some of the current conditions that impact whether or not big businesses decide to expand.

The United States/China trade tensions are continuing, with no signs of a speedy resolution. This level of foreign trade insecurity on the minds of CEOs and CFOs means businesses' expansions are affected by slowdowns, postponements, or a "wait and see" approach. However, the equity markets have rallied steadily in 2019, showing a full recovery from the massive 15 to 20% sell off we saw at year-end 2018. Markets are trading again at all-time

PERCENTAGE MARKET VACANCY WHAT DOES IT MEAN?



record highs. The GDP growth is maintaining at the 2-3% sweet spot, with little inflation nor deflation – i.e. another year in the Goldilocks economy range. Still, analysts are predicting a mild overall growth slowdown in 2020 and beyond due to expectations that tariffs may remain for the longer term. Yet to be seen is if the tariffs will actually cause a higher growth in manufacturing as predicted.

When you consider the current level of global volatility, the impact that uncertainty has on our economy, and factor in the extreme slowdown of certain Asian business into the US markets, our commercial real estate performance seems to be actually quite substantial. We are also seeing considerable interest in our area from out of market developers buying large tracts of raw land as well as bidding on for sale warehouse portfolios. Northern Nevada is definitely on the radar with both companies looking for that ideal western location and investors alike. While no one can predict what the rest of the year and 2020 will look like in terms of area growth, our best bet, based on historical market data, is a slight easing off the gas but with continued average absorption.

Quick Trends

SECOND QUARTER 2019

LEASE RATES

Stable rates in a landlord friendly market.



VACANCY

Q1 2019: 7.97%

Moderate inventory over most size ranges.

Q2 2019: 7.92%



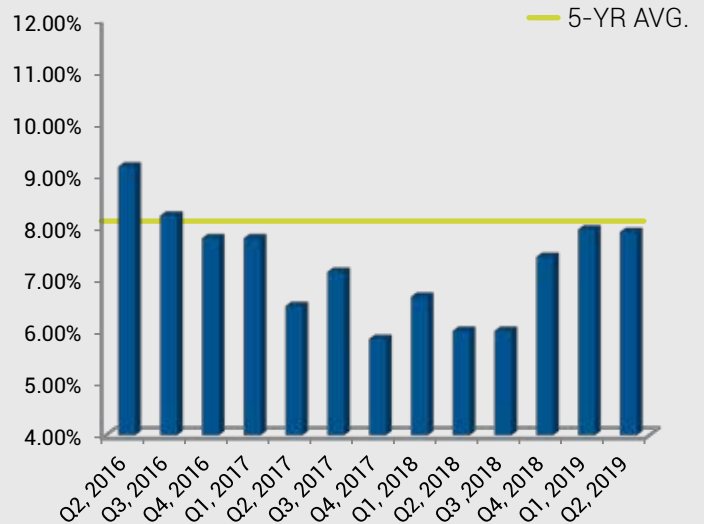
CURRENT QUARTER VACANCY ANALYSIS

Vacancy: 7.92%

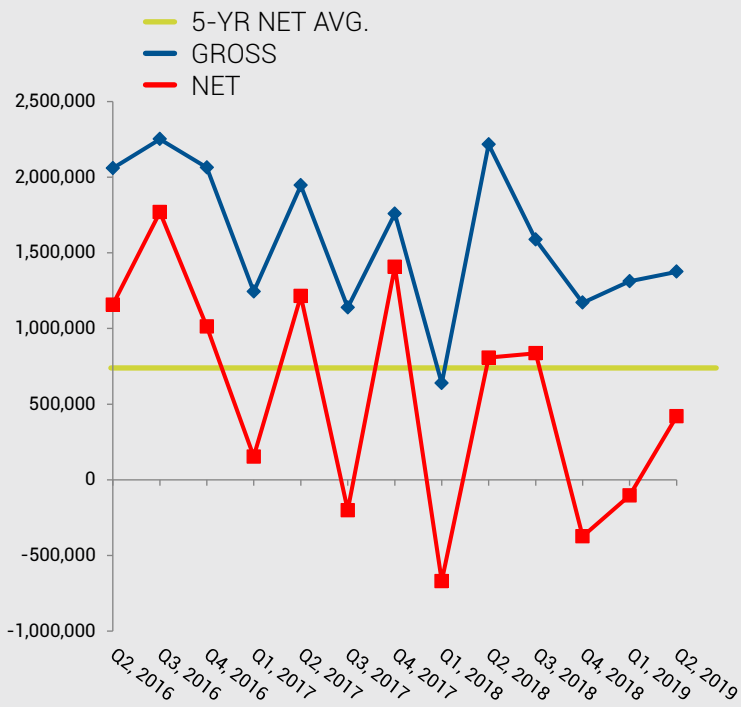


- 0.6% **LOWER** than Q1 2019 (7.97%)
- 35% **HIGHER** than Q2 2018 (5.85%)
- 1.25% **LOWER** than quarterly 5-year average (8.02%)

HISTORIC VACANCY



HISTORIC GROSS & NET ABSORPTION



CURRENT QUARTER NET ABSORPTION ANALYSIS



Net Absorption: 419,955 SF

- 5X **HIGHER** than Q1 2019
- 86% **LOWER** than Q2 2018
- 39% **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? Q2 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	1,160,921	5.04%	184,200	132,345	0	0	0
I-80 East Corridor	18,889,192	1,944,078	10.29%	354,235	354,235	0	143,520	143,520
Sparks	25,568,949	2,883,462	11.28%	364,127	(155,017)	0	0	0
Airport	8,892,236	623,746	7.01%	126,863	(178,972)	0	0	0
Reno Central/West	2,202,356	233,011	10.58%	37,940	(29,064)	0	0	0
Reno South	9,927,802	331,697	3.34%	307,428	296,428	270,975	0	270,975
TOTALS	88,502,012	7,013,353	7.92%	1,374,793	419,955	270,975	143,520	414,495

SIGNIFICANT Q2 2019 TRANSACTIONS

SALES TRANSACTIONS				LEASE TRANSACTIONS		
Northwest Mutual Portfolio	The Blackstone Group	1,772,288 SF	\$157,800,000.00	1190 Trademark Drive, Suite 100	Grove Collaborative	198,000 SF
1150 Southern Way	Alpha Surplus	40,040 SF	\$3,085,000.00	775 Waltham Way	Symbia	180,000 SF
4665 Aircenter Circle	Hamilton Medical	20,938 SF	\$3,215,000.00	1402 S McCarran Boulevard	IAL	165,500 SF
2530 Wrondele Way	Kraft /Haug Living Trust	16,980 SF	\$2,220,000.00	3300 Waltham Way	TireRack	143,520 SF
690 Kresge Lane	Rollins, Inc.	11,528 SF	\$1,575,000.00	5360 Capital Blvd	TriStar	72,500 SF

CONSTRUCTION

With new projects in the pipeline coming on board, this will definitely have further impact on the vacancy numbers and could cool off some new inventory 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 overbuilt situation of 2008 and nobody wants to hold a vacant warehouse for two years. We are not forecasting a gloomy picture, just one of watchful concern. There has been speculation of a new large speculative distribution center for Fernley, but only time will tell if that new inventory gets built now or waits for a user to step up first.

SUMMER & FALL 2019 FORECAST

The trade wars seem to be here to stay and maintaining the tariff status quo into 2020 doesn't seem farfetched. There are some new projects coming out of the ground that will be available late 2019 and early next year. Our current availability represents an adequate supply of big box space and small availabilities, but we are lacking inventory in the 25,000 to 45,000 square foot range. Panattoni's new building at 6550 Longley Lane in the South Reno submarket offered a variety of space sizes, not just single tenant big box, and the building will be fully leased before a certificate of occupancy has been issued. If the mild slowdown of absorption remains, we could see an elevation of the vacancy rates and probable slight pricing adjustments accordingly.



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