

FOURTH QUARTER 2020



Market Advisor

ACCURATE INFORMATION. BETTER RESULTS.

NORTHERN NEVADA MARKET UPDATE
FOURTH QUARTER 2020
INDUSTRIAL VACANCY: 5.83%

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2020 YEAR END SUMMARY AND FOURTH QUARTER REPORT

2020: Year End Summary

At this time, one year ago, we predicted that “barring an unforeseen, world-rattling event” that we would not be experiencing an economic downturn in 2020 and that “absent anything upsetting the global applectart” historical absorption indicates developers should keep looking for more raw land to keep the concrete flowing and the walls tilting in 2020.

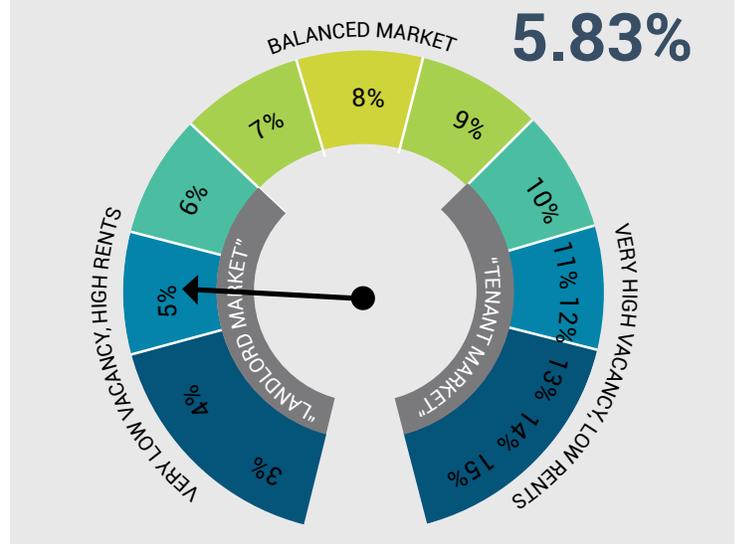
To say that we grossly missed our initial forecast for the year of 2020 is an understatement but, we also have a lot of company on that. As we were preparing quarterly numbers and analyzing historical data, an unnamed virus was forcing a lockdown of 11 million people in Wuhan, China. As we watched this news from a distance, we were blissfully ignorant to the fact that this virus was about to change our lifestyles, our businesses and our world. On January 21, 2020 the United States saw its first confirmed case of Covid-19 and by the middle of March, 2020, with no federal mandates in place, states began taking various steps to stave off the CV-19 threat on a state level.

As we entered the shelter at home phase and most businesses went into a pause mode, the equity markets reacted with massive declines approaching 30%. Likewise, business inquiries for new industrial space went into a holding pattern. As the expectation grew that the virus will be managed and handled, business activity soon picked back up. With that, equity market values began to increase again. As businesses settled into their newfound methods to conduct operations, growth quickly came back to life with the market indices gaining 45% to over 70% based on the sectors measured. In short, 2020 turned out to be a banner year in the equity markets with capitalization values booming. All of this means increased potential for firms expanding and relocating to the strategic markets such as Nevada.

The phrase “new normal” is actually quite vague but, certainly there will be specific aspects from our pandemic lifestyles that will outlast the virus. Current estimates are that 3-4x the pre-pandemic remote workforce will remain work-from-home permanently. Businesses are planning to take advantage of the savings on real estate and business travel expenses. Employees are appreciating the flexible schedule that WFH provides, making it a win-win. Remote work will also be expanded to out of home locations after the virus threat subsides, making the remote experience even more desirable and flexible.

Shopping was radically changed in 2020 as well. Online e-commerce was a growing segment but 2020 accelerated that trend drastically. Traditional brick and mortar retailers quickly got into the online buying action by offering both online buying with quick front door delivery or in-store pickup, even with no touch into your car trunk in the parking lot delivery. The entire e-commerce logistics supply chain was stressed like never before to meet demand. Since no one is predicting this trend to significantly subside post pandemic, the demand for e-commerce logistics space in strategic locations is strong and the northern Nevada continues to benefit from this

PERCENTAGE MARKET VACANCY WHAT DOES IT MEAN?



trend. As the panic buying of certain items reached far more than toilet paper and sanitizing wipes, many manufacturers were heavily backlogged. To avoid a repeat of this scenario many suppliers have quickly leased third party logistics space to build up a storage of backup products to better prepare for the next unforeseen event.

Fourth Quarter, 2020

As we closed the books on Q4 2020 the northern Nevada market saw a slight rise in our vacancy rate, inching up from 5.23% to 5.83%. While we neared 2.5 million square feet of new industrial gross absorption, we also saw 1.5 million square feet of previously occupied warehouse become available and returned to the industrial inventory. This resulted in a net absorption of 951,318 SF, sitting right at par with our five-year average. Construction completion was 2.5x higher than the previous quarter with 1.13 million square feet of industrial product being added to the market. New class “A” space continues to be in high demand and 90% of this new construction was pre-leased at time of completion.

Even with the small uptick in vacancy, northern Nevada is still experiencing healthy absorption numbers resulting in a landlord favored climate. Landlord's are offering few, if any, lease concessions and current tenants are experiencing renewal rates 50% higher than their prior lease term. Companies seeking new space are seeing terms no shorter than five-years, requirements for above average credit and strong business financials, and increased competition amongst available properties.

In addition to companies relocating to Reno or expanding their current operations in the northern Nevada market, we also seeing a strong demand for NNN-leased industrial portfolios from out-of-state investors. Low cap rates and strong national tenants resulted in 1.8 million square feet of fully leased product changing hands for \$177.4 million in the top five sales of the fourth quarter.

Quick Trends

FOURTH QUARTER 2020

LEASE RATES

Steady increase in lease rates.



VACANCY

Q3 2020: 5.23%



Spotty inventory over some size ranges.

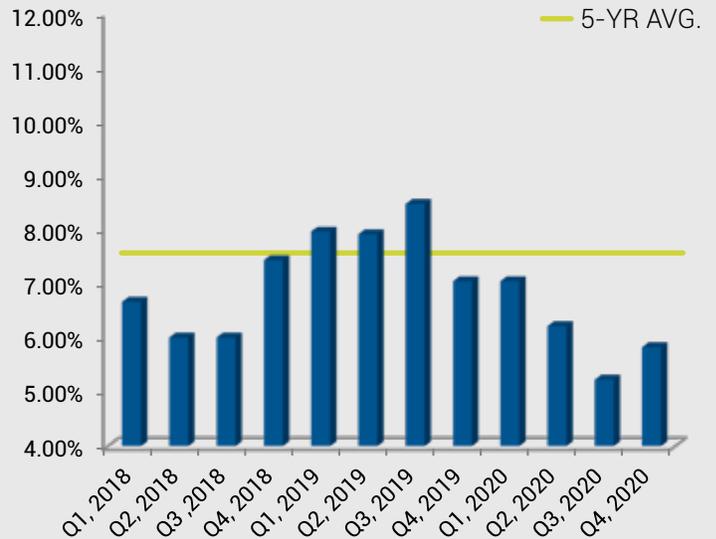
Q4 2020: 5.83%

CURRENT QUARTER VACANCY ANALYSIS

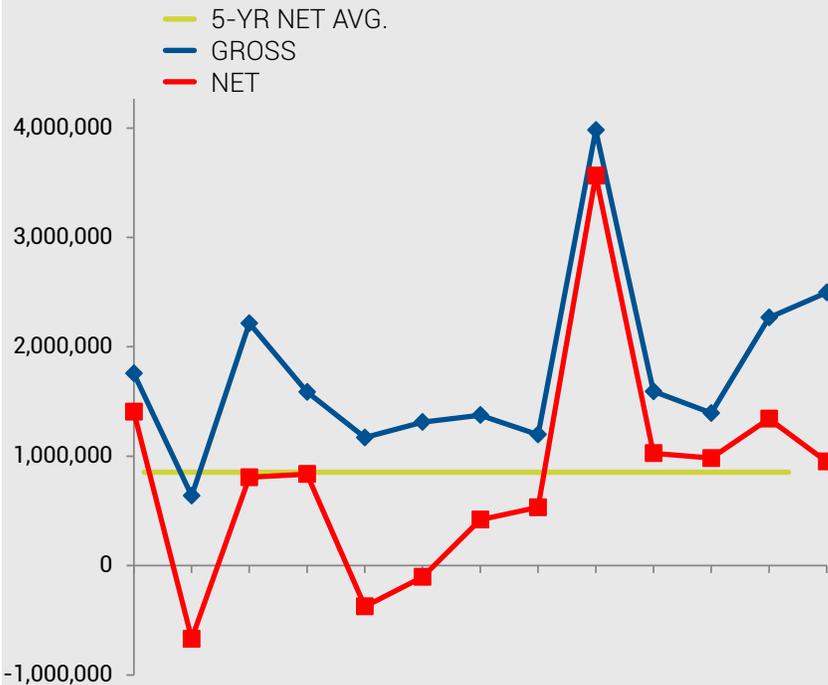
Vacancy: 5.83% 

- 11% **HIGHER** than Q3 2020 (5.23%)
- 17% **LOWER** than Q4 2019 (7.05%)
- 19% **LOWER** than quarterly 5-year average (7.17%)

HISTORIC VACANCY



HISTORIC GROSS & NET ABSORPTION



CURRENT QUARTER NET ABSORPTION ANALYSIS

Net Absorption: 951,318 SF

- 29% **LOWER** than Q3 2020
- 73% **LOWER** than Q4 2019
- 3% **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

Solid demands continue.



OUTLOOK

Increased demand is greater than supply, yielding low inventory and increased lease rates.

WHAT'S HAPPENING WHERE? Q3 2020 SUBMARKET STATISTIC BREAKDOWN

SUB-MARKET	SIZE (SQ.FT.)	VACANT (SQ. FT)	VAC. %	GROSS ABS.	NET ABS.	SPEC CONST.	BTS CONST.	TOTAL CONST.
North Valleys	28,243,058	1,565,181	5.54%	714,897	196,876	1,133,713	0	1,133,713
I-80 East Corridor	20,615,942	1,886,260	9.15%	786,856	650,856	0	0	0
Sparks	25,568,949	1,528,433	5.98%	769,074	282,651	0	0	0
Airport	8,892,236	351,530	3.95%	6,200	(19,491)	0	0	0
Reno Central/West	2,202,356	105,358	4.78%	192,780	(39,205)	0	0	0
Reno South	9,927,802	289,214	2.91%	192,780	(120,369)	0	0	0
TOTALS	95,450,343	5,562,414	5.83%	2,495,911	951,318	1,133,713	0	1,133,713

SIGNIFICANT Q4 2020 TRANSACTIONS

SALES TRANSACTIONS				LEASE TRANSACTIONS		
8730 Military Road	Black Creek Group	722,512 SF	\$67,735,500.00	725 Waltham Way	Geodis	255,000 SF
12475 Mustang Road	LBA Realty	561,000 SF	\$44,500,000.00	2555 USA Parkway, Suite 105	Cannon Equipment, LLC	182,000 SF
45 & 55 Vista Boulevard	BT Property, LLC	441,198 SF	\$30,645,747.00	9595 North Virginia Street	Sealy Mattress	145,000 SF
4910 Longley Lane	GPR Ventures	314,400 SF	\$21,980,000.00	9565 North Virginia Street	Union Supply Company	129,041 SF
655 Spice Island Drive	Investcorp	164,918 SF	\$12,539,500.00	1175 Trademark Drive	Advance Mask	99,125 SF

CONSTRUCTION AND FORECAST

Assuming no new unforeseen events, the expectation is that the new vaccines will be effective and accepted by a sufficient amount of our population, allowing a return to some of the ways of life we no longer take for granted. As the virus is reduced to no longer being a public health and economic hazard, northern Nevada could be facing a significant shortage of available space to meet the expected demand. Firms relocating to northern Nevada may be forced to wait for new product to come on line or accept whatever space might be available, though possibly not meeting all of their needs. While rental rates have steadily climbed due to supply and demand, we could see a further increase in lease rates pushing into 2021.

As we enter 2021, there is currently 2.8 million square feet of new industrial product under construction. Dermody Properties and Reno Land, Inc. have broken ground on The Park at McCarran, three buildings totaling 1,348,700 SF at McCarran Boulevard and Mill Street, Avenue 55 is wrapping up construction of Ingenuity Industrial Center, three buildings totaling 659,280 square feet in Spanish Springs, with an estimated occupancy date of late Q2 2021, McKenzie Properties began grading for South Reno Industrial Center, three buildings totaling 136,000 square feet at Trademark Drive and Double Diamond Parkway in the South Meadows submarket and Washington Capital Management continues construction on 663,600 square feet of product at the West America Commerce Center on Milan Drive in the Tahoe-Reno Industrial Center. In addition to the new space that is currently under construction there is another 5.2 million square feet of proposed and planned space waiting in the wings.



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