

Q2
2022

INDUSTRIAL REPORT



SALES
LEASING
NEW CONSTRUCTION



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NORTHERN NEVADA

WHERE DO WE **STAND?**

Q2



AVERAGE BULK INDUSTRIAL LEASE RATE = \$0.63 SF/MO NNN

VACANCY

Q2 marked the seventh consecutive quarter of decreasing vacancy with another 27 basis point dip to a choking 0.73% direct vacancy, marking yet another record low for Northern Nevada. With only 714,096 sq. ft. of current available space, new construction deliveries scheduled 6-9 months out can't come soon enough as patience runs thin for building users.

ABSORPTION

With 1% vacancy rolling into Q2, severely constrained inventory left limited options for relocating and expanding businesses within the market, resulting in a dip in absorption by nearly 50% quarter over quarter. Absorption will likely remain relatively thin throughout the balance of the year, with exception to a few large BTS completions scheduled for Q3/Q4 delivery.

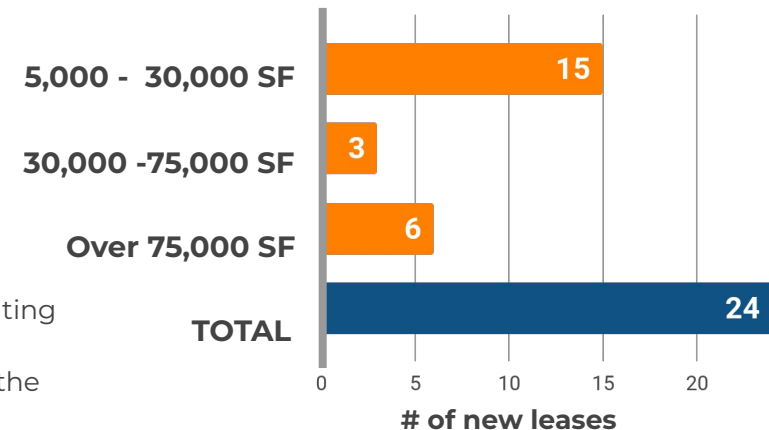
LEASE RATES | SALE PRICES

Despite signs of market softening nationally, tenant demand for industrial product in Northern Nevada continues to outpace supply keeping upward pressure on lease rates across the board. Average quarter over quarter base rent increases were \$0.05 sf/mo for big-box, \$0.07 sf/mo for mid-box, and \$0.10 sf/mo for flex space. However, constricted lending conditions reflected a direct negative impact on sale volume and pricing due to the continuation of increasing interest rates.

CONSTRUCTION

The 2nd quarter delivered 3 buildings totaling 948,096 square feet, 88% of which was pre-leased. Meanwhile, the construction pipeline replenished itself with an additional 1.7 million square feet breaking ground with mid to late 2023 planned completions, adding to the 3.1 million square feet of existing product already under construction. The balance of 2022 is planned to receive upwards of 2.5 million square feet of new deliveries to finish off the year.

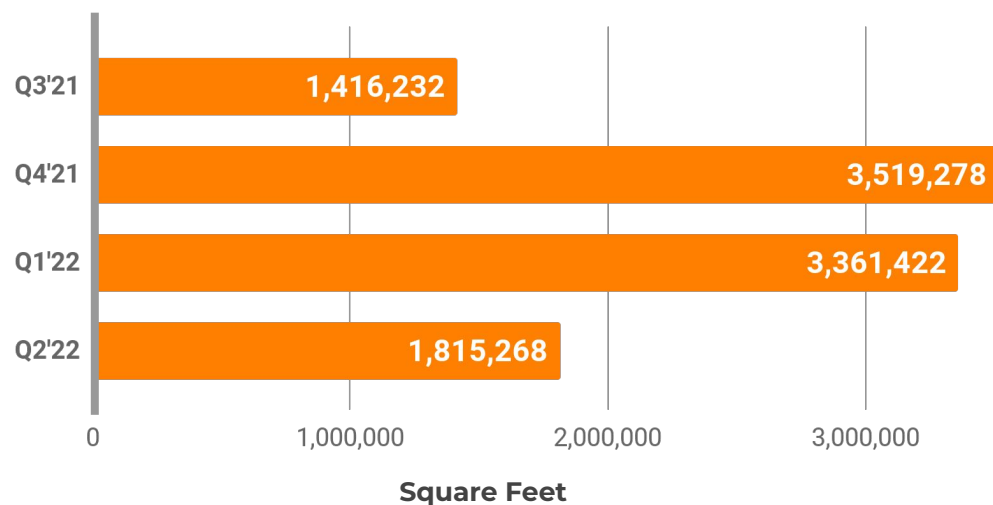
Q2 NEW LEASE TRANSACTIONS



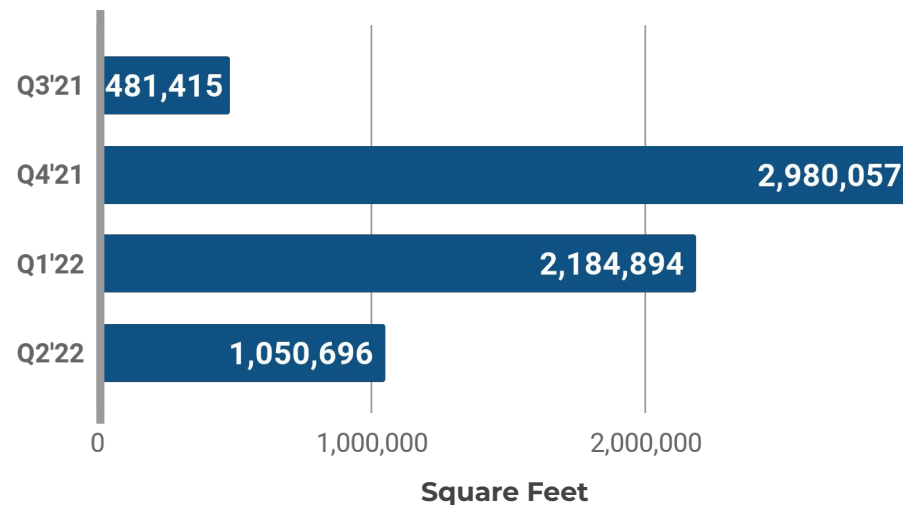
ABSORPTION & SUBMARKET VACANCIES

Q2

Gross Absorption



Net Absorption



VACANCY

Submarket	Total SF	Direct Available SF	Vacancy Rate	Completed Construction SF	Under Construction SF
North Valleys	27,705,887	168,140	0.61%	-	945,678
Sparks	26,961,290	242,691	0.90%	-	738,360
Airport	10,199,495	52,168	0.51%	351,696	-
South Reno	9,838,909	29,764	0.30%	-	396,690
Central-West Reno	2,090,572	74,408	3.56%	-	-
I-80 East Corridor	20,893,955	146,925	0.70%	596,656	2,811,985
TOTAL	97,690,108	714,096	0.73%	948,352	4,892,713

NOTABLE TRANSACTIONS

Q2



Q1 2022 Industrial Sale Volume: \$21,851,869

Q2 2022 Industrial Sale Volume: \$38,150,500

SALES RECAP

Second quarter sale volume saw a slight uptick over Q1 but remained slow overall with just 10 transactions totaling \$38,150,500. The south Reno submarket produced the largest transaction at 8895 Double Diamond Pkwy where McKenzie properties sold an 84,000 sf two tenant building to Vogel Properties for \$20,076,000 (\$239 psf) at a 3.44% cap rate. The building was constructed in 2021 and was 100% pre-leased prior to completion. In the central-west Reno submarket, 265 Keystone Ave was acquired for a conversion project, which included an older two story class C warehouse building on 3.3 acres that sold for \$4,000,000.

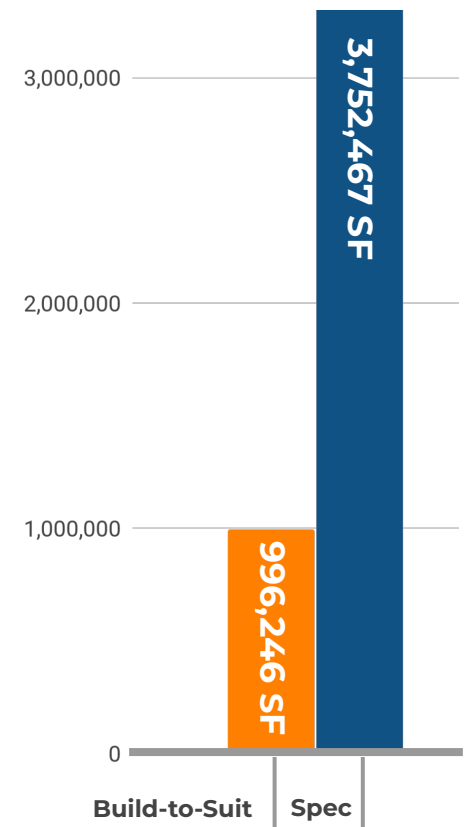
NEW CONSTRUCTION

Q2 new completions kicked off with Dermody Properties and Locus Development Group finishing the Park at McCarran spec project Buildings 2 and 3, at 145,048 square feet and 206,648 square feet respectively, located in the Airport submarket. In the I-80 East submarket, Mohr Capital completed the spec 596,656 square foot project on Waltham Way, which was 100% preleased.

The construction pipeline held steady with five buildings breaking ground in the I-80 East corridor. Mark IV Capital began site work on buildings B, C and D2 in Victory Logistics District - 223,100, 122,400 and 635,195 square feet, each on spec with planned completion in Q3 2023. In the Tahoe Reno Industrial Center, Avenue 55 kicked off the 432,320 square foot spec building on Waltham Way and Ti Cold Storage is making substantial progress on the 254,330 square foot spec cold storage building with expected completion in mid 2023.

Two newly proposed projects look to add an additional 7 million square feet to the Northern Nevada footprint over the next several years. In the North Valleys, Panattoni Development is planning a 1.6 million square foot 5 building spec project, while in TRI, Locus Development Group proposed a 5.1 million square foot 10 building project, Comstock Commerce Center, for which they have already begun initial mass grading. Acutely aware of the immediate industrial land shortage, developers continue to seek out large tracts of unentitled land to secure their long term future development prospects in Northern Nevada.

UNDER CONSTRUCTION SPEC VS BUILD-TO-SUIT



NOTABLE TRANSACTIONS

Q2

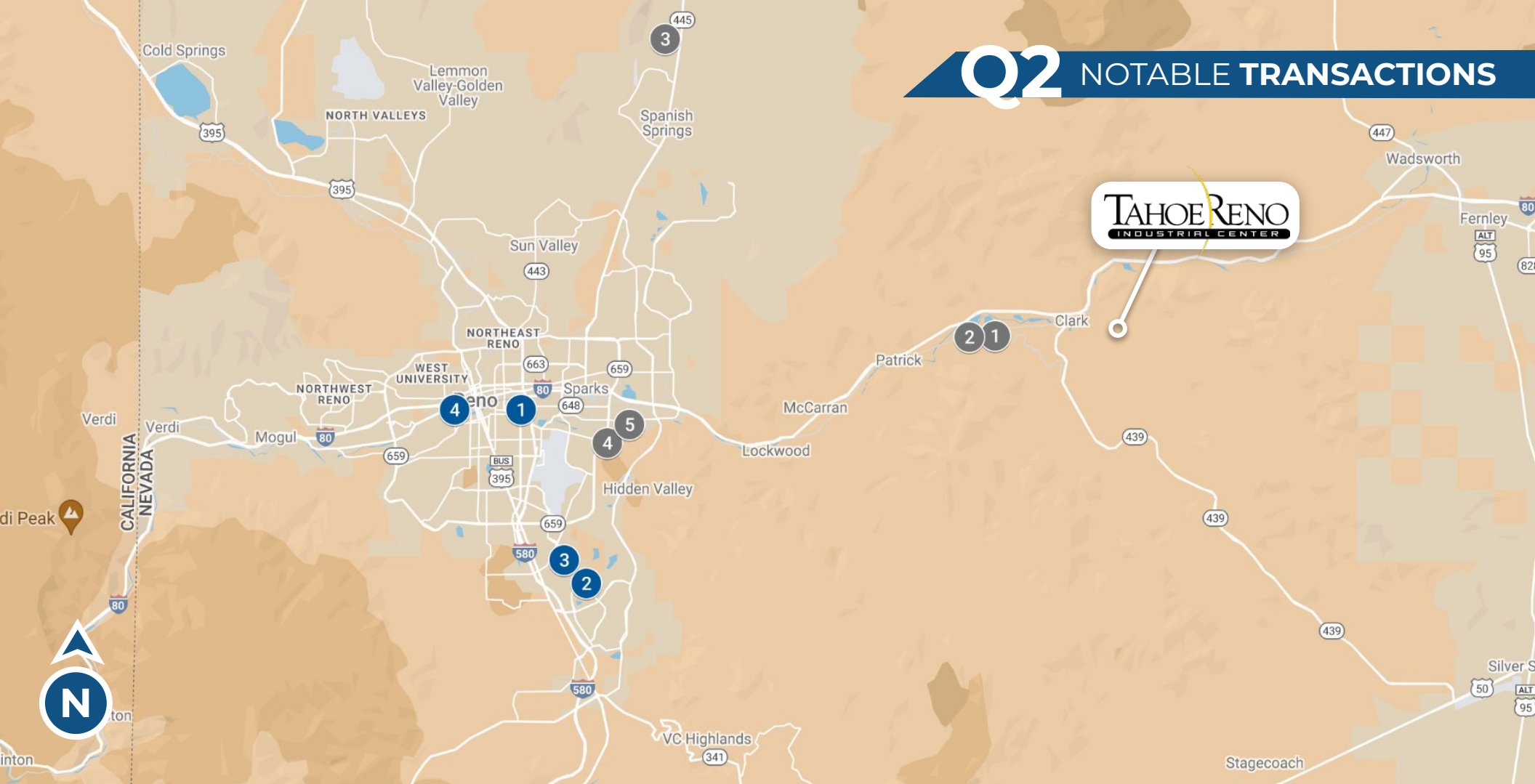
NOTABLE SALES

Address	SF	Price	Buyer	Seller
8895 Double Diamond Parkway	84,000 sf	\$20,076,000	Vogel Properties Inc.	McKenzie Properties Management Inc.
265 Keystone Ave	19,000 sf	\$4,000,000	265 Keystone LLC	Ascent Affiliates Inc.
335 Kietzke Ln.	13,572 sf	\$3,100,000	Manchester Partners LLC.	BDC Properties LLC
8535 Double R. Boulevard	5,782 sf	\$1,750,000	McLaughlan Denise Trust	G & L Limited LLC

NOTABLE LEASES

Address	SF	Landlord	Tenant
1500 Waltham Way	330,120	Mohr	Confidential
1500 Waltham Way	266,536	Mohr	Omni Cable
455 Ingenuity Ave	104,760	Avenue 55	Todsen
1910 S McCarran Blvd	96,313	Dermody	Candle Science
630 Spice Island Dr	49,500	Link	One Click Logistics

Q2 NOTABLE TRANSACTIONS



LEASES

1. 1500 Waltham Way
I-80 East
Confidential
330,120 SF

2. 1500 Waltham Way
I-80 East
Omni Cable
266,563 SF

3. 455 Ingenuity Ave
Sparks
Todsens
104,760 SF

4. 1910 S McCarran Blvd
Airport
Candle Science
96,313 SF

5. 630 Spice Islands Dr
Sparks
One Click Logistics
49,500 SF

SALES

1. 335 Kietzke Ln
Auto Repair
Central-West Reno
13,234 SF

2. 8895 Double Diamond Pkwy
Warehouse
South Reno
84,000 SF

3. 8535 Double R Blvd
Flex Property
South Reno
5,782 SF

4. 265 Keystone Ave
Warehouse
Central-West Reno
19,000 SF

1

The bulk of new lease activity in Q2 was concentrated within the Sparks and Airport submarkets with 17 completed transactions, primarily mid-bay and flex absorption, dropping the two submarkets' combined vacancy to an astonishing 0.79%. Due to limited availability of readily available big-box space there were only four completed leases north 100,000 sq. ft., highlighted by the prelease of Mohr Capital's 596,656 sq. ft. building in TRI to two tenants.

2

Despite indicators of a slowing economy surfacing throughout the quarter, low inventory and steadfast industrial demand in Northern Nevada continues to bolster up lease rates with average overall rent growth of 15% YTD. Additionally, market rents continue to trend below the national average of \$0.88 sf/mo, as well as neighboring California, keeping Northern Nevada highly attractive for businesses looking to expand or relocate into the western region.

3

The I-80 East Corridor (Fernley & TRI) remains the focal point for market expansion with over 2.8M sq. ft. under construction with an additional 6M sq. ft. of proposed construction over the next 12 months, alone representing a nearly 10% increase to the market. TRI remains the leader with 1,831,000 sq. ft. under construction, while Fernley trails close behind at just under 1,000,000 sq. ft. underway with an additional 500,000 sq. ft. pending permit.

4

It's a common occurrence for tenants coming out of long term leases to experience sticker shock as they look to renew. In several instances, market rates have grown to more than double the in-place contract rates. Still, as tenants are faced with limited alternative inventory options and high improvement costs, the most economical strategy is often to stay put and execute the renewal.

5

The recent market tide shift has forced investors and developers to adjust their underwriting by 50-75 basis points in most valuations, causing price point retrades for most transactions in escrow. Additionally, many banks have severely tightened their lending parameters, and in some cases, are no longer offering loans to new clients or non-pre existing accounts, creating extremely challenging conditions for investors looking to deploy capital.

6

There may be more buying opportunities coming up if owner-users are impacted by inflation and a reduction in consumer spending, along with further interest rate increases that could extend into 2023. With buyers now expected to face higher debt service payments on new loans, they will be more limited to what purchase price they can pay, ultimately softening seller pricing expectations in what has been a very tight market.