

Q3
2022

INDUSTRIAL REPORT



SALES
LEASING
NEW CONSTRUCTION



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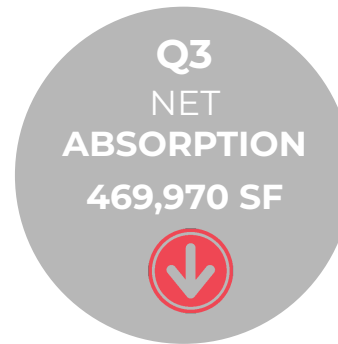
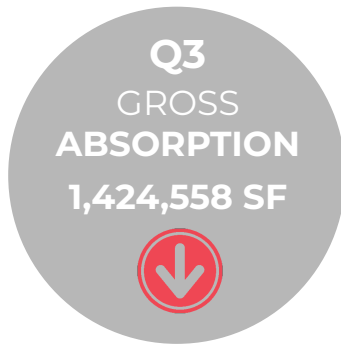
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NORTHERN NEVADA

WHERE DO WE **STAND?**

Q3



VACANCY

AVERAGE BULK INDUSTRIAL ASKING LEASE RATE = \$0.75 SF/MO NNN

Q3 direct vacancy experienced a very mild 22 basis point increase primarily due to two new big-box vacancies in the I-80 East Corridor. However, existing space turnover remained extremely limited with overall direct availability hovering around 940,000 sq. ft. and vacancy remaining sub 1%. Sublease inventory remains tight with 617,916 sq. ft. total available, of which 540,687 sq. ft. is attributed to a single building sublease offering in the North Valleys.

ABSORPTION

As expected, gross and net absorption figures continued to decrease heading into the second half of 2022 due to inventory shortage, with only 17 newly completed leases over the course of Q3. The majority of new lease activity was concentrated in the 15,000 - 50,000 sq. ft. range, predominantly credited to the availability of existing mid-box space, versus the availability of larger box categories which were effectively non-existent in Q3.

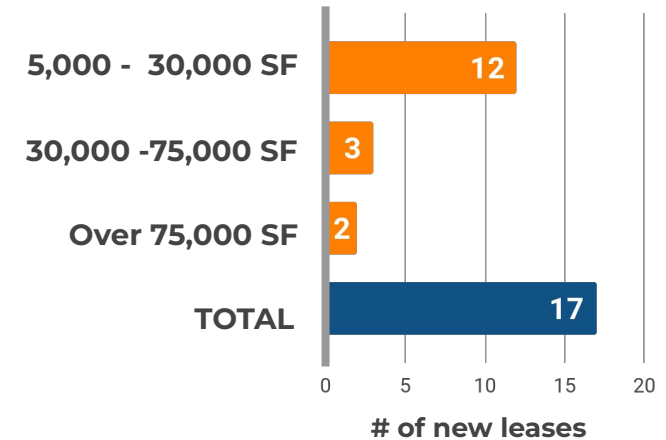
LEASE RATES | SALE PRICES

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 \$0.07 sf/mo for big-box, \$0.12 sf/mo for mid-box, and \$0.10 sf/mo for flex space. However, constricted lending conditions had a direct negative impact on sale volume and pricing due to the continuation of increasing interest rates.

CONSTRUCTION

Four new buildings were delivered during the third quarter adding 1,754,065 sq. ft. of new industrial product to the market. More notably, 99% of the completed product was already spoken for prior to building completion, with 71% accounted for as pre-leased spec development and 29% as BTS. Several new groundbreakings ramped up during the quarter, including two large multi-building sites in Fernley, and an exciting new flex-industrial project in the Airport submarket from Locus Development delivering much needed class A flex space to the market, with suites ranging from 6,000-50,000 sq. ft. by summer 2023.

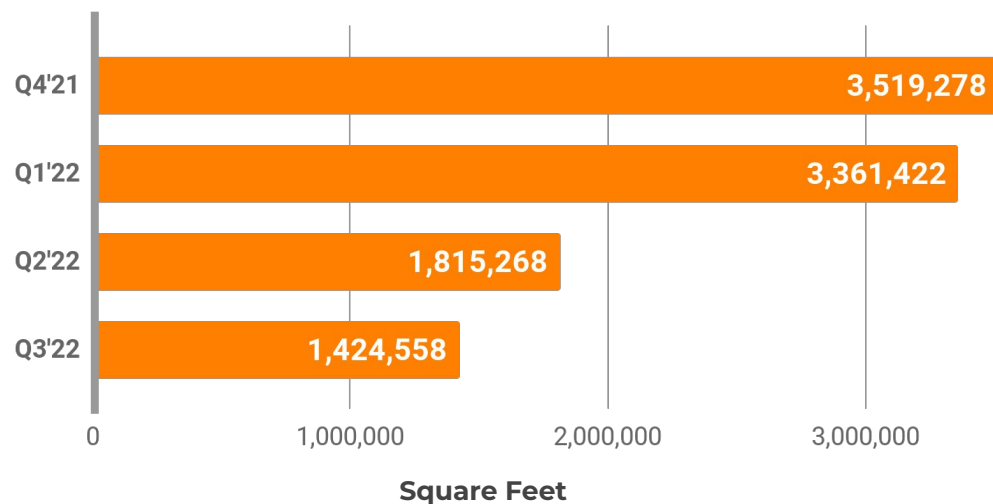
Q3 NEW LEASE TRANSACTIONS



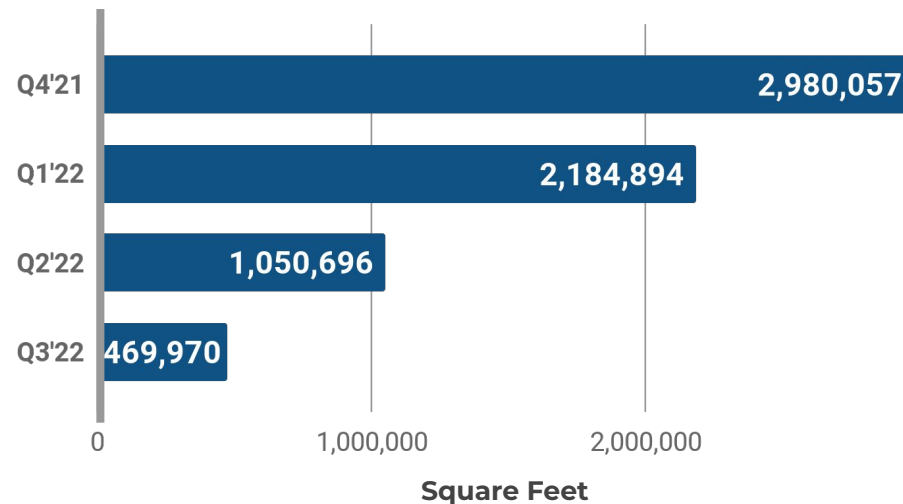
ABSORPTION & SUBMARKET VACANCIES

Q3

Gross Absorption



Net Absorption



VACANCY

Submarket	Total SF	Direct Available SF	Vacancy Rate	Completed Construction SF	Under Construction SF
North Valleys	28,300,952	154,440	0.55%	595,065	550,569
Sparks	27,425,650	226,256	0.82%	464,360	274,000
Airport	10,199,495	185,105	1.81%	-	100,900
South Reno	9,838,909	62,167	0.63%	-	901,930
Central-West Reno	2,090,572	12,923	0.62%	-	-
I-80 East Corridor	21,588,595	303,550	1.41%	694,640	5,284,905
TOTAL	99,444,173	944,441	0.95%	1,754,065	7,112,304

NOTABLE TRANSACTIONS

Q3



Q2 2022 Industrial Sale Volume: \$21,851,869

Q3 2022 Industrial Sale Volume: \$38,150,500

SALES RECAP

Third quarter sales volume increased slightly over the previous quarter with \$38,150,500. Among the highlights were several buildings in the South Reno and Sparks submarkets. The top sale was a 151,409 square foot building at 8760 Technology Way, which was sold by Mckenzie Properties for \$21,958,054 (\$145.23 psf) to Chesapeake Spice, who was the tenant at the time of the sale. Also in the South Reno submarket, 8690 Technology Way, a 17,701 square foot freestanding building, sold for \$5,400,000 (\$305.07 psf) at 5.1% cap rate. In Sparks, a 56,335 square foot building at 1645 Crane Way, sold for \$13,579,000 (\$241 psf), which included a cannabis growing operation.

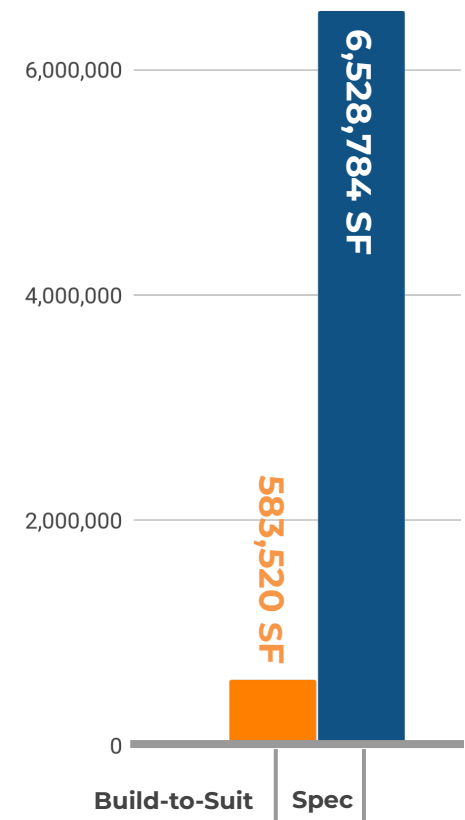
NEW CONSTRUCTION

The four new completions totaling 1.7 million square feet were distributed across the outer submarkets of North Valleys, Spanish Springs (Sparks), and the I-80 East Corridor. Prologis delivered a 531,886 square foot building for GameStop in the North Valleys, which immediately went up for sublease, while Scannell Properties completed the 464,360 square foot build-to-suit for Foot Locker in Spanish Springs. In the Tahoe Reno Industrial Center, Majestic Realty completed the 694,640 square foot build-to-suit for an undisclosed tenant.

Over 3.6 million square feet broke ground over the quarter, 78% of which is in the I-80 East submarket, including Locus Development Company's 815,360 square foot spec building in TRI making progress on pad work, the first of their 5 million square foot project in the park. Further east in Fernley, Buzz Oates started moving dirt on their 1.3 million square foot 4-building project, which includes a 463,200 square foot build-to-suit and the balance as spec. In South Reno, Prologis began moving dirt on the 390,240 square foot build-to-suit for Dragonfly Energy, while Panattoni Development continues their momentum in North Valleys with a 136,777 square foot spec building.

As upward pressure on land pricing persists, many developers have tapped the breaks on land acquisitions while they weigh out increased costs of capital and construction pricing. However, the robust pipeline containing 7.1 million square feet under construction and 13 million square feet of proposed projects will continue to deliver new product for some time to come.

UNDER CONSTRUCTION SPEC VS BUILD-TO-SUIT



NOTABLE TRANSACTIONS

Q3

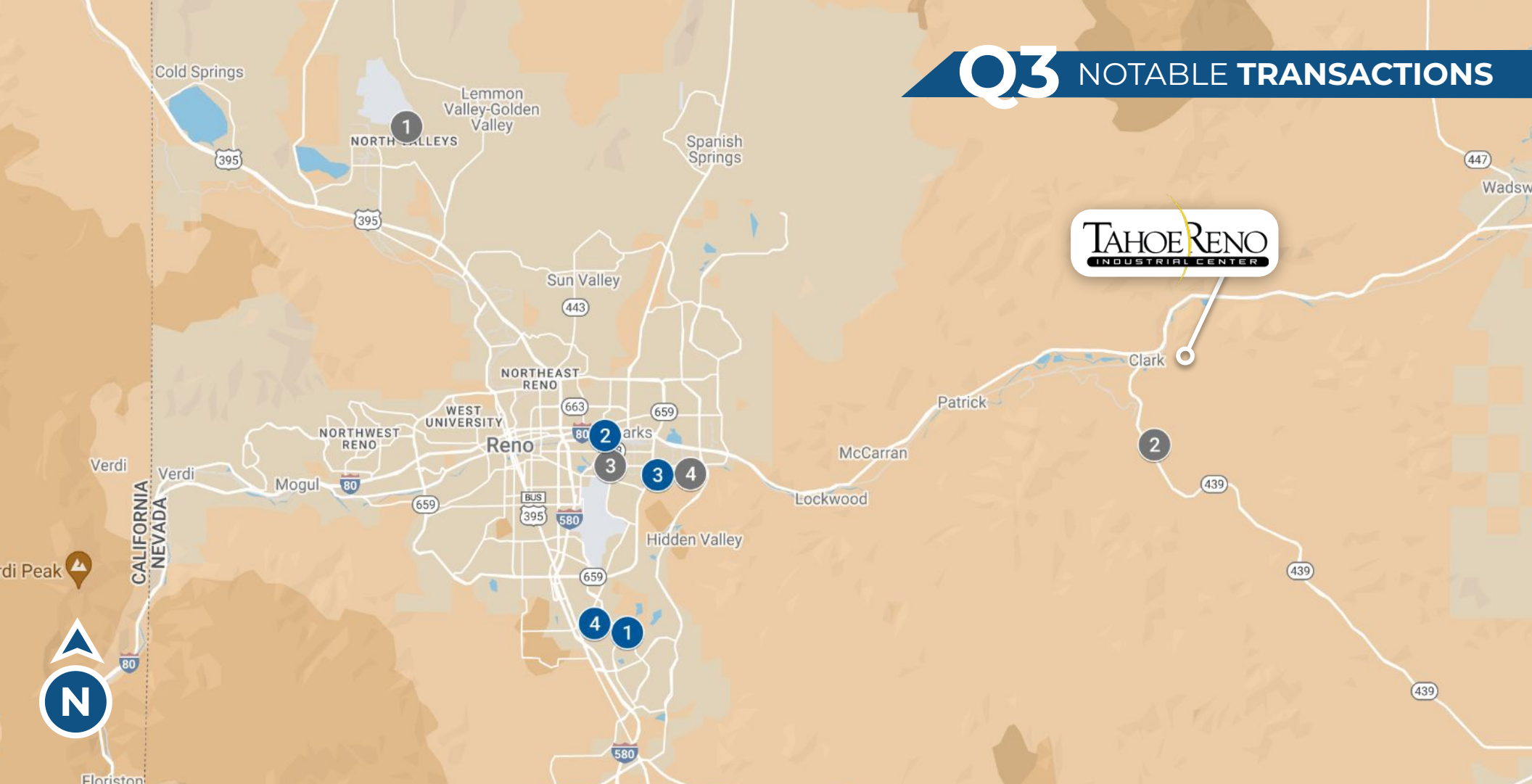
NOTABLE SALES

Address	SF	Price	Buyer	Seller
8760 Technology Way	151,409 sf	\$21,958,054	Chesapeake Spice Company	Mckenzie Properties
1645 Crane Way	56,335 sf	\$13,579,000	NLCP 1645 Crane Way NV, LLC	DWC Investments
625 Spice Islands Dr	40,800 sf	\$6,900,000	OSI 625 Spice Islands Dr, LLC	Raykkar, LLC
8690 Technology Way	17,701 sf	\$5,400,000	8690 Technology Moosehead 8690, LLC	Intellectual Property Chalet, LLC

NOTABLE LEASES

Address	SF	Landlord	Tenant
Mount Limbo St	167,400	Avenue 55	KGP Telecommunications, LLC
2555 USA Pkwy	125,875	Prologis	TLS Supply Chain
1385 Greg St	47,955	Link	Southern Star
630 Spice Island Dr	35,524	Link	1 Click Logistics

Q3 NOTABLE TRANSACTIONS



LEASES

1. Mount Limbo Street
North Valleys
KGP
Telecommunications
167,400 SF

2. 2555 USA Pkwy
I-80 East
TLS Supply Chain
125,875 SF

3. 1385 Greg St
Sparks
Southern Star
47,955 SF

4. 630 Spice Island Dr
Sparks
One Click Logistics
35,524 SF

SALES

1. 8760 Technology Way
\$21,958,054
South Reno
151,409 SF

2. 1645 Crane Way
\$13,579,000
Sparks
56,335 SF

3. 625 Spice Island
\$6,900,000
Sparks
40,800 SF

4. 6890 Technology Way
\$5,400,000
South Reno
17,701 SF

1

The 3rd quarter continued the trend of positive net absorption of 469,970 square feet, even with four new construction deliveries totaling 1.7 million square feet, 98% which was spoken for upon completion. This momentum is expected to continue as active negotiations and proposals are in play on the majority of the inventory throughout the market.

2

Alongside this positive activity, our market has been affected by the economic turmoil that has started to take shape over the past two quarters, with similar trends discussed nationwide. A changing debt market has produced several price adjustments mid-transaction for buyers to stay within their underwriting thresholds.

3

Both investment and owner-user sale volume slowed down quite dramatically over the past several quarters, trending under \$100 million per quarter, compared to our 2020-2021 average of \$190 million per quarter. Interest rate hikes have certainly played a part, but just as significant has been an extreme lack of inventory, especially of institutional grade investment property.

4

While some developers are more bullish than others, development acquisitions teams are still looking for sites to build on. With one of the lowest direct vacancy rates across the country at sub 1%, support for continued delivery of product is evidenced by the 35% quarter to quarter jump of square footage under construction.

5

Despite national headlines of Amazon's decelerating expansion efforts of its oversaturated delivery network, heightened consumer spending and record inventory levels across the US are expected to support expanding warehouse needs of competing fulfillment companies, third-party logistic providers, and retail users.

6

The overarching fundamental shifts elevating the importance of efficient logistics networks and manufacturing capabilities will outlast an economic slowdown. The attractiveness of Northern Nevada as a low-cost place of business with superior geographic location and transportation networks, and the growing support of developers to build new space – both long-time local developers as well as newer faces from across the country – has created an environment that will support our industrial sector over the long term.