

Q4
2022

INDUSTRIAL REPORT



SALES
LEASING
NEW CONSTRUCTION



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NORTHERN NEVADA

WHERE DO WE STAND?

Q4



VACANCY

AVERAGE BULK INDUSTRIAL ASKING LEASE RATE = \$0.80 SF/MO NNN

The Northern Nevada industrial market experienced a 72 basis point increase on direct vacancy in the fourth quarter, marking the first climb over 1% vacancy since Q4 2021. Total availability will remain tight at 1.68M sq. ft. of inventory rolling into the new year. However, this is a small sign of relief for expanding-relocating tenants who have not experienced over 1M sq. ft. of availability in over a year.

ABSORPTION

The fourth quarter finished strong with 2.15M sq. ft. of gross absorption, which was the second highest of the year, and improved the total gross absorption on the year to 8.76M sq. ft. Multiple pre-leased buildings contributed to positive net absorption during the quarter, which finished the year at +4.35M sq. ft.

LEASE RATES | SALE PRICES

Stiff vacancy conditions across all submarkets continue to drive asking lease rates on all size categories, with little to no variance in asking rates from submarket to submarket. Specific submarkets such as the I-80 East and North Valleys, where historically rent concessions of \$0.05-\$0.10 sf/mo were common, are now achieving rents within a few pennies of competing space in more central submarkets. Sale prices have remained relatively stagnant due to challenging lending conditions backed by limited availability of vacant and/or leased buildings for sale.

CONSTRUCTION

There were five building completions during the quarter totalling 996,410 square feet, with each project holding the trend of strong pre-leasing activity. A robust construction pipeline kept pace with 1,804,827 sq. ft. breaking ground across seven buildings, including the much anticipated Pyramid Pointe Commerce Center - Panattoni Development's latest project underway in Spanish Springs. The project is set to deliver 195,000 sq. ft. of class A mid-box and flex product with suites ranging from 9,000-141,000 sq. ft. in Q4 of 2023. Of the 7.9 million sq. ft. under construction, 81% will be delivered on spec and 19% as build-to-suit. The lion's share of current construction is taking place in the I-80 East Corridor submarket accounting for 70% of the current volume.

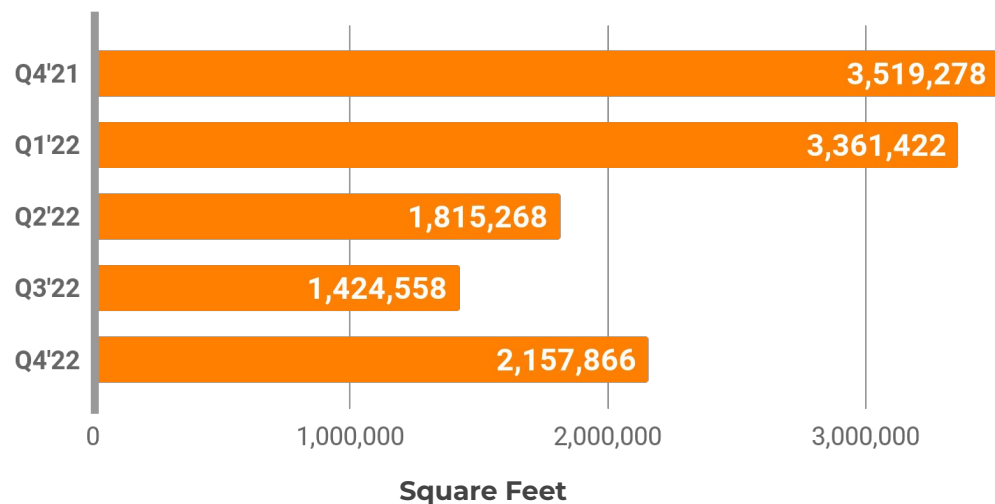
Q4 NEW LEASE TRANSACTIONS



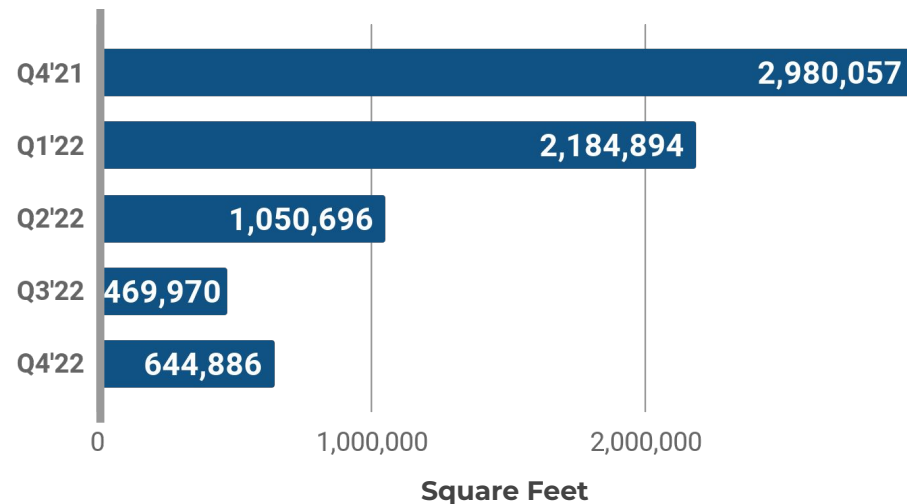
ABSORPTION & SUBMARKET VACANCIES

Q4

Gross Absorption



Net Absorption



VACANCY

Submarket	Total SF	Direct Available SF	Vacancy Rate	Completed Construction SF	Under Construction SF
North Valleys	28,468,352	120,500	0.42%	167,400	383,169
Sparks	27,425,650	349,599	1.27%	-	469,000
Airport	10,199,495	190,425	1.87%	-	994,007
South Reno	10,231,729	410,815	4.02%	392,820	505,240
Central-West Reno	2,090,572	68,982	3.30%	-	-
I-80 East Corridor	22,020,915	538,500	2.45%	432,320	7,782,032
TOTAL	100,436,713	1,678,821	1.67%	992,540	10,133,448

NOTABLE TRANSACTIONS

Q4



Q3 2022 Industrial Sale Volume: \$70,499,254

Q4 2022 Industrial Sale Volume: \$53,399,990

SALES RECAP

4th quarter sales volume was down 25% quarter-to-quarter due to the continuation of unfavorable buying conditions. No quarter in 2022 reached the \$100MM benchmark, compared to 2021 where sales volume eclipsed that threshold each quarter. The two largest sales were completed in December highlighted by the acquisition of 850 North Hills Blvd, a 131,157 sq. ft. building leased to US Foods in the North Valleys, at sale price of \$20,340,590 (\$154.64 psf.), and 1 Eric Cir in Verdi, which included 94,160 sq. ft. of buildings on 21 acres, that sold for \$16,600,000 (\$133.93 psf.) to Weber Metal. Additionally, in Carson City, a 91,000 sq. ft. manufacturing building located at 580 Mallory Way was acquired by Greenlaw Partners for \$11,300,000 (\$124.17 psf). DCG represented the seller Questor Corp in the transaction.

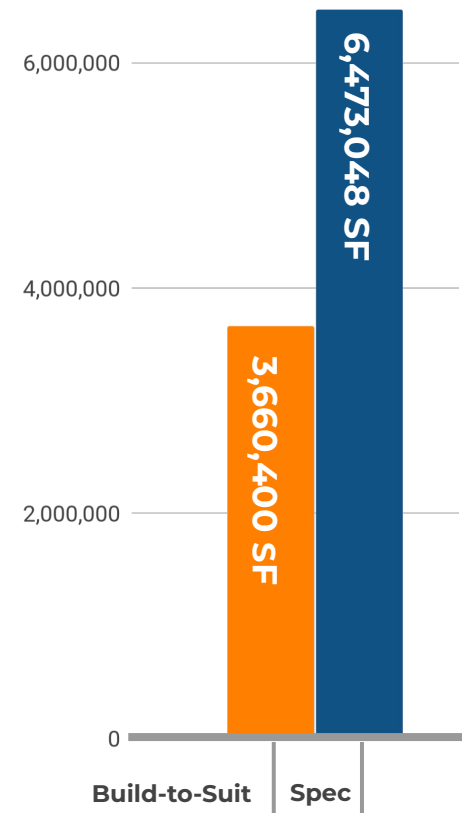
NEW CONSTRUCTION

The steady stream of new deliveries continued to provide some buffer against Northern Nevada's low vacancy. In South Reno, McKenzie Properties completed their three-building spec project totalling 392,820 sq. ft. Avenue 55 accounted for the other two deliveries - the 167,400 sq. ft. Mt Limbo Industrial Center in North Valleys and 432,320 sq. ft. at the I-80 Patrick Distribution Center in TRI.

With developers keeping their feet on the gas pedal, 1,804,827 sq. ft. broke ground during the quarter. In the Airport Submarket, Tolles Development Company began moving dirt on their 893,107 sq. ft. four-building spec project consisting of flex, mid and big-box space. Avenue 55, further establishing their presence in Northern Nevada, began moving dirt in TRI on Parkway Industrial Center - a two-building 716,720 sq. ft. spec project. In Spanish Springs, Panattoni Development broke ground on the 195,000 sq. ft. Pyramid Pointe Commerce Center, where DCG is representing Panattoni on the project's leasing efforts.

Looking forward, a pipeline of 12.8 million sq. ft. of proposed projects are in the hopper while strong pre-leasing activity on bulk space and steadily rising lease rates continues to support the the local development ecosystem.

UNDER CONSTRUCTION SPEC VS BUILD-TO-SUIT



NOTABLE TRANSACTIONS

Q4

NOTABLE SALES

Address	SF	Price	Buyer	Seller
850 North Hills	131,537 sf.	\$20,340,590	BA Leasing	Rehold Reno LLC
1 Eric Circle	133,701 sf.	\$16,600,000	Weber Metal	Schlosser Forge Company
580 Mallory Way	91,000 sf.	\$11,300,000	Greenlaw Partners	*Questor Corp
390 Freeport Blvd	38,367 sf.	\$4,250,000	24 Freeport LLC	380 390 Freeport LLC
2001 & 2101 Timber Way	15,616 sf.	\$3,290,000	Crossroads Real Estate Holdings	Dynagraphic Printing

NOTABLE LEASES

Address	SF	Landlord	Tenant
150 Milan Dr	692,720 sf.	Majestic	Webstaurant
10755 Lear	531,866 sf.	Prologis	Tagg Logistics
9456 N Virginia St. Bldg C	154,440 sf.	Prism	Rinnai
1175 Trademark	99,125 sf.	Link	Go Direct
12910 Old Virginia Rd	81,225 sf.	McKenzie	Oakland Paper & Supply

*DCG Represented Seller

1. 150 Milan Dr
I-80 East
Webstaurant
692,720 SF

2. 10755 Lear
North Valleys
Tagg Logistics
531,866 SF

**3. 9456 N Virginia St
Bldg C**
North Valleys
Rinnai
154,440 SF

4. 1175 Trademark Drive
South Reno
Go Direct
99,125 SF

5. 12910 Old Virginia Road
South Reno
Oakland Paper & Supply
81,225 SF

1. 850 North Hills
\$20,340,590
North Valleys
131,537 SF

2.1 Eric Circle
\$16,600,000
Central-West Reno
133,701 SF

3. 580 Mallory Way
\$11,300,000
Carson City
91,000 SF

***DCG REPRESENTED SELLER**

4. 390 Freeport Blvd
\$4,250,000
Sparks
38,367 SF

5. 2001 & 2101 Timber Way
\$3,290,000
Central-West Reno
15,616 SF

1

Over the last 5 years the average annual direct vacancy peak was 5.69% in 2019, which has steadily decreased by an average of 1.53% per year rounding out 2022 with an average of 1.09% vacancy. In Q2, we reached a record low for Northern Nevada at 0.73%, luckily backed by a 94 basis point upward swing by year end as new inventory relief reached the market.

2

As economic uncertainty settled in first half of the year, causing hesitation and declining valuations throughout the commercial RE sector, rent growth on industrial product in Northern Nevada remained strong. In 2022, rates for big-box space north of 100K sq. ft. increased by an average of 37%, a 43% average increase for mid-bay space, and 39% for flex space, with some variation across submarkets.

3

Industrial sales experienced a steep decline in 2022 with a 19% decrease year-to-year, with a total sale volume reduction of over \$800M from 2021. As experienced on the national level, the downward shift was directly attributed to the continuation of interest rate spikes causing a significant hike in cost of debt, and 100+ bps CAP rate increases within the capital markets, ultimately leading to extremely challenging conditions for investors and owner-users in seek of industrial assets.

4

2022 delivered 5.4 million sq. ft. of new industrial product, of which 24% was build-to-suit and 76% speculative development. Looking back to the period from 2020-2021, 50% of new completions took place in the North Valleys and 19% in the I-80 East submarket. This year that flipped 180 degrees with 26% in North Valleys and 47% in the I-80 East Corridor, due to land availability. The 2023-2024 pipeline of current and proposed construction indicates 15% of volume to be delivered in the North Valleys and 61% in I-80 East.

5

Small box space continued to outpace both mid and large box lease transactions in 2022. Of the 87 direct newly completed leases, 51 were in the 5K-30K sq. ft. range, which can be directly attributed to higher availability within the size category. There were 23 new direct leases in the 75K square feet and above range, with the remaining 13 taking place between 30K and 74K square feet category.

6

The steady stream of construction deliveries over the next two years has potential to provide some stabilization to rent growth as a rise in vacancy rates within the primary submarkets would be expected as new product comes online. Counteracting this will be the level of pre-leasing activity, which is less easy to predict. In the event demand continues to outpace supply, as it did in 2022 with 95%+ pre-lease on new construction, a continuation of extremely tight market conditions will persist throughout the duration of 2023 and beyond.