

Q1 2023

INDUSTRIAL REPORT

SALES
LEASING
NEW CONSTRUCTION



JOEL FOUNTAIN, SIOR
jfountain@dicksoncg.com
775.850.3136 **OFFICE**
775.287.8127 **CELL**
S.78024

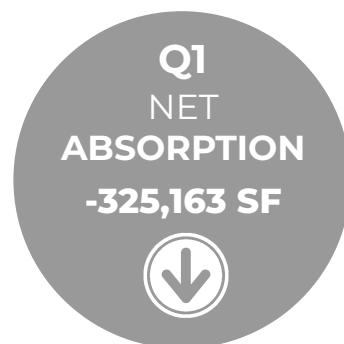
BAKER KRUKOW, CCIM
bkrukow@dicksoncg.com
775.624.7876 **OFFICE**
775.300.5804 **CELL**
S.183091

NICK KNECHT, CCIM
nknecht@dicksoncg.com
775.850.3032 **OFFICE**
775.338.1369 **CELL**
BS.145559

NORTHERN NEVADA

WHERE DO WE **STAND?**

Q1



VACANCY

AVERAGE BULK INDUSTRIAL ASKING LEASE RATE = \$0.85 SF/MO NNN

Direct vacancy continued the upward trend by 44 basis points. Total availability at the end of Q1 increased to 2.1M sq. ft., with 64% of the spaces being under 30,000 sq. ft., 28% between 30,000 - 75,000 sq. ft. and 8% over 75,000 sq. ft. The North Valleys submarket had the largest increase to 733,647 sq. ft. available, primarily attributed to Industrial Realty Group's 465,217 sq. ft. Lear Blvd redevelopment project coming back to market, followed by Sparks with 499,446 sq. ft. as a collection of flex and mid-box space came available.

ABSORPTION

Available space under 30,000 sq. ft. captured 76% of the lease transactions as tenants navigated rising lease rates and expanding inventory. However, due to limited inventory for readily available big-box space, only four new leases were completed north of 75,000 sq. ft., ultimately leading to a decrease in absorption, which was down 880,551 sq. ft. from Q4. While preleasing remains active, with 526,080 sq. ft. signed on two buildings prior to delivery, that absorption will be deferred to future quarters once the building is complete.

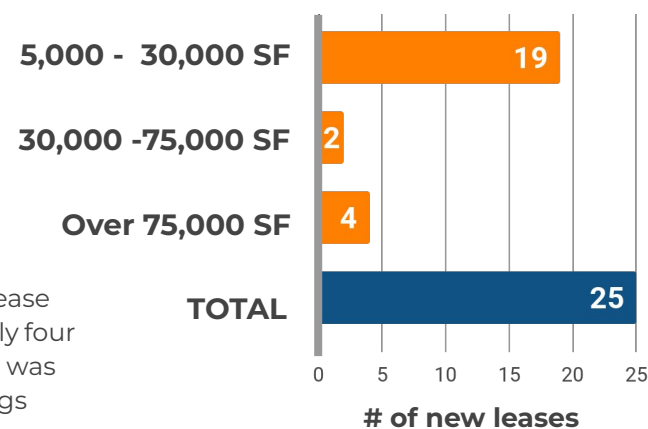
LEASE RATES | SALE PRICES

Tenant demand combined with low, albeit rising, vacancy continued to support deals getting inked at benchmark high lease rates across all size categories. Several landlords are strategically undercutting the benchmark in order to optimize vacancy in the face of economic uncertainty, but the draw to quality location and product continues to be robust. Limited sale volume under \$10 million is evidence of the continued disparity between seller expectations and purchasing power in a state of limited ownership distress.

CONSTRUCTION

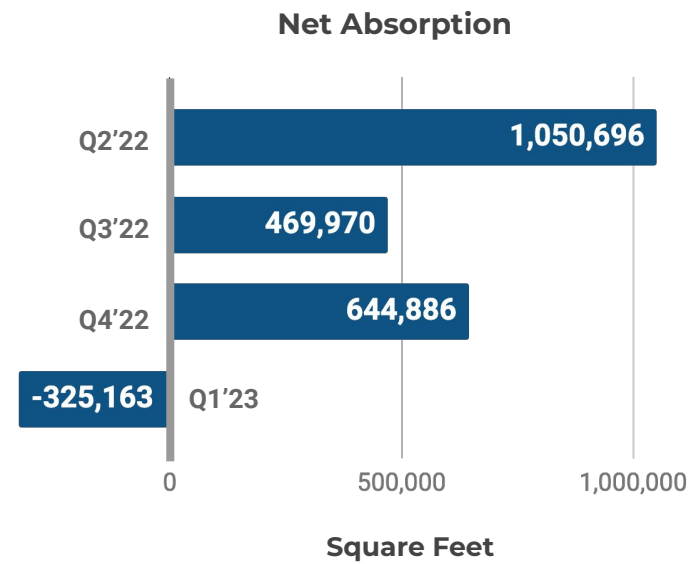
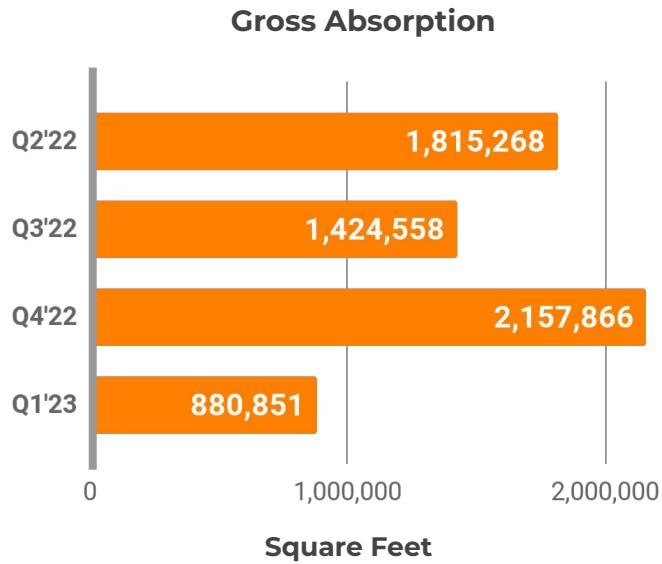
Three buildings were completed totaling 566,810 SF within the Spanish Springs and TRI submarkets, delivering mid to big-box product and one dedicated cold storage building. Breaking ground during the quarter, Dermody Properties kicked off LogistiCenterSM at I-80 West Phase II, which will be delivering two state-of-the-art logistics facilities totalling 429,000 sq. ft directly off Interstate 80. The project is scheduled for Q1 2024 completion and will be Reno's closest Class A distribution center to the California border. Current volume under various phases of early site work and construction totals 9,890,158 sq. ft, with approximately 5.47 million sq. ft expected to deliver by end of 2023.

Q1 NEW LEASE TRANSACTIONS



ABSORPTION & SUBMARKET VACANCIES

Q1



VACANCY

Submarket	Total SF	Direct Available SF	Vacancy Rate	Completed Construction SF	Under Construction SF
North Valleys	28,468,352	733,647	2.58%	-	383,169
Sparks	27,569,650	499,446	1.81%	144,000	325,000
Airport	10,199,495	239,967	2.35%	-	994,007
South Reno	10,231,729	339,457	3.32%	-	505,240
Central-West Reno	2,090,572	64,075	3.06%	-	429,000
I-80 East Corridor	22,443,725	256,000	1.14%	422,810	7,253,742
TOTAL	101,003,523	2,132,592	2.11%	566,810	9,890,158

NOTABLE TRANSACTIONS



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

Q1 2023 Industrial Sale Volume: \$8,890,000

SALES RECAP

Sales volume to start the year was limited with only four transactions eclipsing the \$1,000,000 threshold. Many buyers remain on the sidelines as capital sources yield some caution in their underwriting, weary of slim yields, while the few sellers on market continue to pursue aggressive asking prices. The two largest sales of the quarter were 2999 Waltham Way, a 21,050 sq. ft. building on 5.25 acres in TRI that sold for \$4,275,000 (DCG represented the buyer), and 42,330 sq. ft. building at 650 Spice Islands Drive in Sparks sold for \$3,600,000.

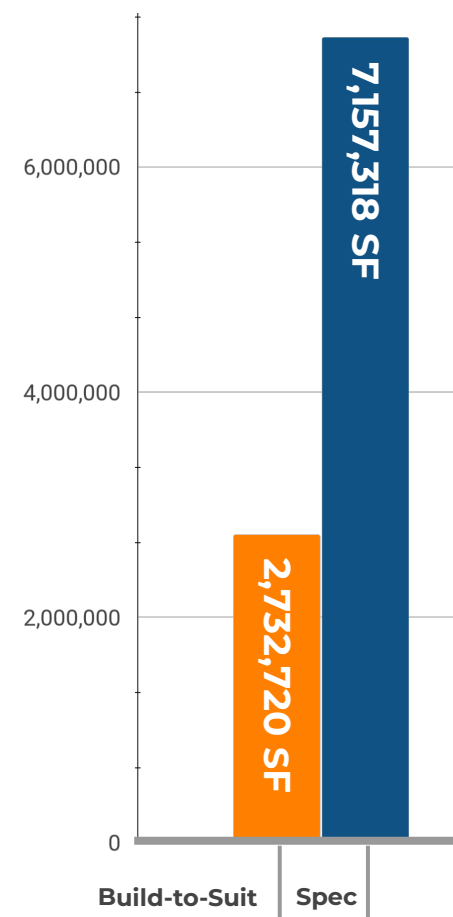
NEW CONSTRUCTION

In TRI, Brasa Capital completed the 168,480 sq. ft. speculative building, remaining vacant upon completion, although their adjacent 332,640 sq. ft. building was preleased while still under construction. Ti Cold put the roof on their 254,330 sq. ft. speculative cold storage development, which is now rumored to be pending sale to an owner-user. In Spanish Springs, Avenue 55 delivered the 144,000 sq. ft. Phase III of their Spanish Springs Corporate park, 71% preleased.

Groundbreakings totaled 918,440 sq. ft., highlighted in the premium Central-West Reno submarket, with Dermody Properties moving dirt on their speculative two-building LogistiCenterSM at I-80 West Phase II, totaling 429,000 sq. ft. with delivery planned for Q1 2024. DCG is representing Dermody Properties on the project's leasing efforts. In TRI, Tolles Development Company broke ground on a 489,440 sq. ft. speculative building on Pittsburgh Ave.

Notable announcements for the proposed development pipeline include Dermody Properties' Reno AirLogistics Park two-building project in North Valleys totaling 1,123,197 sq. ft. with Q1 2024 planned delivery, and LogistiCenterSM at Kiley Ranch in Spanish Springs with two buildings totaling 385,364 sq. ft., scheduled for Q3 2024 completion.

UNDER CONSTRUCTION SPEC VS BUILD-TO-SUIT



NOTABLE TRANSACTIONS

Q1

NOTABLE SALES

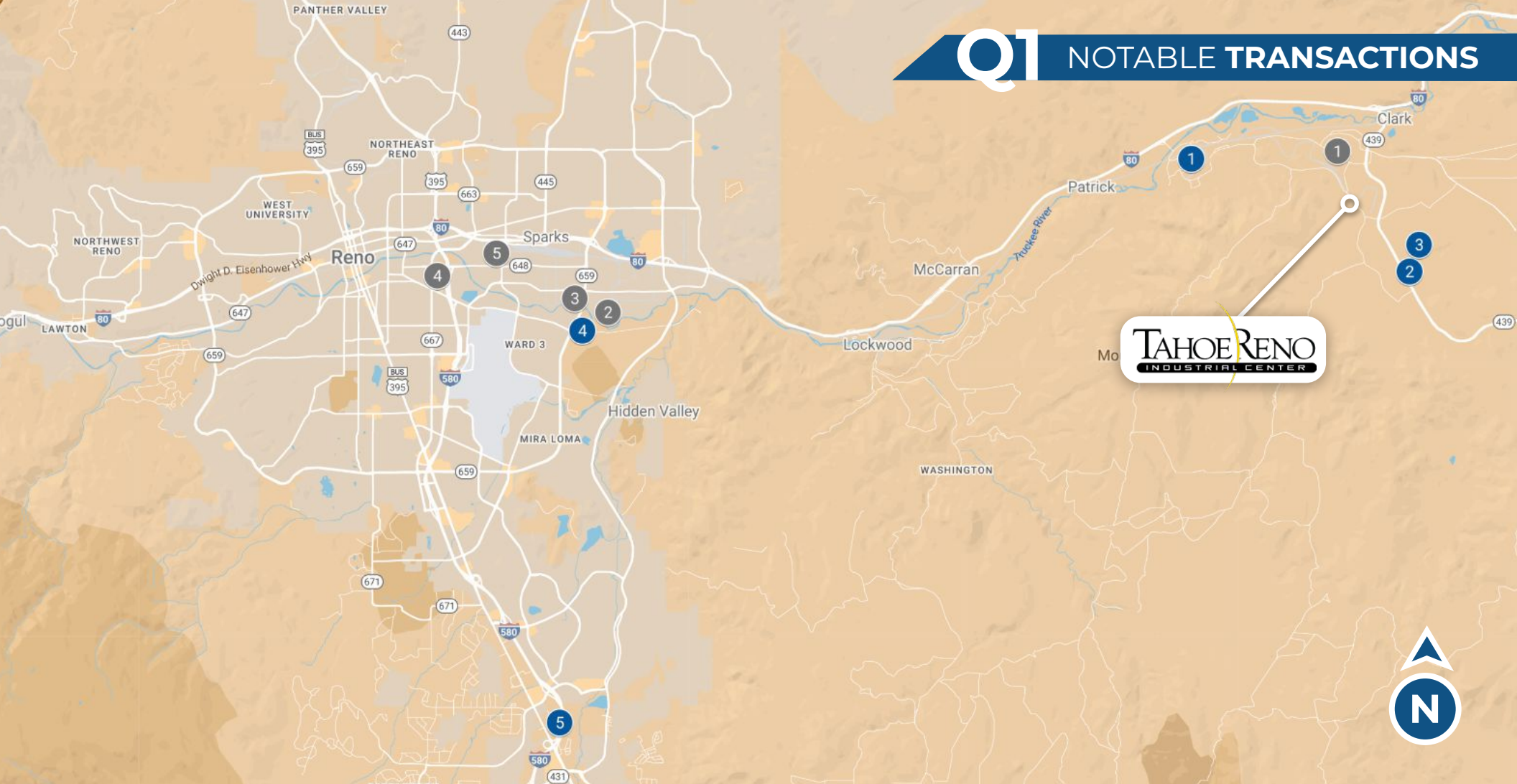
Address	SF	Price	Buyer	Seller
2999 Waltham Way	21,050 sf.	\$4,275,000	Aqua Metals Reno, Inc	Steven and Corina Pokrajac
650 Spice Islands Dr	42,330 sf.	\$3,600,000	PCBP Properties Inc	Wahl Properties
152-156 Coney Island Dr	20,000 sf.	\$1,300,000	T & T Capital LLC	Sparks Properties LLC
314 Sunshine Ln	4,450 sf.	\$1,300,000	James Baird	Ghiglia Family
1845 Hymer Ave	4,800 sf.	\$870,000	Vella Enterprises	Douglas & Desley Stafford

NOTABLE LEASES

Address	SF	Landlord	Tenant
655 Waltham Way	332,640 sf.	Brasa Capital	Symbia
2777 USA Parkway	282,500 sf.	Conco	Tesla
2625 USA Parkway	193,440 sf.	Conco	PIP
1910 S. Mccarran Blvd	110,111 sf.	Locus / Dermody	Fidelitone
12910 Old Virginia Rd	65,858 sf.	Mckenzie	Kuriyama of America

Q1

NOTABLE TRANSACTIONS



LEASES

1. 655 Waltham Way
TRIC
Symbia
332,640 SF

2. 2777 USA Parkway
TRIC
Tesla
282,500 SF

3. 2625 USA Parkway
TRIC
PIP
193,440 SF

4. 1910 S. McCarran Blvd
Airport
Fidelitone
110,111 SF

5. 12910 Old Virginia Rd
South Reno
Kuriyama of America
65,858 SF

SALES

1. 2999 Waltham Way
\$4,275,000
TRIC
21,050 SF

2. 650 Spice Islands Dr
\$3,600,000
Sparks
42,330 SF

3. 152-156 Coney Island Dr
\$1,300,000
Sparks
20,000 SF

4. 314 Sunshine Ln
\$1,300,000
Central Reno
4,450 SF

5. 1845 Hymer Ave
\$870,000
Central Reno
4,800 SF

1

As direct vacancy rates climb from the sub 1% levels of 2022, tenants nearing lease expiration in 2nd & 3rd generation space will likely plunge into the market in search of higher quality and better functioning assets as new inventory opens up. In many cases the rent delta on existing product versus new construction is minimal providing additional incentive for tenants in the market to relocate, particularly for those who start the process early enough to wait out a slightly longer delivery period for a new building.

2

Despite speculation of decreasing lease rates leading into the year, Q1 continued to post benchmark lease rates. However, signs of a more moderate rent growth environment are emerging due to rising vacancy and economic uncertainty, emphasizing the need for conservative underwriting for developers and investors into the foreseeable future.

3

The persistent disparity between buyer and seller cap rate expectations was a significant factor contributing to Q1 sales falling below the \$10 million mark. However, as a substantial amount of commercial real estate debt is set to mature in 2023 and beyond, posing refinance risk, it is expected that the inventory of properties available for sale will expand. Consequently, sellers are likely to become more inclined to engage in transactions over the next 12-18 months.

4

Record setting winter weather caused several unanticipated delays in construction scheduling pushing multiple project completions out to 2024. DCG tracks the current estimated rollout of new buildings deliveries at 3.16M sq. ft. by the end of the Q3 2023, 2.31M sq. ft. by end of Q4 2023, and 4.42M sq. ft. slated for Q1 - early Q2 2024 completion, totaling 9.89M sq. ft.

5

Industrial land acquisition activity remained relatively slow, primarily driven by a lack of inventory for readily buildable sites, but additionally detoured by the impact of recent interest rates spikes. Despite a few recent apex sales comps breaching \$8 - \$9 psf. for big-box industrial development sites, expectations for land value will likely come down as cost of capital continues to go up.

6

Increasing demand for automated distribution facilities, renewable energy & storage sites, and onshoring of high-tech manufacturing facilities will likely be the primary drivers for inbound businesses seeking industrial opportunities in Northern Nevada over the foreseeable future. Buildings and land sites with strong utility infrastructure, robust access to labor pools & amenities, and aesthetics to accommodate future business growth will be the primary drivers to capitalize on these opportunities.