

Q3
2023

INDUSTRIAL REPORT

SALES
LEASING
NEW CONSTRUCTION



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NORTHERN NEVADA

WHERE DO WE STAND?

Q3



VACANCY

AVERAGE BULK INDUSTRIAL ASKING LEASE RATE = **\$0.87 SF/MO NNN**

New vacancy turnover was nearly 700,000 square feet lower quarter-over-quarter, and although a significant number of new construction deliveries hit the market, heavy pre-lease activity absorbed 58% of the new inventory, balancing out the third quarter with a slight decrease in direct vacancy. Sublease availability remained relatively steady with only 211,411 sq. ft. of newly available space, with a total of 1,203,375 sq. ft. available at quarter end.

ABSORPTION

2023 gross absorption has been a dead ringer to 2022 thus far, with 6.6 million sq. ft. of total gross absorption at the three quarter mark. Net absorption is expected to fall slightly short year-over-year mainly due to a 48% increase in new construction deliveries, though the third quarter produced the strongest net absorption.

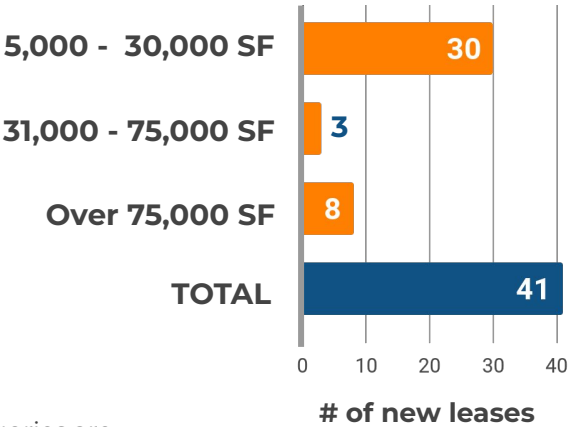
LEASE RATES | SALE PRICES

Lease rates held steady quarter-to-quarter, although some landlord's within smaller flex and mid-bay categories are getting more aggressive with concession offerings due to higher inventory competition within the size class. Despite low overall sale volume in the third quarter, sale prices have remained consistent YTD which speaks to the resilience of the Northern Nevada industrial market.

CONSTRUCTION

Construction deliveries are on pace to finish 2023 well above average, with 2,644,509 sq. ft. delivered in Q3, and 6.5 million sq. ft. delivered year-to-date. That said, new starts have slowed and the pipeline is shrinking as just 3 million sq. ft. of new projects have broken ground this year. Additionally, approximately 2.7 million sq. ft. of projects in early stages of site work have paused construction while developers assess near-term lease demand or wait for a build-to-suit opportunity, particularly in the I-80 East submarket. While there are several proposed large-scale speculative projects expected to refill the pipeline over the next 12-18 months, a general slowdown in new starts is expected to keep inventory relatively tight into the foreseeable future. Some developers view this as a supportive dynamic to continue building in well located submarkets, while others are expressing more reluctance to take on new projects.

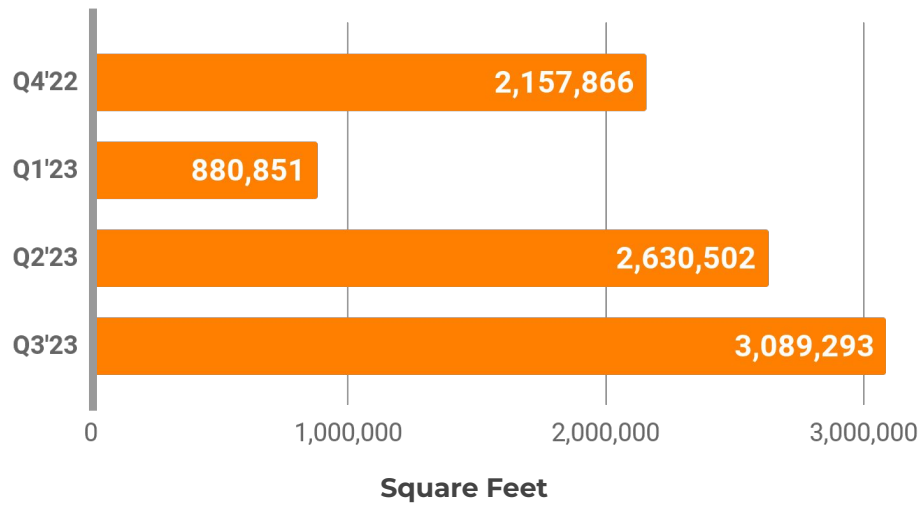
Q3 NEW LEASE TRANSACTIONS



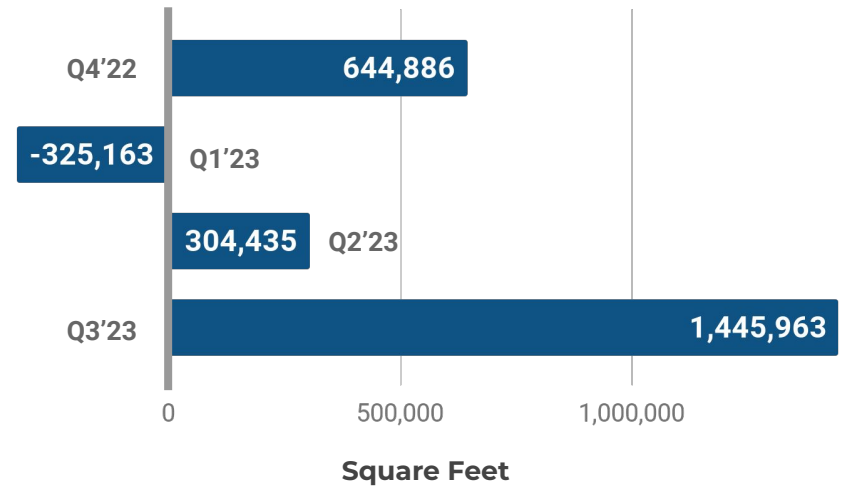
ABSORPTION & SUBMARKET VACANCIES

Q3

Gross Absorption



Net Absorption



VACANCY

Submarket	Total SF	Direct Available SF	Vacancy Rate	Completed Construction SF	Under Construction SF
North Valleys	28,962,521	761,789	2.63%	494,169	-
Sparks	27,764,650	795,708	2.87%	-	130,000
Airport	10,441,155	452,309	4.33%	140,760	752,347
South Reno	10,346,729	437,221	4.23%	-	558,560
Central-West Reno	2,090,572	78,578	3.76%	-	429,000
I-80 East Corridor	27,321,707	2,215,585	8.11%	2,009,580	4,145,730
TOTAL	106,927,334	4,741,190	4.43%	2,644,509	6,015,637

NOTABLE TRANSACTIONS

Q3



Q2 2023 Industrial Sale Volume: \$63,910,000

Q3 2023 Industrial Sale Volume: \$44,410,000

SALES RECAP

Sales activity displayed a notable stagnation, marked by an almost 30% decline in Q3 compared to Q2. The sustained interest rates ranging from 7-8% consequently had a dampening effect on buyer enthusiasm and market dynamics. The standout sale of the quarter is located at 4775 Aircenter Circle where TESSCO technologies sold the building to New Mountain Capital for \$15,686,000 (\$149.63 psf). The 104,835 sq. ft. building sits adjacent to the Reno/ Tahoe International Airport and is situated on roughly 16.5 acres. In the North Valleys, Jensen Precast purchased a 144,278 sq. ft. manufacturing building located at 14291 Lear Blvd for \$15,000,000 (\$103.96 psf). In the airport submarket, Clark Building LLC, bought a 17,535 sq. ft property at 4835 Longley Lane for a total of \$5,300,000 (\$302.25 psf).

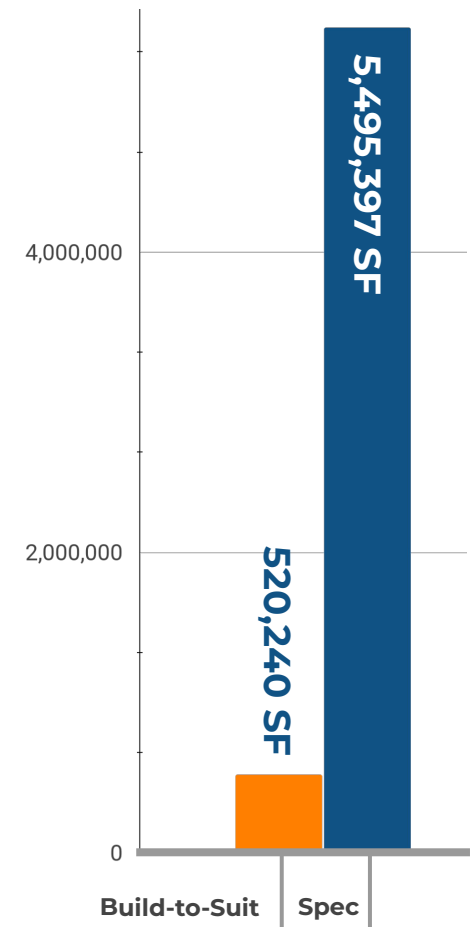
NEW CONSTRUCTION

The third quarter delivered 2,644,509 sq. ft. of new product, 58% of which was pre-leased, primarily comprised of Locus Development Group's two pre-leased buildings in TRI for Redwood Materials totalling 1,485,120 sq. ft.. Also in TRI, Pure Development put the roof on their speculative 354,640 sq. ft. project, Elevate at TRI - their first of three buildings in the park. In the North Valleys, Panattoni Development Company delivered the pre-leased 136,777 sq. ft. building, Red Rock 136, and Majestic Realty delivered the speculative 246,392 sq. ft. Building 3 at Reno Commerce Center II. In the Airport submarket, Tolles Development put the roof on their 140,760 sq. ft flex Building A at Airway Commerce Center, the first of four speculative buildings in the project.

Five buildings broke ground, totalling 901,470 sq. ft. Of this, 733,150 sq. ft. is in TRI, and in South Reno, McKenzie Properties started construction on three mid box buildings totalling 168,320 sq. ft..

Of the 8 million sq. ft. of speculative construction planned to break ground over the next 12-18 months, 20% is planned for TRI while the rest is spread among the other submarkets - primarily North Valleys with Panattoni Development's 395 North and Red Rock Commerce Center, and Dermody Properties' AirLogistics Park, combined totalling 4.5 million sq. ft.

UNDER CONSTRUCTION SPEC VS BUILD-TO-SUIT



NOTABLE TRANSACTIONS

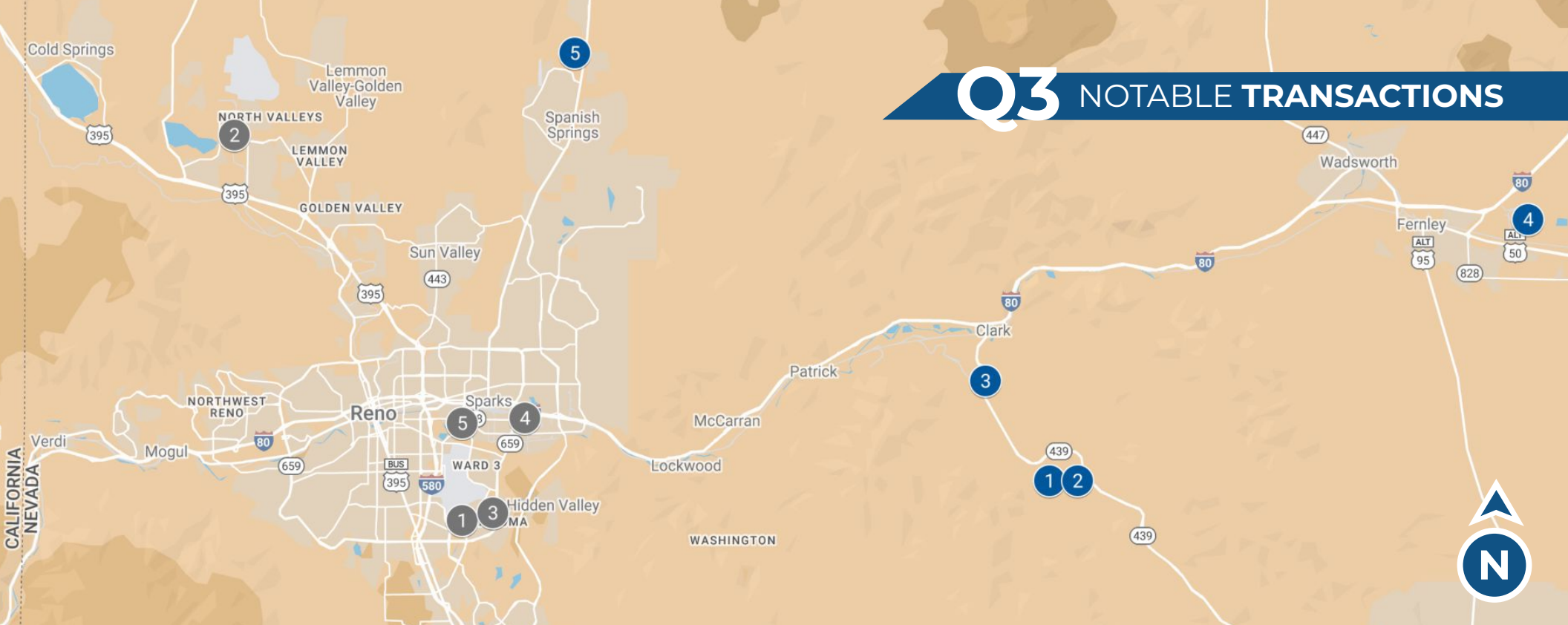
Q3

NOTABLE SALES

Address	SF	Price	Buyer	Seller
4775 Aircenter Circle	104,835 sf.	\$15,686,000	New Mountain Capital	Tessco Reno Holding, LLC.
14291 Lear Blvd	144,278 sf.	\$15,000,000	Jensen Precast	Winner Properties, LLC.
4835 Longley Lane	17,535 sf.	\$5,300,000	Coast Aluminum	Send Cut Send
680 E Glendale Avenue	11,200 sf.	\$3,024,000	Joerger, LLC.	Washoe Zephyr Properties, LLC.
905 S Rock Blvd	25,500 sf.	\$2,400,000	Sparks Tile and Stone	Bickerstaff Enterprises

NOTABLE LEASES

Address	SF	Landlord	Tenant
USA Parkway & Electric Ave	815,360 sf.	Locus	Redwood Materials
USA Parkway & Electric Ave	669,760 sf.	Locus	Redwood Materials
75 Pittsburgh Ave	489,440 sf.	Dalfen / Tolles	Tellworks
2275 E Newlands Drive	112,000 sf.	Cottonmill	Confidential
420 Ingenuity Ave	78,000 sf.	Panattoni	Cleaner's Supply



Q3 NOTABLE TRANSACTIONS

LEASES

1. USA Parkway & Electric Ave

Sparks
Redwood Materials
815,360 SF

3. 75 Pittsburgh Ave

Sparks
Tellworks
489,440 SF

5. 420 Ingenuity Ave

Sparks
Cleaner's Supply
78,000 SF

2. USA Parkway & Electric Ave

Sparks
Redwood Materials
669,760 SF

4. 2275 E Newlands Drive

Fernley
Confidential
112,000 SF

SALES

1. 4775 Aircenter Circle

\$15,686,000
Airport
104,835 SF

3. 4835 Longley Lane

\$5,300,000
Airport
17,535 SF

5. 905 S Rock Blvd

\$2,400,000
Sparks
25,500 SF

2. 14291 Lear Blvd

\$15,000,000
North Valleys
144,278 SF

4. 680 E Glendale Avenue

\$3,024,000
Sparks
11,200 SF

1

The number of leases completed increased by 28% quarter to quarter. Of the 41 lease transactions in Q3, the 5,000-30,000 sq. ft. range was very active in capturing 30 new leases. The majority of the activity was in the Sparks submarket, which currently holds the 2nd lowest vacancy at 2.9%, slightly higher than North Valleys at 2.6%.

2

Lease rates have remained relatively stable since Q1 2023, with class A flex topping out near \$1.50 per square foot, and big box industrial in the mid-\$0.90's per square foot. Extended lease negotiations, which are seeing 4-6 month time frames from proposal submittal to lease execution, are one of the contributing factors to the rate stabilization and slower leasing velocity.

3

Year-to-date net absorption is down 62% compared to the same period last year, which is primarily driven by the 6.5 million square feet of new construction deliveries thus far in 2023. This is also in line with the deceleration of net absorption nationally with a massive volume of speculative development deliveries over the last 24 months, which is expected to continue through the remainder of the year.

4

Despite new construction starts slowing, developers and investors with strong cash positions are in the wings and eager to add to their portfolio, seeking opportunistic buyouts from distressed developers and those unable to convert construction loans to long term debt.

5

Owner-users have emerged as the primary drivers of sale activity, and were the buyers of all four sales closed in September. Asking prices are beginning to soften and price reductions are occurring more frequently, which is expected to improve buying opportunities for investors over the next 12-18 months.

6

A wave of datacenter activity, both by users and speculative developers, is further perpetuating land constraints in the market. This is most recently highlighted by Tract's acquisition of 2,200 acres in TRI from Blockchains. Tract aims to facilitate horizontal land development to cater to end-user datacenter operators. Notably, this marks the first significant land purchase from Blockchains since their acquisition of 67,000 acres in 2018.



Submarket	Delivery	Project	Developer	SF	Type
Sparks	Q2 2024	Spanish Springs Commerce Park	Scannell Properties	130,000	BTS
Airport	Q1 2024	Airway Commerce Park - Bldg B	Tolles	439,280	Spec
Airport	Q1 2024	Airway Commerce Park - Bldg C	Tolles	199,680	Spec
Airport	Q1 2024	Airway Commerce Park - Bldg D	Tolles	113,387	Spec
South Reno	Q4 2023	Damonte Ranch 4	Prologis	390,240	BTS
South Reno	Q3 2024	9735 Double R Blvd	McKenzie Properties	72,380	Spec
South Reno	Q3 2024	Gateway Dr - Bldg A	McKenzie Properties	55,620	Spec
South Reno	Q3 2024	Gateway Dr - Bldg B	McKenzie Properties	40,320	Spec
Central-West Reno	Q1 2024	LogistiCenter at I-80 West Phase II - Bldg 1	Dermody Properties	170,500	Spec
Central-West Reno	Q1 2024	LogistiCenter at I-80 West Phase II - Bldg 2	Dermody Properties	258,500	Spec
I-80 East	Q1 2024	Parkway Industrial Center - Bldg A	Avenue 55	434,480	Spec
I-80 East	Q1 2024	Parkway Industrial Center - Bldg B	Avenue 55	282,240	Spec
I-80 East	TBD - On Hold	Tahoe-Reno 5	Prologis	709,640	Spec
I-80 East	TBD - On Hold	Tahoe-Reno 6	Prologis	327,180	Spec
I-80 East	Q1 2024	1600 Peru Dr	Pure Development	410,750	Spec
I-80 East	Q2 2024	500 Denmark Dr	Pure Development	322,400	Spec