

RENO INDUSTRIAL

Economic Indicators

	Q2 17	Q2 18	12-Month Forecast
Reno Employment in Thousands	231.5	239.4	▲
Reno Unemployment	4.1%	3.3%	▼
U.S. Unemployment	4.3%	3.8%	▼

May 2017/2018 used to represent Q2 for Las Vegas

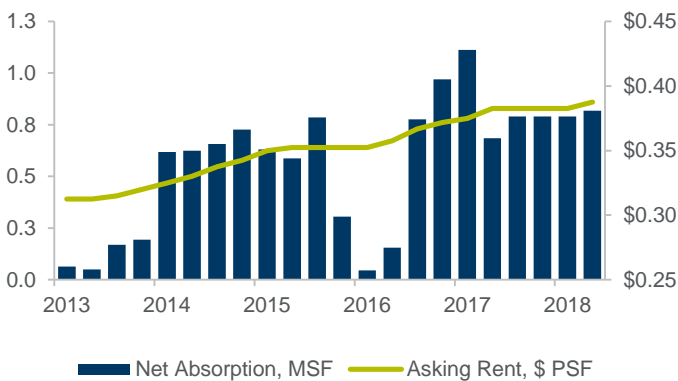
Market Indicators (All Product Types)

	Q2 17	Q2 18	12-Month Forecast
Overall Vacancy	6.9%	6.3%	▼
Net Absorption (sf)	54K	167K	▲
Under Construction (sf)	4.5M	5.3M	▼
Average Asking Rent	\$0.38	\$0.40	▲

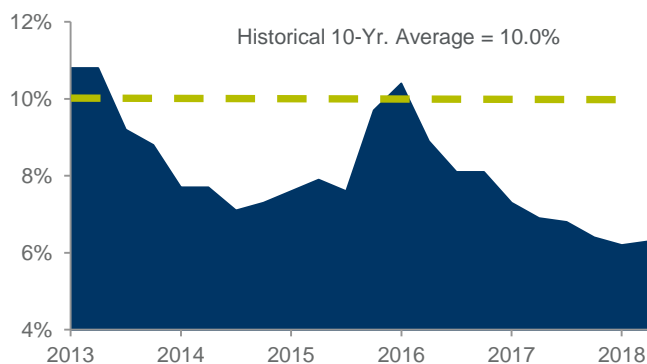
*Rental rates reflect triple net asking \$psf/monthly

Direct Net Absorption/Asking Rent (Triple Net, Monthly)

4-QTR TRAILING AVERAGE



Overall Vacancy – All Product Types, incl. Sublease



Economy

The Reno employment market continued to record job growth, adding 7,900 jobs (+3.4%) year-over-year through May 2018.¹ During the same time period, the unemployment rate decreased 80 basis points (bps), dropping to 3.3%. Also worth noting, the current rate is 270 bps below the 28-year average of 6.0%.

All employment sectors are expected to grow at a combined growth rate of 4.1% in 2018. Reno's economy of \$25.8 billion² as measured by gross regional product is forecasted to grow an additional 4.4% in 2018 and 3.5% in 2019, above its 10-year average of 2.2%.³

Market Overview

Industrial vacancy (including sublease) was 6.3% in Q2 2018, up 10 bps from last quarter and down 60 bps from a year ago. Occupancy grew by 167,100 square feet (sf) across all classes in Q2, marking the ninth consecutive quarter of positive occupancy gains. Year-to-date net absorption was 1.2 million sf (msf) – twice as much compared to mid-year of 2017 (+630,000 sf). Tenants absorbed the majority of space in Sparks, Fernley and Central submarkets, combined 578,000 sf. At the end of Q2 2018, overall vacancy was the lowest in South Reno submarket (4.0%) followed by Airport (4.4%) and North Valley (4.7%) submarkets.

The largest lease signings occurring in Q2 2018 included: the 564,000-sf lease signed by Lowe's at 12475 Mustang Rd. in the Sparks submarket and the 271,200-sf lease signed by ITS Logistics at 550 Boxington Way in the Sparks submarket.

During the Q2 2018, 136,000-sf Clasen Quality Chocolate at 600 Hawco Ct. in Sparks was completed in addition to 499,800 sf in Q1 in North Valley submarket, bringing year-to-date deliveries to 635,800 sf or four properties. Of the 5.3 msf currently under construction, the Tesla Gigafactory located at 2641 Portofino Dr. accounts for 3.8 msf with 100% pre-leased and is estimated to be completed in Q3 2019. The 802,000-sf North Valley Commerce Center at 9550 N. Virginia St. with 0% pre-leased is the second largest project with an estimated completion in Q3 2018.

Sales Activity

Reno industrial market kicked off 2018 by recording \$218.3 million in sales activity in Q1 and Q2 of 2018 combined compared to \$298.3 million during the same time a year ago. Private and institutional investors continue to be the leading buyers of industrial and flex properties, each accounting for 29% of activity followed by REITs (28%).⁴ Prologis, the Blackstone Group and Angelo, Gordon & CO. have been the leading buyers.

Outlook

- With plunging vacancies and few deliveries in the pipeline, especially for midsize properties, tenants can expect still higher rents and limited location choices.
- Continued economic and job growth along with lower cost of living compared to neighboring states and improving industrial diversity will drive occupancy and rent growth in 2018.

Sources: ¹www.bls.gov ²bea.gov ³GDP as of 2016. (f) by Moody's Analytics economy.com ⁴Costar.

SUBMARKET	TOTAL BLDGS	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT DIRECT NET ABSORPTION (SF)	YTD DIRECT NET ABSORPTION (SF)	UNDER CONSTRUCTION (SF)	AVERAGE ASKING RENT* (ALL Types)
Airport	201	8,785,871	77,610	305,637	4.4%	-22,822	-65,663	0	\$0.51
Central	122	2,118,037	0	107,054	5.1%	64,800	55,708	27,000	\$0.56
Douglas County/ Carson City	203	5,504,155	100,343	212,979	5.7%	-4,540	-19,376	0	\$0.46
Fernley	36	4,306,459	256,000	92,138	8.1%	226,059	225,937	0	\$0.31
North Valleys	156	18,983,328	349,050	533,891	4.7%	61,476	761,448	1,238,481	\$0.36
South Reno	145	9,444,840	130,844	244,718	4.0%	-584	-138,225	222,000	\$0.50
Sparks	503	28,671,270	24,518	2,442,954	8.6%	287,574	715,085	7,209	\$0.41
Storey County	63	13,108,895	748,875	194,016	7.2%	-446,875	-367,630	3,800,000	\$0.36
West Reno	27	932,943	0	0	0.0%	2,000	0	0	\$0.69
TOTAL	1,456	91,855,798	1,687,240	4,133,387	6.3%	167,088	1,167,284	5,294,690	\$0.40
FLEX	302	8,727,803	24,321	304,814	3.8%	-14,872	-47,977	0	\$0.79
MFG	125	11,776,479	100,343	56,171	1.3%	508,854	797,700	3,800,000	\$0.41
W/D	1,029	71,351,516	1,562,576	3,772,402	7.5%	-326,894	417,561	1,494,690	\$0.38
TOTAL	1,456	91,855,798	1,687,240	4,133,387	6.3%	167,088	1,167,284	5,294,690	\$0.40

*Rental rates reflect triple net asking rents \$psf/monthly. Vacancy rate and net absorption includes direct and sublease. Inventory includes properties of 5,000 sf and larger.

Key Lease Transactions Q2 2018

PROPERTY	SF	TENANT	LANDLORD	TRANSACTION TYPE	SUBMARKET
Mustang Industrial Park Bldg. 2	564,000	Lowe's	Scannell	New Lease	Sparks
550 Boxington Way	271,152	ITS Logistics	Selective Real Estate Investments	New Lease	Sparks
1450 E Greg Street	136,207	CCP Industries	Global Logistic Properties Ltd.	New Lease	Sparks
12055 Sage Point Court	132,275	UPS Supply Chain Slns	Global Logistic Properties Ltd.	New Lease	North Valleys
9085 Moya Boulevard	96,000	Big Rock Sports	Prologis	New Lease	North Valleys

Key Sale Transactions Q2 2018

PROPERTY	SF	BUYER	SELLER	PRICE / \$PSF	SUBMARKET
North Valleys Commerce Center, Bldgs A-1 & B	1,059,260	Prism Realty Corporation	Panattoni Development	\$81,000,000 / \$76.56	North Valleys
Sparks Business Center	396,497	Dermody Properties	A&B Properties	\$38,500,000 / \$97.10	Sparks
McKenzie Portfolio (575 Reactor, 1210-1280 Icehouse, 1355 Industrial)	204,240	Tolles Development Company	McKenzie Properties	\$12,500,000 / \$61.20	Multiple
190 Resource Drive	183,435	Universal Forest Products	Directed Capital Resources	\$7,200,000 / \$39.25	Fernley
405 Western Rd, Bldgs A-D	100,800	Los Angeles Iron and Steel	GV RP2 LLC	\$6,500,000 / \$64.48	North Valleys

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