



MARKET CHANGE

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

FLAT

Transactions

DOWN

Deliveries

UP

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HIGHLIGHTS

- **Market Status** - The Reno industrial market's vacancy rate is currently 8.83%, which is 107 basis points lower than one year ago. Lease rates have remained unchanged this quarter, but are still 9.68% higher than the third quarter of 2013. These promising figures are further proof that Reno's industrial market has secured its outlook as a favorable distribution hub. One good example is Tesla, which has chosen the Reno-Sparks area to build their massive battery gigafactory, which is projected to open in 2017. Several economists have agreed that this will stimulate growth for many sectors including the commercial real estate market. Good access to the Western states, efficient transportation links, a liberal tax structure, and minimal regulations have allowed the metro to increase its prominence as a local and regional distribution hub.
- **Construction** - At the close of the third quarter, three properties were under construction in the Reno industrial market: a 624,000 square foot, Class A warehouse in North Valleys, a 603,000 square foot, Class A distribution center in Sparks, and a 70,000 square foot, Class B warehouse in South Reno. The delivery dates for all three properties range from October of this year to May of 2015. Long term, Reno has positioned itself as a growing regional warehouse market with great potential for further development.
- **Vacancy** - The vacancy rate for Reno's industrial market ended the quarter at 8.83%, increasing by 10 basis points from the previous quarter, but still down 107 basis points from the previous year's figure of 9.90%. Within the major submarkets, South Lyon County remained highest at 17.22%, while North Valleys came in at a solid 4.16%.
- **Availability** - Direct/sublet space being marketed was 10.92% of the total inventory at the close of the third quarter, a drop of 199 basis points from the previous year. This significant drop in availability will continue to put upward pressure on lease rates in coming quarters. Of the major submarkets, the South Lyon County availability rate remained highest at 25.78%, while North Valleys had one of the least available rates at 4.93%.
- **Lease Rates** - The average asking triple-net lease rate was \$0.34 per square foot per month, which remained unchanged from the previous quarter. However, this figure is still three cents higher than one year ago. Asking lease rates are expected to continue to gradually increase over the next couple of quarters as demand for industrial space in Reno increases.
- **Absorption** - The Reno industrial market recorded positive net absorption of 727,440 square feet for the third quarter of the year, which is a huge jump from the last quarter's negative absorption figure. Given that Reno is a growing regional warehouse market, absorption may continue to fluctuate in future quarters leaning toward more positive figures. Of the major submarkets, Storey County recorded 733,341 square feet of positive net absorption, while North Valleys had the second highest net absorption of 197,850 square feet.
- **Transaction Activity** - The total volume of industrial leasing and sales activity came in at 1,253,939 square feet for the third quarter. This statistic can have some lag time in being reported, so look for third quarter figures to end up somewhat higher in the next report. Details of the largest transactions for the third quarter of 2014 can be found on the back page of this report.
- **Employment** - The unemployment rate in the Reno-Sparks MSA was 7.3% in July 2014, down from 8.3% in January 2014. This compares with an unemployment rate of 7.7% for Nevada and 6.2% for the nation during the same period.
- **Overall** - Reno's industrial market has been vastly improving. The overall vacancy rate has continually been on a downward trend, and is now lower than pre-recession rates. It's noteworthy that this quarter's availability rate was the lowest since 2007. The vacancy and availability rate is projected to decrease even further with the advent of the Tesla gigafactory, as more businesses will be lured into the Reno-Sparks area. Among other factors, Reno has been able to attract trucking operations away from California since Nevada doesn't regulate interstate trucking as strictly. In addition, many trucking and logistics firms have terminals in the region where they operate at a significant savings compared to California-based operators. The combination of these factors is quickly making Reno one of the leaders in manufacturing, distribution and logistics.

FORECAST

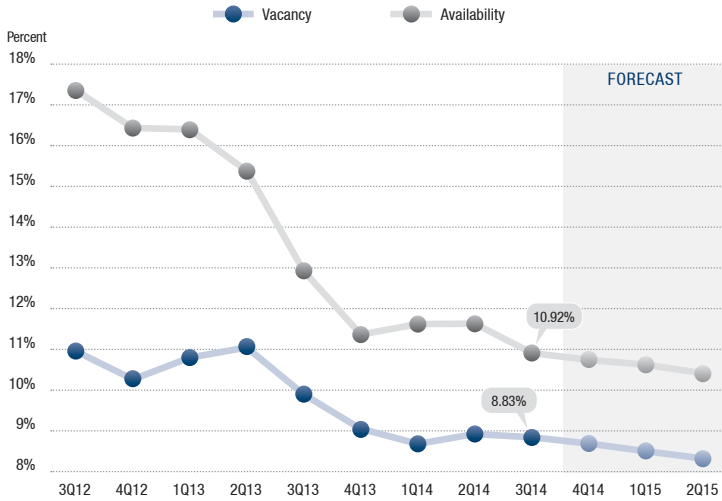
- **Employment** - We anticipate job growth of around 1.2%, or 2,100 jobs, in the Reno/Sparks area by 2015. The occupational groups with the fastest growth rate are education administrators, engineering managers, business operations specialists, and wholesale and retail buyers.
- **Lease Rates** - Expect average asking lease rates to increase by another 3% to 5% by 2015 over the next four quarters.
- **Vacancy** - We anticipate the vacancy rate continuing to remain steady in the coming quarters, dropping by 50 basis points, to around 8.30% by the end of the second quarter of 2015.

OVERVIEW

	3Q14	2Q14	3Q13	% of Change vs. 3Q13
Vacancy Rate	8.83%	8.93%	9.90%	(10.81%)
Availability Rate	10.92%	11.63%	12.91%	(15.41%)
Average Asking Lease Rate	\$0.34	\$0.34	\$0.31	9.68%
Sale & Lease Transactions	1,253,939	1,319,282	2,424,169	(48.27%)
Gross Absorption	1,991,620	813,228	1,856,141	7.30%
Net Absorption	727,440	(192,545)	914,207	N/A

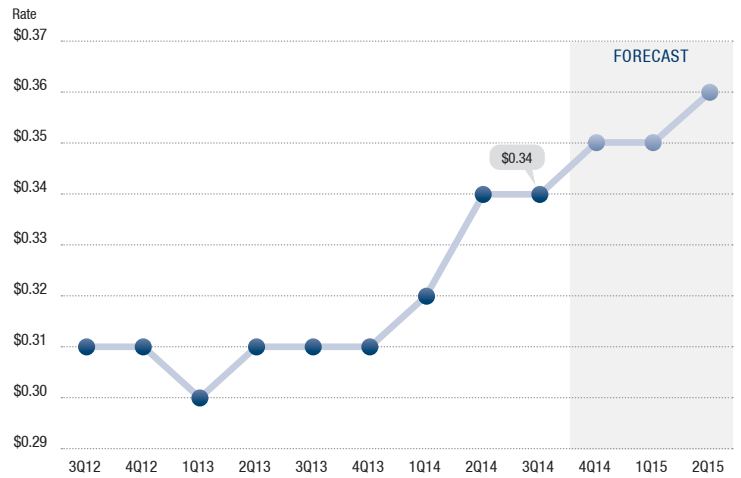
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



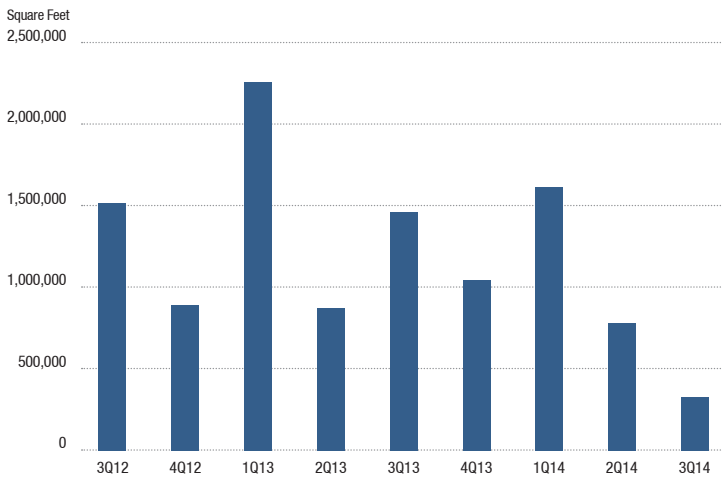
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



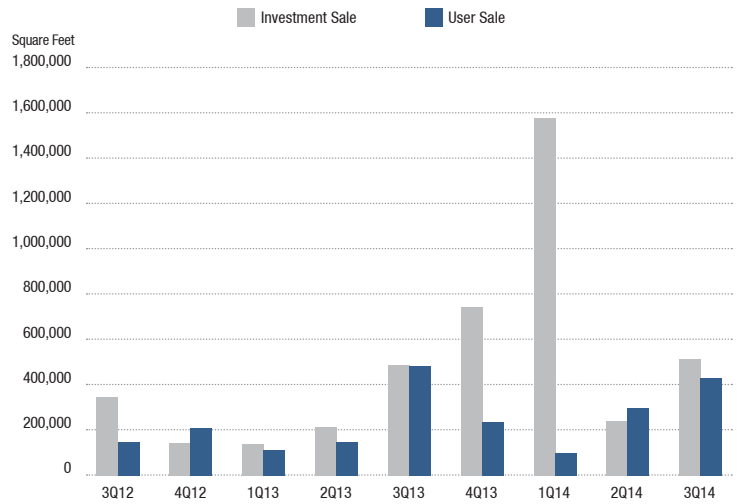
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



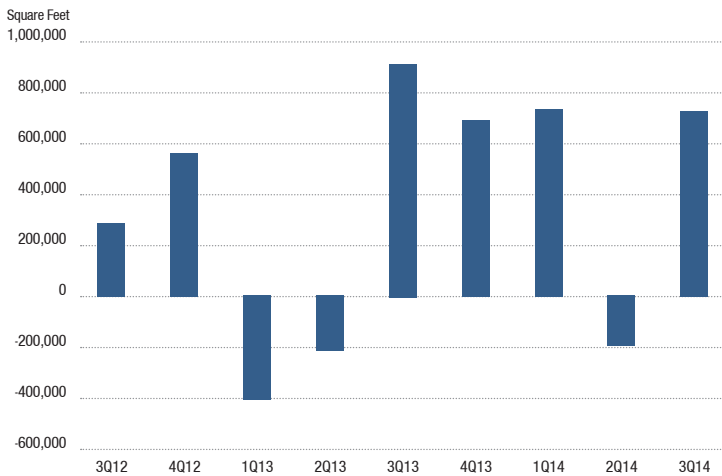
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



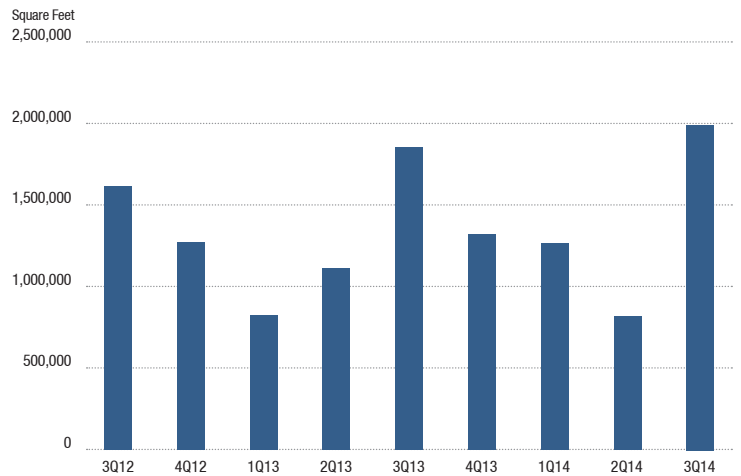
NET ABSORPTION

CHANGE IN THE AMOUNT OF OCCUPIED SPACE FROM ONE QUARTER TO THE NEXT



GROSS ABSORPTION

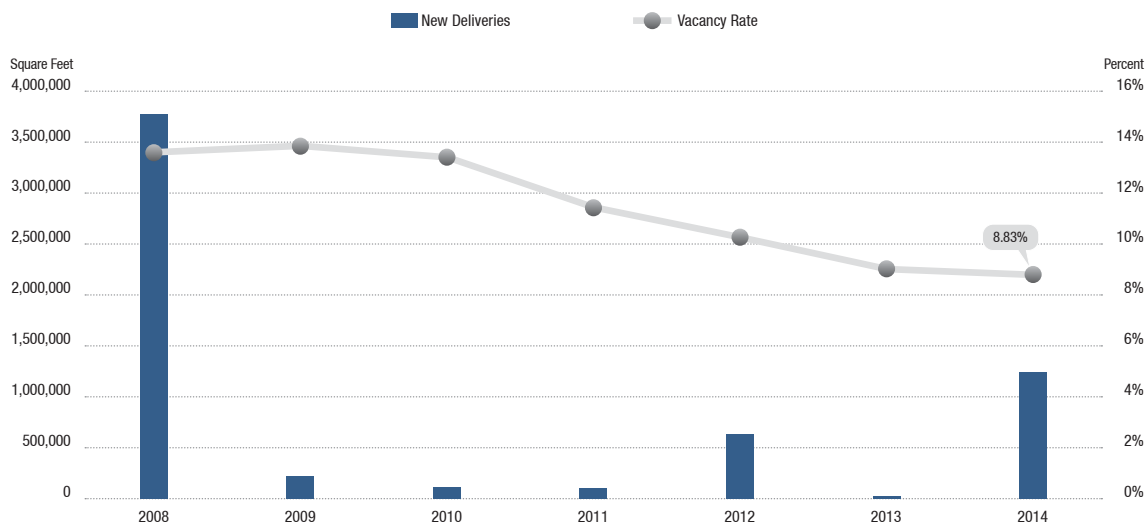
TOTAL AMOUNT OF SPACE THAT BECAME OCCUPIED IN A QUARTER



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2014	Square Feet Available	Availability Rate 3Q2014	Average Asking Lease Rate	Net Absorption 3Q2014	Net Absorption 2014	Gross Absorption 3Q2014	Gross Absorption 2014
Reno Market													
Airport	133	6,501,281	0	1,300	813,834	12.52%	953,923	14.67%	\$0.34	(77,574)	55,719	56,897	317,468
Carson City County	120	2,607,486	0	20,160	359,911	13.80%	407,915	15.64%	\$0.44	9,434	(33,670)	27,072	56,024
Central	188	2,577,728	0	15,000	94,179	3.65%	214,804	8.33%	\$0.31	2,866	110,887	2,866	122,997
Douglas County	49	1,474,578	0	72,000	140,289	9.51%	188,243	12.77%	\$0.38	60,100	55,766	60,100	87,126
Fernley	41	4,201,616	0	400,000	592,900	14.11%	606,200	14.43%	\$0.36	(405,125)	(408,365)	183,435	184,035
Incline Village	3	40,535	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
North Outlying Washoe County	12	255,850	0	60,000	0	0.00%	7,700	3.01%	\$0.00	13,920	12,000	13,920	25,920
North Valleys	173	14,442,443	624,000	2,890,854	600,755	4.16%	712,700	4.93%	\$0.37	197,850	448,846	197,850	579,056
South Lyon County	94	2,043,117	0	0	351,853	17.22%	526,641	25.78%	\$24.00	(12,000)	(12,901)	0	32,749
South Outlying Washoe County	9	1,276,989	0	470,000	50,612	3.96%	5,000	0.39%	\$0.00	19,200	19,200	19,200	19,200
South Reno	99	6,744,663	70,000	139,946	726,299	10.77%	647,148	9.59%	\$0.36	30,778	(27,352)	30,778	72,642
Sparks	555	26,339,931	603,000	1,607,895	2,375,194	9.02%	3,467,556	13.16%	\$0.31	60,480	240,522	571,991	1,269,387
Storey County	60	9,472,272	0	6,770,365	830,416	8.77%	835,368	8.82%	\$0.38	733,341	700,071	733,341	1,193,941
West Reno	25	899,178	0	0	25,900	2.88%	38,400	4.27%	\$0.00	94,170	107,850	94,170	107,850
Reno Market Total	1,561	78,877,667	1,297,000	12,447,520	6,962,142	8.83%	8,611,598	10.92%	\$0.34	727,440	1,268,573	1,991,620	4,068,395
0-29,999	1,057	11,953,294	0	186,873	815,161	6.82%	1,035,064	8.66%	\$0.60	95,793	151,944	180,875	515,997
30,000-49,999	157	5,962,113	0	268,620	465,369	7.81%	720,104	12.08%	\$0.41	(503)	(7,577)	46,493	149,099
50,000-99,999	162	11,314,316	70,000	698,750	1,188,265	10.50%	1,417,701	12.53%	\$0.34	(19,492)	(145,071)	177,075	505,553
100,000-199,999	97	13,688,715	0	933,250	1,200,594	8.77%	1,704,996	12.46%	\$0.31	393,610	765,142	614,317	1,194,913
200,000-299,999	32	8,018,506	0	448,500	829,421	10.34%	878,083	10.95%	\$0.29	108,682	207,604	234,950	333,872
300,000 Plus	56	27,940,723	1,227,000	9,911,527	2,463,332	8.82%	2,855,650	10.22%	\$0.33	149,350	296,531	737,910	1,368,961
Reno Market Total	1,561	78,877,667	1,297,000	12,447,520	6,962,142	8.83%	8,611,598	10.92%	\$0.34	727,440	1,268,573	1,991,620	4,068,395

Lease rates are on a triple-net basis.

ANNUAL NEW DELIVERIES VS. VACANCY RATE



MAJOR TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
Coney Island Industrial Park #10 525-745 Coney Island Dr.	Sparks	294,333	\$31.60	Ranshu Parts Company	IndCor Properties, Inc.
1381 Capital Blvd.	Airport	233,072	\$36.90	Ktr Reno, LLC	Lawson Products, Inc.
110 Woodland Ave.	West Reno	94,170	\$50.44	Westwind Investors, LP	Consolidated Cadatulators, LLP
345 Parr Circle	North Valleys	180,731	\$25.02	Scher Trust	Bridgewood North Associates, LP
Tahoe Reno Industrial Center 1335 Alexandria Court	Storey County	30,715	\$57.14	Cople Ranch, LLC	Real Estate Inv. of Texas, LLC

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
Meredith Kleppe Business Center 1420-1470 Kleppe Ln.	Sparks	65,983	Aug-14	Reno Toy Storage	Prologis
Damonte Ranch Distribution Center 12693 Old Virginia Rd.	South Outlying Washoe County	45,612	Sep-14	Undisclosed	Prologis
Tahoe Reno Industrial Center 1335 Alexandria Ct.	Storey County	30,715	Jul-14	Lambertson Industries	Cople Ranch, LLC
1050 Spice Islands Dr.	Sparks	27,434	Jul-14	A.R.E.	Bre of Reno Property Owner, LLC
250 Vista Blvd.	Sparks	25,000	Sep-14	Key Sales, Inc.	Prologis

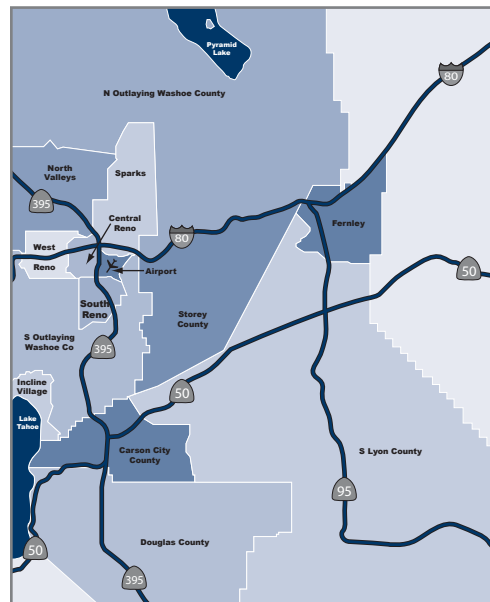
PRODUCT TYPE

MFG. / DIST.

Manufacturing / Distribution / Warehouse facilities with up to 29.9% office space.

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