



2017 Greater Spokane **Market Report**



NAI Black's roots have been in Spokane for over 50 years. We're committed to being an active partner in the Inland Northwest's great history and its vibrant future. NAI Black is proud to manage, lease, and market for sale commercial real estate properties throughout Spokane and the region. We look forward to our continued role in building a dynamic and vital Inland Northwest.



The Reserve at Painted Hills



NAI Black

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“Our healthcare industry is thriving, we have an emerging aerospace manufacturing base, a growing University District with two medical schools and numerous start-up companies creating new jobs.”



Dave Black CCIM, SIOR
CEO, NAI Black

A Record Year for NAI Black.

2016 was an incredible year for NAI Black. After 32 years of running the company and 35 years in business, we continue to grow and prosper due to the expanding needs of our great clients. As our clients' needs have grown, so has our team of brokerage and management professionals. We are thankful to all of our clients and staff for another record year of growth.

My father, James S. Black, Sr., worked for five years with Arthur D. Jones, Co., which was the oldest real estate firm in Spokane, founded in 1887. Arthur's son, Scott, was retiring and my dad purchased the company and incorporated James S. Black, Co. in 1958. He ran that company for 25 years. In the 70s, James S. Black, Co. had the largest residential brokerage in the city with 13 offices and a couple hundred agents. In the early 80s, with record-high interest rates, his residential company came into tough times. At that time, I was a relatively new commercial agent specializing in retail.

My dad died of cancer in 1984 at age 59, and I bought the company from my mom. The company owned no real estate, although my dad owned properties personally. Purchasing the company provided me with a good "tool box" to move forward. We ran the residential side of the business until 1995, and then merged with the Tomlinson Group forming Tomlinson Black. I ran the commercial and property management side of the business, and the existing Tomlinson team ran the residential side. That proved to be a great merger for me. I still had an interest in the residential part of the company but was happy to be relieved of its day to day operations.

With our expanded commercial sales and excellent property management team, we continued to perform exceptionally well and enjoyed great success. In 2007, the Tomlinson group wanted to become a franchisee of Coldwell Banker and our commercial group wanted to have a separate identity. I sold my interest in the residential side of the company to focus on the commercial end of the business. That is when we joined the NAI network, which is a globally managed network of independent, locally owned commercial real estate firms. The affiliation with NAI provided us with a new technology platform, a global network of offices, and new tools to grow our commercial brokerage and property management companies. In addition, we continued our business of developing commercial properties. This gave us a nice three-legged stool of Commercial Brokerage, Property Management, and Development to serve our clients' needs. We have been fortunate to have continued success in all areas.



In some ways, I feel that if you can make it in Spokane, you can make it anywhere. Other markets, like California, may be more dynamic, but Spokane is blessed with a lower barrier to entry and steady growth. If you just plug away (like the tortoise and the hare), you can do well. My dad used to say, "there is no bad real estate, you just have to live long enough". We can do deals in Spokane that we could never do in the big metro areas where the competition has seemingly unlimited dollars. The economy in Spokane is very stable, and if you buy right, you will be rewarded with steady long-term growth. We have developed many nice shopping centers, single-tenant buildings, office buildings, residential subdivisions, and multifamily housing. Where else can a person have that kind of opportunity?

Spokane is a wonderful city with great potential for continued growth, despite the normal challenges facing cities of our size today. My children, who are college students, have a bright future if they choose to move back to the Spokane area. It is a small town with plenty of culture, amenities, and recreation. For a region whose economy for many years was based on mining, agriculture, and timber, we have seen a major expansion and diversification of economy. Our healthcare industry is thriving, we have an emerging aerospace manufacturing base, a growing University District with two medical schools, and numerous start-up companies creating new jobs.

Our quality of life in Spokane is unparalleled! Where else can you pheasant hunt 30 minutes from town, fish in one of our 75 lakes, go skiing at four great ski areas, or play golf at world-class golf courses for \$22 a round? Our young people used to move to the coast because there was "nothing to do". Spokane now has a lot to offer with our affordable housing, great restaurants, outdoor recreation, and growing cultural amenities. I think the next generation will see this area change from a large small town to a metropolitan city that will continue to be discovered because of its quality of life and great people.

A handwritten signature in black ink that reads "David R. Black". The signature is written in a cursive, flowing style.

David R. Black

NAI Black, Chief Executive Officer

RETAIL

“...the retail sector will take advantage of many new opportunities during 2017 as retailers embrace a new national fiscal environment.”



Stephen B. Pohl



David B. Wright CPM®

Continued Retail Growth Ahead in 2017.

The Spokane retail market is poised for continued growth and new construction in 2017. Spokane, compared to other large Northwest markets, continues to have an enviable economic environment, stable rent pricing, and quality locations that will continue to attract national brands.

While Initiative 1433, with its minimum wage hike from \$9.47 to \$11.00 per hour, will be a challenge for retailers during the coming year, we expect retailers to adjust staffing and product pricing to remain profitable. In addition to the increase, retailers are still adjusting to the loss of sales to internet shoppers. These shifts in the retail industry have caused continued “floor plate” reductions by major retailers, with a number of large box stores announcing closures in the Spokane market such as Hastings, 50% Off Cards, Sports Authority, two Albertson’s grocery stores, and Macy’s downtown store. However, these closures have created tremendous opportunity for new retailers desiring entry into the Spokane market.



A number of new retail players have expanded in our market; notably, Maverik-Adventure’s First Stop, Mattress Depot USA, Panera Bread, and Metro PCS. Spokane has witnessed the explosion of new credit unions coming to town this year such as BECU, GESA and Alaska, with expansion of existing credit unions like Numerica and STCU.

Carhartt and Urban Outfitters opened their first stores in downtown Spokane during 2016. Free People, Tortilla Union, and Tomato Street have made downtown their home as well. With the Macy’s building under refurbishment for a mixed-use development by Centennial Properties, inclusive of signature retailers, the future for downtown Spokane is vibrant. The ground floor retail vacancy in downtown has stayed steady near 11.7% with average rents increasing from \$13.67 in 2015 to \$14.69 in 2016. There is high demand for well-located retail space in the downtown core, and we expect that trend to continue.

The North side is witnessing an unprecedented growth, with the 2016 vacancy rate decreasing to 7.4% compared to 11.5% in 2015. This retail corridor has seen the opening of a Natural Grocers, a second Trader Joe’s, and a planned second Panera Bread and Planet Fitness.



The Valley vacancy increased to 8.68% in 2016 compared to 7.24% during 2015, mainly due to big box closures, with average rent rates falling from \$13.26 in 2015 to \$12.58 in 2016. Planet Fitness opened their first store in the Valley last year. Opportunity Shopping Center sold in 2016 and is now close to 100% occupancy.

The South Hill, with a 2016 1.3% vacancy rate (compared to 4% during 2015), continues to represent the coveted retail sector in the market. Following the success of the 100% lease-up of Regal Plaza at Palouse Center anchored by Target, several new developments on Regal are positioning for ground breaking in 2017. The average rental rate increased from \$18.50 per square foot in 2015 to \$19.00 in 2016. Poole's Public House opened a second location in the 57th and Regal Center in 2016. Rock City Grill relocated to the Regal corridor and Sola Salon opened in the Manito Shopping Center.

The West market has grown considerably with the completion of the new Hayford Crossing anchored by Grocery Outlet, Dollar Tree, and STCU. As a result of new retail space added to the market, the West had a 10% vacancy rate in 2016 compared to 7.4% in 2015. The Spokane Tribe of Indians broke ground on 145 acres for their new casino on Highway 2. Plans call for a \$40 million casino, two restaurants, and a resort hotel. Several new big box retailers are on the drawing board for 2017 near Deer Heights Boulevard.

We expect the retail sector to take advantage of the many new opportunities during 2017 as retailers embrace a new national fiscal environment. NAI Black, having deep experience as a retail market leader in Eastern Washington and Northern Idaho, is closely involved with the International Council of Shopping Centers through its NAI Global platform. With its global network of independently owned companies, it continues to provide a great source of networking and leads. Having the "right connections" in a competitive environment sets us apart. ■

“We feel 2017 will be a year of steady increase in office occupancy.”



Thomas P. Hix CPM®



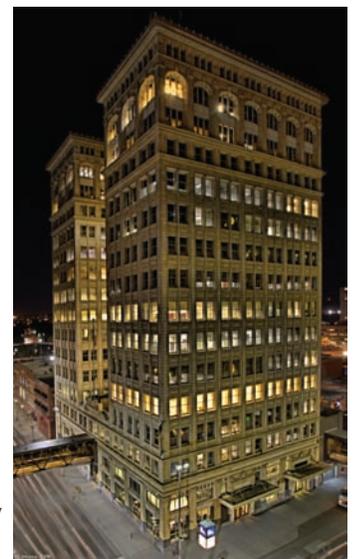
Jon J. Jeffreys SIOR

Spokane's Office Market Starting to Rebound.

The office market in 2016 began to show improvement and reduced its overall vacancy by 108 basis points with an absorption of 481,992 square feet. This is not the robust market we are seeing in other parts of the country, but it is an improvement for Spokane where we have always maintained a steady market. The strongest growth area was the suburban office market, which showed that vacancy was reduced by 63,575 square feet; or 1.67%.

We have broken down the suburban office market into five categories: Periphery of CBD, South, North, Valley, and West. The Periphery of CBD showed the strongest growth; vacancy decreased from 16.62% to 13.34% with an absorption of 273,567 square feet. The South Hill was the weakest with an 18.98% vacancy, followed by the Valley sub-market at 16.99% vacancy. The North sub-market currently has 112,431 vacant square feet; or 11.02%. The West sub-market is the smallest market and is currently 32.7% vacant. In the suburban section of the market, we surveyed 380 buildings, 8,711,477 square feet, with an overall vacancy of 1,378,717 square feet; or 15.83%. West Spokane shows a large vacancy, due primarily to a handful of large call center office buildings that have been vacated. One large office lease could cut this vacancy in half.

We divided the CBD office market into three categories: Class A, Class B and Class C. We surveyed 71 buildings, 3,052,200 square feet, with an overall vacancy of 477,446 square feet; or 15.65%. This was a slight reduction in vacancy with a negative absorption of 39,682 square feet. Class A space had a 1% reduction in vacancy but saw an increase in rental rates of \$1.91 per square foot. Class B space was flat. Class C space saw an increase in vacancies of 16,706 square feet; or 16.5%. The majority of the vacancy remains in the Class B market, and although we did not have a large tenant move out of the CBD Class B market in 2016, we also did not see any tenants of significant size move in. We are seeing a few building owners either convert their traditional office buildings into a more industrial, open office feel to attract the more nontraditional office tenants (e.g. the Legion Building), or they are completely removing their office buildings from the





market and converting them to multifamily (e.g. the Chronicle Building and Macy's Building). Although this is not a reduction in vacancy due to growth, it will improve the rates as the supply will begin to drop. With more residential housing coming into the downtown core, this will create a higher demand for a work-live environment in the CBD. This, in turn, will make the CBD a more employer-attractive location.

We feel that 2017 will be a year of slow and steady increase in occupancy. Spokane is seeing a demand in both back office and sales office employers due to Spokane's low cost of real estate, low cost of employment, and low employee turnover ratios. With the surrounding major markets seeing all of these costs skyrocket, Spokane is positioned well to continue to become a low cost alternative. There is very little office development planned on the horizon; another contributing factor to vacancy declining. Office rental rates at the top end are still about 20% below where they need to be to stimulate new office development. Office building sales for 2016 were steady with the continued demand for centrally located buildings with free parking. The majority of office building sales continue to be to owner-user buyers.

Medical Office

The medical office market showed some strength with vacancy decreasing 20,562 square feet to a year-end vacancy rate of 9.42%. The medical office market continues to adapt as a result of the opening of Washington State University College of Medicine, the Affordable Care Act changing, the hospitals expanding their services for emergency care into the neighborhoods, and the number of physicians retiring from practice.

Along with strengthening occupancy, we are also seeing new spec and owner-user development, adding more space to the market and a higher average rental rate. Even when it is an owner-user new construction building, they are typically building more space than the user needs for future investment income. Two new construction highlights are the 37,000 square foot medical office building being constructed in Kendall Yards that will house Providence and Columbia Medical Associates as tenants; and, the 48,000 square foot medical building at 9911 North Nevada Street housing a mix of tenants and owner-users.

Sales for well-positioned medical office buildings are in high demand, especially around the hospitals and near the University District. With a lack of medical office buildings for sale, we are seeing general office buildings being bought and converted to medical office use. The medical office market should remain strong in 2017. ■

INDUSTRIAL

“Industrial growth will be focused in the West Plains... and East from Sullivan Road to the Idaho border.”



Darren Slackman SIOR



Heidi A. Irvine



Drew Ulrick

Record Low Industrial Vacancy Rates.

NAI Black surveyed 28,678,167 square feet of industrial space contained in 1,291 buildings for the Fall 2016 Market Survey. The average vacancy rate for the entire market was another record low of 4.33%, down from 4.83% for the same period a year earlier. Spokane County has now maintained a vacancy rate below 6% for over 24 months, which has not happened since the Great Recession.

This low vacancy resulted in a stabilization of lease rates in 2016. Fall 2016 saw office rates go up slightly to an average of \$0.80 per square foot, with warehouse rents falling slightly to \$0.36 per square foot. There was speculation that we would see high attrition in the I-502 industry, thus adding more space back on the market and driving rates lower. Instead, we experienced little to no I-502 space returning to the market.

One key indicator of the Spokane industrial market is The Spokane Business and Industrial Park commonly known as The Park. The Park has over 5,000,000 square feet of industrial space with approximately 172 tenants. The Park is currently experiencing 95% occupancy. Additionally, the asking rental rates at The Park are at an all time high. NAI Black negotiated an expansion of a food distributor at The Park in 2016, which doubled the tenant's leased square footage. On behalf of our client, we searched outside The Park for space alternatives, but with a lack of other options, the tenant was forced to expand in their current location. So, it is definitely a landlords' market.

2016 saw few new large industrial buildings added to the market. The new buildings that were added to the market survey contained only 237,000 square feet, and that was spread across 43 buildings. This illustrates that smaller owner-users completed the lion's share of the new construction. These owner-user building projects drove an increase in vacant land sales, which ranged from \$1-\$4 per square foot. There is limited land available in the close-in industrial areas of Spokane near I-90. For users and developers interested in purchasing land, there are small parcels available in the Hillyard industrial area, sites in the far Spokane Valley, and an ample supply of sites in the West Plains, which offers the largest selection of large sites in the area.



We have yet to see lease rates increase enough to justify speculative new construction. Many large tenants in our market who have considered new leased or purchased space have analyzed the increased cost and decided to become more efficient with their current space. The most successful new construction project to date has been the Playfair Commerce Park developed by Larry Stone. Playfair has ten buildings planned; five have been developed to date. Each building is approximately 50,000 square feet. That project currently has about 27,250 square feet available to lease in its first four buildings, and 52,000 square feet are available in the fifth building. The buildings are concrete tilt-up with 30' clear ceiling heights and provide three-phase power. The current asking rental rates are \$1.25 per square foot for office space and \$0.63 per square foot for warehouse space.

In 2017, we expect continued land sales to small owner-users deciding to build. Industrial growth will be focused in the West Plains with its large land inventory and east from Sullivan Road to the Idaho border, which also has a reasonable supply of sites. As an example of the activity near the Washington-Idaho border, in late 2015 Riverbend Commerce Park in Post Falls, Idaho placed 220,000 square feet of warehouse space on the market. This was the former Simplot location. With such a low inventory of industrial space in the Spokane Valley, they leased the entire space to multiple tenants within 18 months. 2017 should be a successful year for the owners of industrial properties. We expect continued low vacancy, increased rents, and the opportunity for some speculative development. ■

DOWNTOWN

“Spokane Transit’s Central City Line was approved by taxpayers in 2016 and will become a major downtown enhancement...”



Mark C. McLees



Jeff K. Johnson CCIM, SIOR

Vibrant **Downtown Market** Showcases New Projects.

Downtown Spokane retail has experienced significant activity during the past year. Macy’s department store left their Main Street location, creating an opportunity to develop a new mixed use project containing a combination of residential and retail uses. The historic Bennett Block became home to a new upscale Carhartt store. River Park Square, with its signature specialty retailing, opened Urban Outfitters, Tortilla Union, and Free People. These new tenants all add to downtown Spokane’s prominence as the premier shopping venue in the region. The strong downtown retail market is attracting new tenants to both street-level and skywalk locations. The Fall 2016 Market Survey reflected a street-level vacancy rate of just under 12% with skywalk space at 15%. The vibrancy of the downtown shopping core is truly remarkable and prospects for continued growth are high.

Spokane Transit’s Central City Line was approved by taxpayers in 2016 and will become a major downtown enhancement, providing a six-mile Rapid Transit route connecting Browne’s Addition to Spokane Community College by way of downtown Spokane and the University District. The Central City Line is expected to provide nearly one million rides per year with numerous stops downtown. Construction of infrastructure for the project is expected to commence in 2019 with completion targeted for 2021. This will be an economic boost for all downtown businesses and, in turn, will add value to downtown real estate.

Downtown Spokane real estate saw a number of properties change hands in 2016 as real estate investors looked for quality properties to purchase. With the renaissance of historic buildings being renovated in the last ten years, there are fewer buildings left in downtown to renovate. This lack of inventory provides promise for the growth and expansion of projects just outside the CBD, such as Kendall Yards.





The \$64 million Riverfront Park redevelopment is underway and will continue through 2017. The park is a huge draw to downtown Spokane for people from all over the region. These improvements will further enhance Riverfront Park's attraction to a growing number of people for years to come.

Spokane's downtown office market remained flat in 2016 due to a lack of significant job growth. Fortunately, the benefits of locating downtown resulted in most businesses renewing their leases and remaining in the downtown core. The office vacancy rate decreased just slightly during the year to 15.64% according to the 2016 Fall Market Survey. With all of the positive activity downtown, we anticipate that office space absorption should improve as 2017 progresses.

The University District, east of and adjacent to downtown, is growing and will continue to have a positive effect on downtown Spokane. In addition to the new medical school and proposed rehab of the Jensen Byrd Building, the long-awaited University District Pedestrian Bridge is set to begin soon. The new bridge should be a catalyst for new development both in the University District and across the bridge to the south along Sprague Avenue. Avista Utilities Corporation has acquired land on the south side of the bridge with plans to develop a significant office project serving the University District. Those plans have not yet been finalized or disclosed. Expect announcements in 2017 for what is hoped to be multiple, significant projects in that area. Additionally, Phase 2B of the Martin Luther King Avenue expansion project should be completed in 2017, enhancing traffic flow in and out of downtown Spokane. This new arterial further enhances development opportunities east of downtown Spokane.

All of this combined activity in and around downtown bodes well for downtown Spokane remaining a vibrant and growing center of commerce for the Inland Northwest for the foreseeable future.

“The appetite for investment real estate remains high with strong competition for all property types both locally and regionally.”



James S. Black III CCIM



Jim A. Orcutt

A Stellar Year for Investment Properties.

The investment real estate market remained strong nationally, regionally, and locally in 2016. It was one of the best years in the history of our company for investment property sales. There continues to be ample investor capital-seeking properties, and lending institutions are ready and able to make income property loans. The high demand for properties and corresponding low cap rates in large metropolitan areas has forced many investors to look to smaller markets like Spokane. With more investors combing the Spokane area for properties, competition is stiff and it is not uncommon to have multiple offers on properties as soon as they are listed for sale.

With bank deposit yields in the 0.5-1% range, investment real estate is an excellent vehicle to provide investors with both security and higher yields. Our firm has seen many all cash transactions in the last year where the investor is looking at a viable alternative to increase their monthly income. Investors are looking for higher yields than can be obtained through traditional banking instruments, CDs, Money Markets, and bonds. Additionally, real estate continues to offer tax benefits that can't be found in other investment alternatives.

Our firm completed multiple transactions in 2016 with cap rates in the 5-6% range. The Opportunity Shopping Center located at 12019-12121 East Sprague Avenue was sold by NAI Black for \$5.325 million, which equated to a 6.21% cap rate. This asset is a 70,000 square foot multi-tenant retail strip center with national credit tenants with staggered long term leases. Average local deals are trading in the 7-7.5% cap rate range and vary depending on the quality of the asset, location of the property, and the credit of the tenants. One example is the Mead Plaza located at 101 East Hasting Road in North Spokane that sold for \$4 million in 2016. That price was based on a net operating income that equated to a 7% cap rate. That property was a multi-tenant retail strip center with primarily local/regional tenants.

NAI Black completed one of the largest investment transactions in Spokane County in 2016 with the sale of the former Servatron building located at 12825 East Mirabeau Parkway in the Spokane Valley. The building is now a multi-tenant office/industrial facility comprised of 118,000 square feet, which was 90% occupied at the time of the sale. The property sold at a 7.5% cap rate and a price of \$10.5 million.

We look forward to assisting you with your real estate investment needs in 2017! ■

“The overall outlook for the Coeur d’Alene and Kootenai County real estate markets in 2017 is bright.”



Jim Koon



Steve Ridenour



Chad Burd SIOR

Coeur d’Alene and Kootenai County.

The Kootenai County retail market experienced steady growth in 2016. There was solid absorption of space in key projects from Riverstone to Cornerstone and along the key north/south retail corridors in the Coeur d’Alene and Post Falls area. This steady absorption of space resulted in a 2016 year-end vacancy rate of 5.4%.

We should continue to see space fill up in high profile retail projects such as The Crossroads (Winco) and the Riverstone mixed use center. The success of these projects and the addition of national tenants such as Cracker Barrel, will continue to fuel growth along the Ramsey/ Northwest Boulevard corridor. Also, there are still retail pads available for sale in this corridor from \$15 to \$25 per square foot.

The City of Hayden continues to expand with the addition of new tenants like Panera Bread. Retail pads for other new tenants are available at GVD’s Cornerstone development fronting Highway 95. The Cities of Post Falls and Rathdrum have a combined retail vacancy rate of 8%. Post Falls has a lot of potential for new development with numerous sites available along I-90.

A resurgence is underway in downtown Coeur d’Alene with a number of classic downtown buildings selling in 2016. There are two landmark buildings currently in escrow with redevelopment plans that propose residential units over first floor retail. Kootenai County is poised to usher in another wave of national and regional tenants with companies like Dick’s Sporting Goods, Trader Joe’s, and Chick-fil-A looking in the market.

The Kootenai County industrial market remains strong with steady demand and no new inventory available. This has resulted in vacancy rates falling below 5% in 2016. A big chunk of the county’s vacant space came off the market in August 2016 with the sale of the 450,000 square foot former Kimball Furniture building to Orgill. During 2016, there was virtually no space available in the 1,000 to 3,000 square foot range, and only a few buildings available in the 5,000 to 30,000 square foot range. With the sale of the Kimball building, there are now no large blocks of space over 35,000 square feet left on the market.

Even with vacancy rates for Class A and B industrial buildings approaching zero, we have not seen an appetite for speculative industrial development. Developers need rents to increase from current market rents of \$5-\$7 per square foot to make the numbers pencil for new projects. 2017 should continue to be a good year for the Kootenai County industrial market. With the low supply of space, rents should begin to increase and stimulate some speculative industrial development. ■

Spokane's **Multifamily Market** Continues to Grow.



Mitch D. Swenson **CCIM**



Kim Sample **ARM**



Ryan Towner



Dallas Lightner

With another phenomenal multifamily year, Spokane and Kootenai County saw low vacancy rates and rapid climbing rental rates in 2016. Outperforming 2015, the robust Spokane multifamily market reported September 2016 average vacancy rates at 1.6% and Kootenai County reported historically low average vacancy rates at 0.5%.

Job growth in Spokane and Kootenai Counties combined saw an increase of nearly 1% in 2016 than the same time period in 2015, potentially attracting more renters to the multifamily market and providing for the upward movement of rental rates. Along with pent-up demand for multifamily still apparently unfulfilled, the continuing trend of young adults waiting longer to purchase a home and the flexible lifestyle that renting provides, all influenced a very healthy 2016 multifamily market.

Spokane County

With the addition of 557 new construction multifamily apartment units (171 were rent restricted), there was little impact in the overall market. With the new construction units being easily absorbed, Spokane Valley saw the highest average vacancy rates in September 2016 as they reached nearly 4% (most likely due to the continued absorption of 662 units added to this sub-market in the prior year).

Overall, average vacancy rates in September 2016 rounded out at 1.6%, which is an exceptional improvement over the vacancy rates reported in December 2015. Three-bedroom, two-bath apartment units had an unprecedented average vacancy rate of only 1.8%. With low vacancy rates came higher rental rates, and the 2016 average overall rent increased by \$102 per month over the last year. This resulted in the fastest 12-month increase in average rental rates in the past 10+ years.

Proposed new construction market-rate units to be completed (or nearly completed) in 2017 is estimated at 1,620 units. Another 877 units are proposed or likely to be built thereafter. This large influx of new construction units being brought to the market have a notable potential to impact rental, vacancy, and absorption rates.





Kootenai County

The average vacancy rate in Kootenai County as of September 2016 was at a historical low with an average vacancy rate of only 0.5%. Three-bedroom, two-bath units had an average vacancy rate of 1.8%. Average rental rates in Kootenai County rose \$77 per apartment from September 2015 to September 2016, bringing the average rental rate up to \$773 per unit. During 2016, 394 multifamily units were brought to the market and, like Spokane County, these units were easily absorbed. For 2017, an estimated 492 new units are proposed and likely to be built in Kootenai County, with 128 units under construction and 74 of those units rent restricted.

2017 Forecast

The 2017 forecast for the Metropolitan Spokane Area, including Kootenai County, is another strong year. However, it is prudent to expect a possible softening of the market with the large number of new construction units planned and in process. Over-building could soften rental increases, escalate vacancy rates, and bring back rental concessions.

Multifamily Sales

The demand by investors for multifamily properties at all price points was at an all time high in 2016. Local investors competed for properties with investors from Seattle, Portland, and Los Angeles, who were searching for properties at attractive cap rates. Cap rates nationally have continued to compress, causing investors to seek higher cap rates in secondary markets like Spokane. During the past year, deals traded for sub 6 cap rates and at close to a 5 cap for highly desirable properties. A few of the significant apartment transactions in 2016 include the 200-unit Bently, which sold for \$18.3 million; the 180-unit Serrano that sold for \$10,734,000; the new 940 North, a 120-bed student housing project near Gonzaga that sold for \$16,034,000; and the 106-unit Adams Square that sold for \$5,555,000. We expect another strong year of apartment sales in 2017 with steady demand. Cap rates should remain stable but could increase slightly if long-term interest rates go up significantly. ■

Source for reported rental and occupancy rates: Runstad Center for Real Estate Studies/ University of WA.

Source for reported new, permitted and proposed apartment construction, Spokane County: Valbridge Property Advisors.

Source for reported new, proposed and under construction units, Kootenai County: Widmyer Corporation.

“A great number of new buyers...were on the hunt for businesses with strong cash flow this past year.”



John T. Powers III



Scott Martin

Business Inventories Are Poised To Increase in 2017.

As expected, the demand for small businesses in the food and beverage, and retail industry, increased in 2016, but the supply of profitable businesses for sale was low. The profitable businesses that came on the market during 2016 were quickly purchased by willing buyers. SBA and bank financing has been and continues to be readily available for qualified business buyers at attractive interest rates. A great number of new buyers and current business owners looking to expand were on the hunt for businesses with strong cash flow this past year. Those buyers found it difficult to identify potential businesses to purchase due to the low amount of “business for sale” inventory on the market.

For business brokers, the challenge was finding business owners that were willing to sell. Most of the businesses for sale were by owners who were ready to move on because they had reached their retirement goals. The general consensus was that most small business owners were not interested in selling because of the strength of consumer spending that resulted in large revenue and profit over the last few years. The result was fewer business sales taking place, but the businesses that did change hands did so at full price or nearly full price.

We predict that there will be a larger number of business opportunities available for sale in 2017. With voter-approved minimum wage increases in Washington State in the November 2016 elections, many business owners have been forced to cut staff and increase prices to maintain profitability. We believe that adjusting to the higher cost of wages will be a challenge for many small business owners and will motivate owners to consider selling. Small businesses (especially those in the food and beverage, and retail sectors) will be impacted the most by the increased cost of labor.

According to the National Small Business Association (NSBA), most small businesses that pay minimum wage are typically in highly competitive industries with low profit margins. Because this applies to restaurants, hotels, gas stations, and most small retail clothing and merchandise businesses, many owners may look to exit in 2017. This will create opportunities for buyers that have been waiting on the side lines. Savvy business purchasers and existing business operators that have the skills and foresight to adapt to the minimum wage changes will be able to make purchases and capitalize off of the opportunity created by these new market conditions.

Overall, we anticipate that 2017 will be an active year for business buyers and sellers in the Spokane region. ■

NAI Black Principals & Brokers



David R. Black CCIM, SIOR
Chief Executive Officer



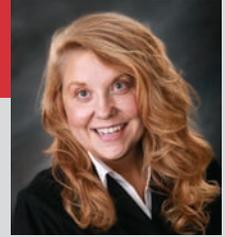
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Chad Burd SIOR



Kaitlin Caudle



Mike Di Lucca



Bill Graves



Heidi A. Irvine



Don B. Jamieson



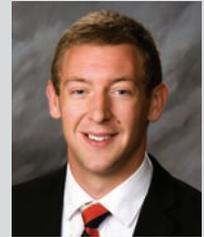
Jon J. Jeffreys SIOR



Jody A. Johnson



Jim Koon



Dallas Lightner



Scott Martin



Terry McAleer CCIM



Jeff A. McGougan



Mark C. McLees



Jim A. Orcutt



J. Grant Person



Mark G. Pinch CCIM



Stephen B. Pohl



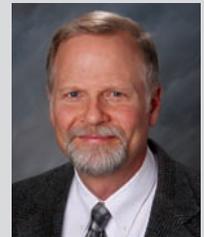
John T. Powers, III



Steve Ridenour



Darren Slackman SIOR



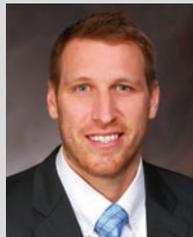
Jeffrey A. Swanson



Mitch D. Swenson CCIM



Ryan Towner



Drew Ulrick



Bryan A. Walker



David B. Wright CPM®



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