

NAIBlack

BLACK
REALTY MANAGEMENT
INC.

2020 Greater Spokane Market Report



NAI Black's roots have been in Spokane since 1887 when Arthur D. Jones was the city's first real estate company. James S. Black, Sr. started there in 1953 and took over forming James S. Black and Company in January 1958. 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.

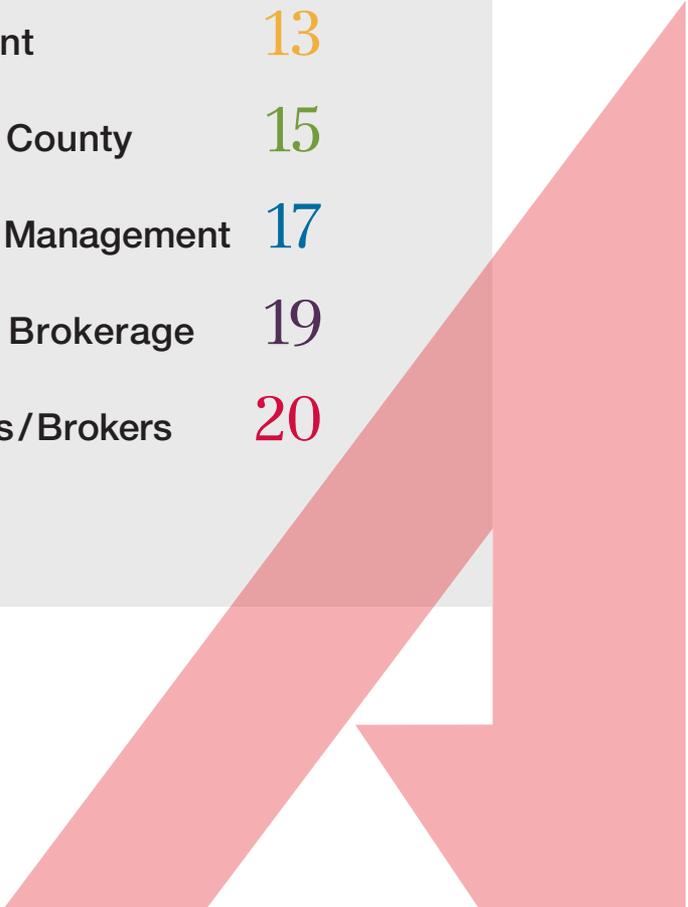


Photography by Dean Davis

Market Report

2020 Greater Spokane

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LETTER FROM CEO

2020 VISION



Dave Black CCIM, SIOR
CEO, NAI Black

The years keep coming and going and I am now in my 39th year of business. My dad enjoyed 26 years before that with James S. Black and Company, and four years before that with the oldest real estate company in Spokane, Arthur D. Jones & Co., which was founded in 1887. My dad went to work at Arthur D. Jones in 1953 and took over the company in late 1957. I bought the company after my dad passed away in 1984 when I was 26 years old. In 1995 we merged our residential company with Tomlinson and became Tomlinson Black. In 2007 we sold our interest in that company, took on the NAI franchise, and became NAI Black.

We pride ourselves in providing our clients with a three-legged stool of services. Those services include superior commercial real estate brokerage including consulting, leasing, investment sales and site selection. We have specialists in investment, office, retail, industrial, and business acquisition services, together with property management and development. We did about \$200 million in volume last year; a record commission year for brokers in our Spokane and Coeur d'Alene offices. Jeff Johnson continues to be the leader of our brokerage group. The leading broker in 2019 was my nephew, Chris Bell, followed by Jon Jeffreys, and Steve Ridenour in Coeur d'Alene. Ninety five percent of our 25 brokers individually had record production in 2019!

We had a breakout year in property management as well. We rebranded our management company as Black Realty Management, Inc., in 2019. The company has expanded into Texas and Arizona with our Black Realty Management Southwest division, in partnership with one of my nephews, Jared Black, who lives in Phoenix.

Kim Sample, president of Black Realty Management, Inc., is the key to this endeavor, and has been an incredible leader in this expansion effort. Jared and his partners have been buying projects in this geographic area, and we are now managing about 1,200 units and growing. Additionally, we have merged with Tombari Properties and their firm has moved into our corporate office building. Terry Tombari and Tombari Properties will remain an asset manager and Black Realty Management, Inc., has taken over the management of the Tombari family properties. It's a win-win deal for all parties.

We are very excited about continued new business in Spokane and the surrounding area and will be announcing some new, large accounts shortly.

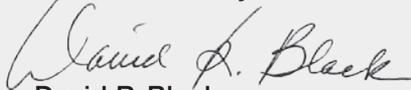
We hired a new chief financial officer, Holly Poquette, who was formally the CFO for Inland Northwest Bank. We are extremely excited for Holly to lead our accounting division as it continues to grow!

On the development side, we finished another year of working on entitlements at the old Painted Hills Golf Course property. Hopefully, 2020 will be the year to move forward with this 100-acre project in the Spokane Valley. In addition, I bought the China Dragon restaurant and adjacent building across from Northtown. Owning a 33-year-old restaurant has been a wonderful experience. I'm now a restaurateur and our team is looking for additional restaurant investments, especially if I own the real estate and have a redevelopment plan. We also finished a \$700,000 tenant improvement project for Greater Spokane, Inc. on the first two floors of our building. They signed a new 10-year lease and the space looks amazing, with new signage on the building. We are getting ready to pull the trigger on the rehab of our former building at First and Howard into 50 apartments. The Wave, on the first floor, will be completely remodeled as well.

Jeff Johnson and I are each working on a couple of multifamily projects for 2020. Bryan Walker and I are also continuing to look at new subdivision deals.

It should be a busy year for our development activities. We continue to be involved in civic and charitable causes around the Inland Northwest. We remain active with the Bite2Go program, and I am the incoming chairman of the board of the Downtown Spokane Partnership. DSP has challenges ahead in dealing with homelessness and safety issues downtown. We are still very involved with the Boy Scouts of America, Greater Spokane, Inc., the Commercial Brokers Association, Traders Club, Builders Owners and Managers Association, etc.

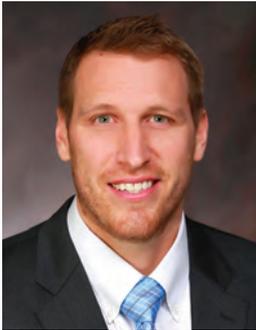
Spokane has continued to grow and thrive and I am really excited for 2020 and the new decade ahead. Even though the "old guys" have no plans of slowing down, our company is poised with several young leaders for the next generation of deals. I really look forward to the next 40 years!



David R. Black
NAI Black, Chief Executive Officer



RETAIL



Drew Ulrick



Stephen B. Pohl



Jason Dolloph CPM®

The Spokane market continues to absorb the national retail trends that address changing consumer buying patterns. Even with store closure announcements on a national scale, there is a cautious optimism that continues to inspire the Spokane market. While the increase in minimum wage from \$12 to \$13.50 in 2020 is a detriment to some retailers, an increase in population growth and stable economic conditions have created an off-setting effect for Spokane.

The clicks and bricks we're finding out are not mutually exclusive, according to the International Council of Shopping Centers, "Physical stores are an essential ingredient to the success of retailers by driving digital engagement and improving brand health". Even Amazon is opening brick and mortar stores. We are encouraged by the logic. Local shopping center leasing has seen an up-tick in non-retail related tenants such as trampoline, specialty fitness, beauty, entertainment, food venues, as well as medical-related services filling vacancies once occupied by traditional retailers.

When looking at the retail market as a whole, it is important to address local submarkets. Flatstick Pub opened their first store in downtown Spokane during 2019. Ground-floor retail vacancy in downtown improved from 9.78% during 2018 to 8.32% in fall of 2019, with average rents also increasing from \$15.90 in 2018 to \$16.06 in 2019.

The North market is witnessing some relief in retail, with the 2019 vacancy rate decreasing to 8.55% compared to 9.53% during 2018. However, the average per square foot rent dropped to \$16.81 per square foot in 2019 from \$17.09 per square foot in 2018. The demand for retail space in this important corridor has seen the opening of At Home, Shopko Optical, Dollar Tree, and Texas Road House.

The Valley vacancy, however, has increased to 5.70% during 2019 compared to 3.87% during 2018, primarily due to the closure of Shopko. Average rent rates remained steady from \$13 per square foot in 2018 to \$12.96 per square foot in 2019. Notable entries to the Valley market included Duluth Trading Co.

The South Hill finished with a 2019 vacancy rate of 12.47% compared to 5.72% the year prior. South Spokane has the highest vacancy submarket rate due to closure of the South Hill Shopko, however, the South Hill market remains relatively tight with demand for smaller sized space. The average

rental rate remained flat from \$18.71 per square foot in 2018 to \$18.49 in 2019. Community Health Association of Spokane (Chas) opened early 2019. Natural Grocers will open in 2020 taking the vacant Hastings location. The Shopko store and Albertson's grocery store on Grand make up the only large box opportunities on the South Hill for 2020. Radio Tower Village at 44th and Regal and the Commons on Regal at 55th and Regal are planned mixed-use developments for 2020 ground breaking.



The West Plains market had a stable 2.61% vacancy rate for 2019, unchanged from 2018; noting the market had both grown and tightened considerably. With completion of several roundabouts on Highway 2, the Northern Quest Kalispell Tribe and the Spokane Tribe casinos continue to expand their footprints. A Maverik motor fuel convenience store was opened in 2019. North 40 is scheduled to start construction in 2020 and there are further plans to develop over 100,000 square feet of retail.

The retail industry is trending in a number of directions: (1) continuation of more retail bankruptcies/store closures/downsizing, (2) digital/physical retail merging to remain relevant and innovative, (3) delivery-only virtual restaurants that will facilitate third-party delivery platforms, (4) fast QSR remodeling/focus on healthy choices, (5) increase efficient same-day delivery by traditional merchants, including grocery, to reduce labor costs, (6) further expansion of value-driven merchants such as Ross Dress for Less, Dollar Tree, TJ Maxx, as well as Target and Costco.

New retail space is expected to experience a slow down as mixed-use developments will be the primary driver of retail stores shared with residential, office, lodging, and entertainment. While e-commerce is often cited as the driving force behind retail store closings, industry observers point also to a failure to address consumer preferences, over-supply of retail stores that are too large, outdated, and in many cases, obsolete. Retailers going forward need to innovate and re-invent themselves. In this competitive and changing landscape, retail owners will need to address the dichotomy of reinvesting and updating or selling assets. ■

INDUSTRIAL



Darren Slackman SIOR



Matt Walsh

Lease Rates

Since 2015, after the legalization of cannabis (I-502), lease rates in the industrial sector have been on the rise. For many years, the rental rate for a warehouse, regardless of construction type (mostly steel with metal siding), was in the range of \$0.35 per square foot NNN. For units with amenities such as fire sprinklers, there would be a premium of a few cents, but rarely did these buildings come equipped with an ESFR rated system. For users needing over 30,000 square feet, the only place to go was the Spokane Industrial Park. Now, there are options.

In 2015, local developer Larry Stone began the Playfair Commerce Park project, with initial asking rates of \$0.70 per square foot. Though this rate was near double of the market rate at the time, the developer had his first building leased in less than six months. The second building took a bit longer to lease up (12 months) but since that time, LOIs have been beating down the door for new buildings to be constructed at Playfair. Seeing this large spike in demand has encouraged others to build in the area. Montgomery Logistics was constructed in 2019, along with Steve Schmautz completing a 100,000 square foot facility off Sullivan Road in Spokane Valley. Also in 2019, Spokane Industrial Park announced plans for the construction of an additional 500,000 square feet with the first building coming available in the second quarter of 2020. Currently, Selkirk Industrial Park is under construction on Barker Road.

Despite the increase in available new space, lease rates for new construction remain north of \$0.70 per square foot, almost reaching \$0.80 per square foot depending on tenant improvement allowances. The reason lease rates are remaining high at this time is due to the increase in construction costs and a shortage of commercial subcontractors in the Spokane market. Vacancy rates are currently just over 3.5%, which is still rather low. Historically, vacancy levels in the industrial sector have hovered around 9%. However, with Amazon gearing up to open its new two million square foot warehouse in March, it is anticipated that more retailers in “last mile services” will be coming to Spokane, and we believe rental rates will continue to rise as long as demand continues in 2020 and beyond.

Development

The year 2019 was action-packed with planning and development throughout Spokane's industrial real estate sector. With a multitude of projects started in 2019, a large amount of them achieved completion by the end of the year and others are expecting completion in the first half of 2020. Listed below are highlights of some of the major projects that began in the Spokane area in 2019:

Construction of the Amazon Fulfillment Center in Spokane's West Plains area was completed in 2019 with the facility expected to open in the first quarter of 2020. Playfair Commerce Park saw completion of construction of two of its buildings in early 2019 with two more finished by the end of the year. The first two were fully leased by completion and the last two saw great activity towards the end of 2019.

The Spokane Industrial Park is planning on adding an additional 500,000 square feet to be allocated over four buildings on a portion of their property on Sullivan Road in Spokane Valley. The first building is a 120,000 square foot LEED certified construction and will be completed by end of the second quarter of 2020. For the Montgomery Logistics Center on East Montgomery, construction of the first building (64,000 square feet), was complete by the end of the third quarter of 2019. Also by the end of 2019, ground had been broken on a second building (35,000 square feet) with an anticipated completion by the end of the second quarter of 2020.

Selkirk Industrial Park is a new development off Barker and Garland near the Kattera Plant. Initially, two 60,000 square foot industrial buildings were planned with room for growth. Grading of the property commenced at the end of 2019 with plans for completion of the first building by the end of the third quarter 2020. Larry Stone, the developer of Playfair Commerce Park, has plans to begin initial infrastructure improvements for his new project, Esmerelda Commerce Park, located at Freya and Rich Road in Hillyard. This project will be a significant upgrade in the Hillyard Industrial area.

The industrial market will continue to favor landlords in 2020. Prospective tenants should be prepared to compete for rentable space. With the market being this competitive, prospective tenants should begin their search for rentable space nine to 12 months prior to their desired move-in date. We expect 2020 to be an active year for the Spokane area industrial market. ■

OFFICE



Jon J. Jeffreys SIOR



Christopher D. Bell SIOR

A shift is underway concerning office space in Spokane. For over a decade it has been a market where supply has greatly outweighed demand, but within one year, every submarket in Spokane has lowered its vacancy compared to the prior year, and in some submarkets by over 5%. With few new office buildings having been constructed in 2019 and planned in 2020, we should continue to see vacancy decrease and rental rates rise.

Activity in the Central Business District (CBD) continued solid leasing through 2019. The CBD, comprising of close to 3,000,000 square feet of Class A, B, and C office space, saw the overall vacancy rate drop to 14.14% from 16.44% just a year earlier. Class A office space increased its vacancy slightly from 10.99% to 12.62% with average rental rates staying flat at \$20.24 per square foot per year, full service. Class B office space had a strong year with the vacancy rate dropping to 15.33% from 19.43% with an average rental rate of \$16.08 per square foot per year, full service. Class C also saw some positive absorption with a decrease in the vacancy rate to 12.63% and an average recent rental rate of \$12.39 per square foot per year. In the CBD, there seems to be plenty of options in the 3,000 to 5,000 square foot range with few options under 1,000 feet and over 10,000 feet. Tenants in the downtown market continue to be focused on leasing buildings with parking and distinct building features such as exposed brick, ceiling height, and building amenities. For the first time in a long while we are seeing buildings come off market due to 100% occupancy. We are also seeing older office buildings being removed from the market completely as they are being converted to multifamily. This, coupled with more tenants leasing and expanding, we envision continued vacancy compression in the CBD in 2020.

The largest sale in the CBD area was that of the approximate 193,000 rentable square foot Wells Fargo Building tower for \$24,000,000 to Washington Trust Bank. The 47,956 square foot Fidelity Building located at 522 West Riverside Avenue also sold for \$3,435,000 in September 2019 and was reportedly 55% leased at the time of sale.

North Spokane saw a decrease in vacancy in 2019. Vacancy rates in the North submarket dropped substantially to 15.96% from 21.52%. Average rental rates are \$16.31 per square foot per year, full service. North Spokane in 2019 had very little change; no major tenants leased or vacated this

portion of the market and no new notable office construction projects were completed. A major transaction in the market was the sale of the approximate 16,739 square foot Franklin Park Medical Center for \$2,300,000 in November at a reported 7.81% cap rate.



The South Hill saw a decrease in vacancy in 2019 to 17.97% from 19.09%. Recent rental rates held steady at \$18.44 per square foot per year, full service. The South Hill market is one of our smallest submarkets and easily feels the effects of a couple larger offices' leases or vacancies. The South Hill office market is more a bedroom community office market consisting of smaller, local tenants. While medical office space does well on the South Hill, the office market has always seemed to lag.

The Spokane Valley submarket saw another large decrease in vacancy to 12.58% down from 15.21%. Average rental rates stayed steady at \$14.94 per square foot per year, full service. A number of buildings have changed hands in the Valley and investment in capital improvements should lead to more completed leases given the availability of on-site parking in many Valley office buildings and corporate parks. The 19,025 square foot 1825 North Hutchinson Road office building sold in October 2019 for \$2,000,000. The approximate 33,000 square foot 2310 North Molter Road office building in Liberty Lake sold for \$5,107,632 in May 2019 at a reported 7.30% cap rate, and the approximate 35,010 square foot Liberty Lake Medical Center at 2310 North Molter Road sold for \$2,130,000 in November 2019 with over 66% reported vacancy.

Medical Office

The medical office sector had a great 2019, absorbing approximately 43,000 square feet of space. The current vacancy is now 8.41% down from 10.28%, with the average rental rate at \$21.80 per square foot per year. With a large regional pull and multiple medical schools in Spokane, we feel Spokane's medical office market is and will continue to be very healthy. ■

DOWNTOWN



Mark C. McLees



Thomas P. Hix CPM®

Downtown Spokane continues to provide residents, employees, and visitors with unlimited awe-inspiring experiences that are a rare amenity in many US cities. After many years of focusing real estate careers in the downtown core and its surrounding districts; we are still amazed by the unique aspects and hidden gems that we continue to discover. Each time we walk through downtown we stumble across a restaurant/café, new business, new shop/store, unique feature of one of our historic buildings, or a natural feature of the Spokane River. This entertaining, adventurous, and vibrant atmosphere is prevalent in every area of our great downtown. And to top it off, Spokane is still incredibly affordable for all generations and lifestyles. Spokane real estate has never experienced rapid appreciation of property values or rapid rental rate increases. Instead, our economy moves forward at a nice, steady pace. This has provided a platform for thoughtful, patient investors to creatively and strategically invest their time, money, and efforts in a live/work/play downtown real estate market. Here are some highlights, designated by district/area:

Downtown Core

The CBD office experienced positive absorption of 116,873 square feet in 2019 with most of the growth in Class B properties where vacancy decreased from 19.07% to 15.33% and rents increased to \$16.89 per square foot. The overall office vacancy for Class A, B, and C properties was at its lowest since 2015 at 14.14%. Demand for multifamily continues to grow as the downtown core and periphery expand its opportunities for work, entertainment, and commerce. The Columbia Building (JSB Building), former NAI Black headquarters, is now slated for multifamily redevelopment of 50 units. Other developments like the former Ridpath Hotel, the Symons building, the Holley Mason building, and the Hutton building have added to the historic building re-utilization successes of downtown.

East Periphery/University District

Catalyst Building: a 159,000 square foot Avista Development, integrating research, technology, higher education, collaboration, and innovation. Self-sustaining on-site energy generation provided by McKinstry's energy plant (40,000 square feet) turning this area into an energy eco district. The primary tenant will be EWU who will move its Computer Science, Electrical Engineering, and Visual Communication and Design programs to this downtown location. It is estimated that 1,000 students will be attending these programs resulting in increased vibrancy in downtown's live/work/play environment.

Stockton's next U-District project plans for an estimated \$9.2 million development of roughly 102,000 square feet for mixed-use office and retail, with 63 living units above. Gonzaga and University of Washington announced plans for a



cooperative partnership to expand its health sciences into a new \$60 million, 80,000 square foot Regional Health Partnership Building. River Bend Waterfront Multifamily Community plans to build two buildings with 134 living units; a \$90 million project.

West Periphery: Davenport /Arts District/Browne's Addition

Resurgence of untapped historic building re-use and new development. The most active developer has been the Tampien brothers, who have brought on-line a new state-of-the-art 51-unit apartment complex, Parkview West, along with 26,500 square feet of neighborhood mixed-use commercial space on First Avenue and Riverside Avenue. Another 16,000 square feet of commercial space and 12 apartment units will be finished in 2020, along with another 35,000 square feet of commercial space and 104 apartment units in other areas of downtown. Riverfalls Tower Apartments: a 101-unit, 16-floor complex, undergoing multi-million dollar remodel; completion date of August 2020. Grand Coulee: a 49-unit, refurbished and re-established investment opportunity.

North Periphery: Kendall Yards, Riverfront Park, Spokane Arena

Kendall Yards: 350 home owners, 300 multifamily residents, 125,000 square feet of commercial mixed-use developed in town center, approximately 600 employees. Year 2020 plans two new mixed-use buildings = 40,000 square feet – will complete the development of the North Summit Parkway commercial portion. The remaining 30 acres of residential development on the western most portion of the project and seven acres of commercially designated land along the Spokane River to be further developed over the next five years. Wonder Building: leased 63,660 square feet to high-quality tenants. Spokane Sportsplex: a 135,000 square foot, \$53 million project dedicated to athletic events, contains 72,000 square feet of competition space and seating capacity of 4,000. Riverfront Park, a \$64 million redevelopment making tremendous progress with a completion date of third quarter 2021 on schedule. The Falls project will include three 150-foot towers on the north bank of the Spokane River with views of the falls. One tower will include 110 apartment units and 30 condominiums with restaurant space on the first floor. Selkirk Development envisions the \$80 million Papillon Towers on the north bank near the Arena. The total project is estimated to have 500,000 square feet of space.

APARTMENTS



Mitch D. Swenson CCIM



Kim Sample ARM

The year 2019 ended on another high note for the Spokane metro multifamily market. The overall apartment vacancy leveled out with a rate of 4.1% and the average rental rate for all property types was reported at \$982; another historic high for our local market. 2019 saw a temporary respite in new construction apartment deliveries with only a small amount of new units delivered. This was after a very active 2018 where nearly 1,000 new apartments were brought online, which reduced influx of apartment units, bolstered low vacancy rates, and increased rental rates. However, ongoing construction activity remains robust with new units continuing to break ground. In January 2019, 1,117 multifamily units were reported under construction.

Vacancy Rate Details

The lowest vacancy rates reported were in the West Spokane submarket with average vacancies at 2.7% at year-end. North Spokane reported the highest vacancy rates with an average of 5.1%, and the Spokane Valley submarket, with the largest increase of new units, ended the year with average vacancy rates at 4.2%. Again, vacancies remain at well below the historical average.

Rental Rate Details

Rent growth in 2019 was 4.4% with the average market rate per unit at \$983. Rent growth continues with increasing employment opportunities in the area and continued low vacancy rates. Rents in new construction, luxury, Class A apartments are at a 20%+ premium over the metro average. Amenities such as upgraded interior finishes, enhanced pet areas, modernized community gathering spaces, and in-building resident services assisted in driving Class A apartment rents.

Multifamily Sales 2019

The sales volume of multifamily properties in Spokane County continues to be very impressive due to a number of large, newer units that were sold in 2019. The volume was \$127,959,550. This total volume was just under a record year in 2018 at \$146,000,000. The average price per unit in 2019 was \$90,353 versus \$86,667 in 2018. This compares to an average price per unit of \$62,568 in 2017. The volume of sales were due, in large part, to a number of out of town investors seeing value in our local market versus what could be obtained elsewhere.

2020 Forecast

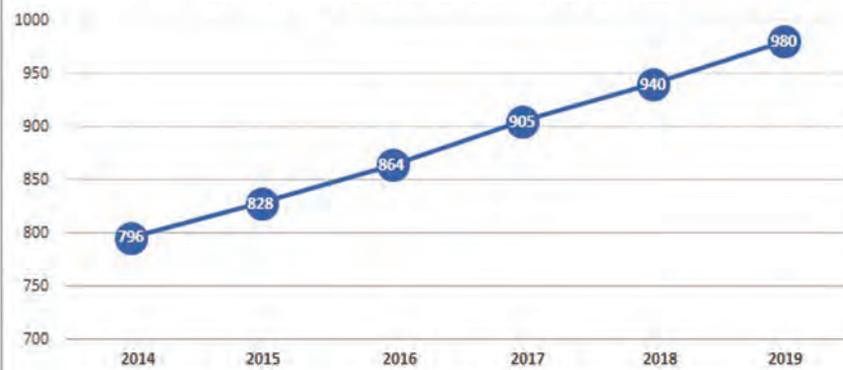
We anticipate an ongoing strong multifamily market, with an average vacancy rate of 4% to 5% expected to remain throughout 2020. Rent growth will continue to steadily climb with rent rates moving with forward momentum as we continue to meet the demand for housing throughout the Spokane metro area.

Multifamily Sales 2020 Forecast

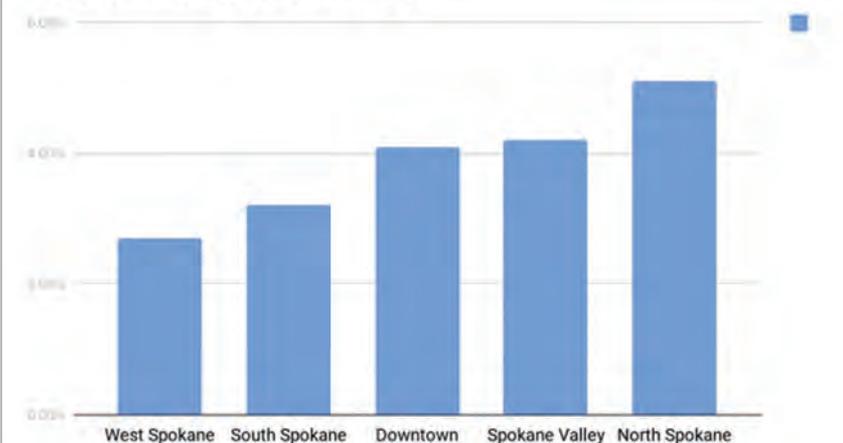
2019 saw a number of large upper end sales that drove prices per unit to a record of over \$90,000 per unit in Spokane. This trend may very well continue as local investors might choose to sell and take advantage of these aggressive prices. There are still a large number of owners who are happy to retain their properties, seeing no good alternative investments in the market place. The 10-year treasury has ticked up recently to 1.82. This is still well below recent rates, thus making multifamily investment a very strong long-term strategy moving forward for 2020 and beyond in Spokane.



Average Apartment Rental Rates *Courtesy of Valbridge Property Advisors*



Vacancy Rates by Neighborhood *Courtesy of Valbridge Property Advisors*



INVESTMENT



James S. Black III CCIM



Jim A. Orcutt

The investment real estate market stayed strong locally, regionally, and nationally in 2019. With lending institutions ready and able to loan, appetite for investment real estate remains very high. Many local investors are looking for higher yields than can be obtained through traditional banking instruments, CDs, money markets, etc. Interest rates in 2019 remained low, and the stock market continued influx. Bank deposit yields continue to be in the 0.5%-1% range.

Money from larger cities continues to flock to the Inland Northwest as investors seek out higher yield in tertiary markets like Spokane and Coeur d'Alene. There is a lot of cash sitting idle on the sidelines looking to be placed. Baby boomers seeking to retire are looking to increase their monthly income with minimal risk and, as a result, NAI Black has seen many all-cash transactions.

The biggest problem facing potential investors in the Spokane/ Coeur d'Alene market place has been the low supply of quality income-producing properties. Spokane investors have always had a buy and hold mentality with their investment real estate. Historically, Spokane has not enjoyed significant appreciation of investment real estate. Therefore, local investors tend to hold their properties for the long haul with the goal of long-term income and equity build up through debt reduction. Sellers are also faced with the question of what they will do with their proceeds if they sell. With few alternatives equaling their real estate yields, there is a strong reluctance for many sellers to dispose of their properties. This has created substantial competition for the few quality income properties that become available. Our firm has been involved in numerous property sales with multiple offers because of these market dynamics.

Cap rates stayed low in 2019. One example here locally was the sale of the ground lease with Maverik gas station with a buyer out of Portland doing a 1031 exchange, which traded at a sub 5% cap. Average local deals are trading in the 6% to 7% cap rate range, and vary somewhat depending on the quality, age, and location of the asset. The length of lease and evaluating replacement costs are also contributing factors to the prices being paid. Two other examples include the sales of Chuck E. Cheese in north Spokane and the Spokane Valley. They each traded at seven caps

and had long-term leases in place.

The investment market will continue to remain strong locally, as well as nationally, in 2020. We anticipate a slight increase

in cap rates as interest rates appear to be on the rise. This, in turn, should decrease prices ever so slightly. Investors will continue to chase yield in Spokane/Coeur d'Alene, which should make 2020 similar to the year we had in 2019. Should you or anyone you know be interested in purchasing an income-producing property this year, please do not hesitate to contact us. ■



KOOTENAI COUNTY



Jim Koon



Steve Ridenour

The North Idaho commercial real estate market finished strong in all sectors in 2019. While transactional activity was consistent, many of the merger/acquisition, development, and public infrastructure projects identified in late 2018 and early 2019 carried over into 2020. Primary and secondary market segments are experiencing some of the highest occupancy rates in many years as we enter the new decade in 2020.

Office. We have seen substantial absorption of both Class A and B office space in North Idaho with a continued run on medical space. The activity is primarily from existing tenants expanding and establishing additional locations. Lease rates are steady at \$18 to \$22 NNN for Class A and \$14 to \$16 NNN for Class B space. Medical office rents will see continued upward movement due to more extensive and technical TI requirements.

The largest factor affecting the medical office community will be the Growth or Fallout due to MultiCare of Tacoma completing merger/partnership deals with North Idaho Surgical Hospital and Kootenai Health. Multiple sources report that these deals are completed or approved and being documented. The Growth or Fallout question will be dependent on the possible consolidation of urgent care clinics. Also, the pace of private practice acquisitions by the hospital/health systems will have an effect on office space absorption. 2019 saw the construction and occupancy of over 50,000 square feet. Overall vacancy beginning in 2020 is approximately 5%.

Industrial. No market changing factors have emerged at the beginning of 2020. With virtually no available inventory of industrial space available for lease or sale, the current industrial vacancy rate is approximately 2.5%. Expect to see construction of new owner-occupied projects at The Pointe at Post Falls and Riverbend Industrial Park this year.

The 350-acre Inland NW Tech Park (“INTP”) being developed by GVD Commercial Properties, Inc., will see deals by the end of 2020 as a result of the Highway 41 expansion. Also, expect to see an additional 300-acre industrial project in Southwest Rathdrum coming to the market in the Greensferry Road corridor. This highway expansion is scheduled to begin in 2020 with completion in 2023. With the availability of water, heavy electrical service, and no B&O tax, this new corridor will present a compelling alternative to Spokane Valley and West Plains industrial options.

Offset Single-Point Urban Interchange

Shifted West



Multifamily. Multifamily will continue to lead all sectors into and through 2020. There have been substantial developments along the Seltice Avenue and Ramsey Road corridors with more projects planned within the River District of Coeur d'Alene. In addition, much of the new activity will be in the Highway 41/Prairie Avenue reaches of Rathdrum. Population growth is forecast to continue at over 4% for 2020, providing for a solid multifamily housing market.

Retail. Coeur d'Alene saw most of the sizeable retail development in 2019 with the opening of the At Home store at Highway 95 and Neider and the Silver Lake Mall taking a more proactive approach to secure a Planet Fitness deal in the old Sears store. The Coeur d'Alene and Hayden retail areas continue to exhibit demand but lack the zoned property to accommodate new development. The Ramsey Road/Appleway development will continue to fill in an additional 10,000 square feet of retail being constructed on the Cracker Barrel site; the last building pad in the Winco Center being developed with a new Starbuck's and additional 4,000 square foot freestanding building. Shopko is close to being re-tenanted with two major retailers, and there are about four other national users looking, but unable, to find a home. Retail dominance of the Coeur d'Alene/Hayden area will be challenged in 2020 with the Highway 41 and Prairie Avenue development areas gaining traction. The potential for retail development at GVD's Prairie Crossing at the NEC and Parkwood's development area at the SEC of the intersection is over 200,000 square feet within the next three years.

Transportation and Infrastructure. 2020 will see continued implementation of intersection closures and re-signalization of Highway 95 to assist in the flow of traffic and planning/construction for the new Highway 41 corridor, which will double in size to four, and sometimes five, lanes of travel from Post Falls to Rathdrum. Following on the heels of the Highway 41 expansion will be the relocation and new construction of a single point urban intersection of Highway 41 at Interstate 90 in Post Falls. An aerial overlay of the current ITD proposed exchange is shown above. Get ready North Idaho and prepare for the growth that is surely coming! ■

PROPERTY MANAGEMENT



Kim Sample ARM



Thomas P. Hix CPM®

Black Realty Management is a leader in the multifamily and commercial property management field with a large portfolio of multifamily units and commercial properties managed throughout Washington, Idaho, Montana, and Texas. Our property management team is a group of specialists who are dedicated to providing excellence and exceeding client expectations. We deliver a platform designed to provide comprehensive, long-term, profitable client services.

Our management company is the only Spokane firm to have been designated as an Accredited Management Organization® by the Institute of Real Estate Management, demonstrative of its management expertise, professional competence, financial responsibility, integrity, and ethics.

Our property management services are driven by a clear focus on quality service to our clients and residents, resulting in high employee/tenant/client retention; insightful and detailed operational, strategic, and financial planning; and exceptional communication with the owner and all other stakeholders. We strive to optimize gross and net operating income while also maintaining the physical infrastructure to preserve income streams over the long-term and enhance property values.

Our philosophy has earned us the reputation of an entrepreneurial leader in the management field. Each property we manage requires individual treatment as a uniquely distinct business enterprise that is operated pursuant to the objectives and instructions of the property owner. We customize each property's operating procedures and strategy to address the short-, mid-, and long-term objectives that the owner has established for the asset.

We have been in business since 1958, and our clients are the reason we are here. If we strive to be successful in meeting their needs and objectives in the long run, our company will remain on the path of growth and prosperity. To do this, we must earn the continuing loyalty of our clients by providing them with services that they acknowledge being of superior value.



Black Realty Management's Commitment to Success is a Combination of Our Core Values, Which Are...

- Pursue excellence in all we do.
- Hire and develop great people.
- Keep our promises and honor our commitments.
- Embrace change as an opportunity.
- Enjoy the work we do.
- Respect the environment and support green initiatives.
- Make a profit for our clients and ourselves.
- Be a dynamic contributor in our community through ongoing charitable giving, civic involvement, and active participation in local city, state, and regional associations.

To learn more about the value and benefits of our property management services and how we can assist you in reaching your goals, please call us at 509.623.1000.

BUSINESS BROKERAGE



Scott Martin

In 2019, we were involved in the sale of one company, the purchase of another company, and two failed transactions. We have a few sellers who are still experiencing difficulty in completing transactions in the small to middle market, defined as businesses with a value of less than \$5 million. Problems include the uniqueness of the business which limits the universe of potential buyers, the transferability of customer and supplier contracts, and buyers who are unable to obtain external financing forcing them to rely on the seller to finance the sale (which can be an effective solution but not always). A seller note does, however, provide the seller with an investment after the sale (a note receivable at market interest rates for commercial loans or higher) and terms that are generally 10 years or less. These notes are generally secured by a personal guarantee from the buyer and the stock or assets of the company depending on the form of transaction.

Buyers desire a highly transferable company with legitimate bookkeeping, no customer concentration issues, and great management in place or the option to have the seller stay on for a one- to three-year transition period. We do not see buyers wanting to buy themselves a job, but instead desiring to capitalize on an investment opportunity.

A secondary challenge lies in the expectations of the seller. The generation of baby boomers interested in selling their hard-earned businesses seems to have unrealistic pricing goals, desiring multiples of five to eight times Earnings Before Interest Taxes Depreciation and Amortization (EBITDA). Last year we mentioned the psychology of business exits and the dissertation written by Allie Taylor titled, "The Psychology of Business Exits: Measuring Entrepreneur Role Identify Fusion", which contains excellent questions every seller should be asked, preferably a few years before a sale is contemplated. As we work with companies, we are seeing the effects of Role Identity Fusion on the seller's willingness to accept a market price for their business.

We remain optimistic for 2020. We are representing two new companies and are about to go to market as we are gathering data for a third new company! ■

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