



2019 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 & 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.



2019 Greater Spokane Market Report

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Our **Brand New Home** in the GSI Building.

“Our three-legged stool of brokerage, property management, and development continues to serve us well as we move forward.”



Dave Black CCIM, SIOR
CEO, NAI Black

2018 was an incredible year in many ways! After being at First and Howard for 45 years, we moved the company to 801 West Riverside Avenue in the Spokane Regional Business Center (SRBC), soon to be the Greater Spokane Incorporated (GSI) building. We took space on the fourth floor that had previously been Columbia Bank and we took the entire third floor, which was formerly Visit Spokane. This is a building of which a group of us own, and our occupancy allowed us to fill the building, refinance the property, and pay for tenant improvements both for our company and for Greater Spokane Incorporated. GSI will continue its occupancy for at least another decade. We will change the name from the Spokane Regional Business Center to the Greater Spokane Incorporated (GSI) building. It is in an amazing location, right at Post and Riverside, with an underground parking garage. It also allows us to redevelop our old James S. Black Building above The Wave restaurant with 50 apartment units. This should be a nice project, as we are taking advantage of both local and national incentives for redevelopment such as the certified historic designation and real estate tax exemption. We have parking at that building, and the location is perfect for the type of tenants that we will be targeting. This move makes all kinds of sense, but I never want to have to do it again! We are still cleaning out old files, and I thank all of the people that helped so much, especially Gloria Ries, our CFO, and Mary Kay Knudsen, our Network Administrator.

2018 also brought another record year for our commercial brokerage group, as we were up approximately 17% in revenue and most of our brokers were very happy with their production by the end of the year. Under the leadership of Jeff Johnson there were some amazing deals put together, such as: the sale of the Costco building, the leasing of Stay Alfred, the sale of the Holland Office Building, the sale of 1611 North Molter, the sale of the industrial building at 16208 East LaCrosse, and the sale of a major business.

Our Coeur d'Alene office also did well, and we are happy to have brokerage offices in two states.

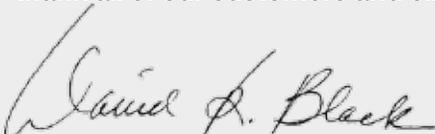
Our management group, now formally named Black Realty Management, Inc., entered the Texas market on February 1, 2019, with approximately 1,000 units that my nephew, Jared Black, has acquired with partners.

This move into Texas also marks a milestone for the company in that it provides a template to enter other markets with multifamily property management.

Kim Sample, our multifamily expert, was promoted to President of Black Realty Management, and Tom Hix still runs the commercial management group. We also hired Lacy Lynn Crowder (an amazing find), and she will become our new Corporate Controller, which brings a fresh new perspective to our accounting department. We added several other great accounts over the course of the year, such as the Ridpath, and we're up approximately 4% in revenue.

Our development activities were robust with the completion of a Petco and Aspen Dental in Pasco, completion and sale of a subdivision in Rathdrum with 120 lots, the leasing of Craft and Gather and continuing entitlement process at Painted Hills, the completion of Palouse Prairie Apartments (a 68-unit project on the southside), the acquisition of Union Park Apartments in Cheney with clients, an industrial building at 720 North Fancher, and finally, the acquisition of the China Dragon real estate and restaurant business, which will add to the appeal of Parkview Learning Center on Division next door, which we also own. Many of our brokers were able to participate with their clients and finish acquisition projects, as well.

Our three-legged stool of brokerage, property management, and development continues to serve us well as we move forward. I am excited about the future of our company and the expansion opportunities that we have planned, as well as the future partnerships that we will implement. We thank all of our customers and clients for your loyalty. Let's have a great 2019!



David R. Black

NAI Black, Chief Executive Officer



Exciting Retail Trends “In Store” for 2019.

“Spokane County has seen 294,000 square feet of new retail space constructed in 2018.”



Drew Ulrick



Stephen B. Pohl



David B. Wright CPM®

The Spokane market continues to embrace the changing trends in the consumer/retail market with confidence. In 2019, the Spokane retail sector will be impacted by an additional Washington State mandated minimum wage increase. Despite this adjustment, local retailers in Spokane (compared to retailers in other large Northwest markets) continue to enjoy a stable economic environment and a growing population. Spokane is clearly attractive to national retailers seeking to plant their flag in a vibrant market. Duluth Trading Company, Nike, Dick’s Sporting Goods, and others entered the market during 2018.

While the price of progress is not without some speed bumps, the retailing community continues to absorb the minimum wage hike from \$11.50 to \$12.00 per hour in 2019 and keep up with escalating operation costs. Despite store closures, there is arguably a spirit of fresh renewal as both retailers and shopping center owners trim their sails to meet the ever-changing headwinds of competition and maintaining acceptable cash flow. Of note, traditional large box retailers are improving online presence and increasing space efficiencies by reducing footprints. On the other end of the spectrum, smaller box retailers appear more willing to pay premiums for “A” locations and are unwilling to consider sites that do not have their target traffic counts and population densities.

In this ever-changing retail environment, it is also important to note the correlation between Clicks and Bricks. The International Council of Shopping Centers has done considerable research on the relationship between website traffic sales and the existence of physical retail stores. Studies suggest that website traffic increases by 27% once a new retail store opens. Omnichannel marketing approaches seek to provide customers with a seamless shopping experience, whether shopping online from a desktop or mobile device, by telephone, or in a brick-and-mortar store/showroom. Retailers are weighing “in-stock” versus second-day delivery options to better serve their customers.

When looking at the retail market as a whole, it is important to address the local submarkets. Nike Outlet opened their first store in downtown Spokane during 2018. Ground-floor retail vacancy in downtown Spokane has improved from 10.20% during 2017 to 9.78% in fall 2018, with average rents increasing from \$15.09 in 2017 to \$15.90 in 2018.

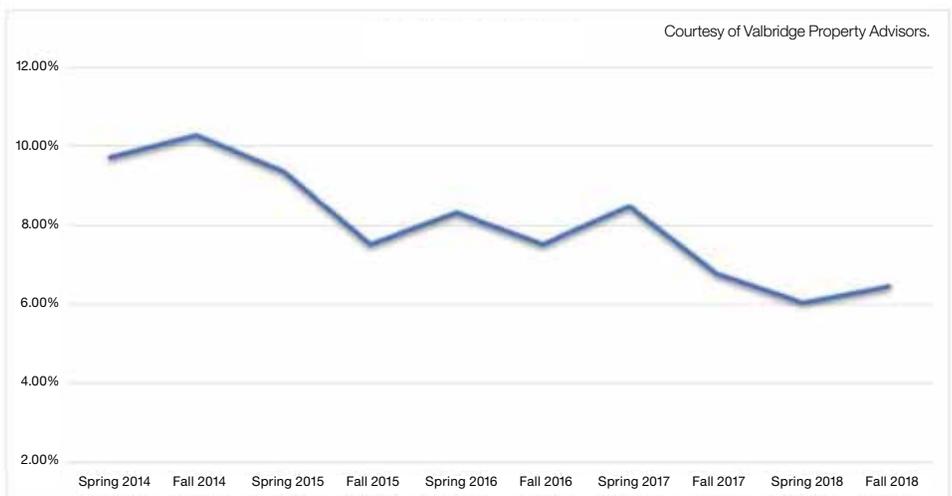


The North Spokane market is witnessing some contraction in retail with the 2018 vacancy rate increasing to 9.53% compared to 8.24% during 2017. Similarly, the average per square foot rent decreased slightly from \$17.28 per square foot in 2017 to \$17.09 per square foot in 2018. Despite a slight contraction, this important corridor has seen the opening of a Costco (relocated), Dick’s Sporting Goods, and others.

The Valley vacancy has tightened to 3.87% during 2018, compared to 5.30% during 2017. This is primarily due to higher demand along the I-90 and Sprague corridors, with average rent rates increasing from \$12.79 per square foot in 2017 to almost \$13.00 per square foot in 2018. Notable entries to the Valley market include Altitude and The Flying Squirrel trampoline parks, ULTA Cosmetics, and Duluth Trading Company, which is currently under construction and set to open spring 2019.

The South Hill retail market, with a 2.72% vacancy rate in 2018 compared to 4.01% during 2017, continues to represent the lowest retail vacancy rate in the market. The average rental rate remained flat from \$18.76 per square foot in 2017 to \$18.71 per square foot in 2018. New tenants to the South Hill in 2108 included MultiCare Indigo Urgent Care, De Leon Tacos, and Beacon Cleaners. Community Health Association of Spokane (Chas) will open in early 2019. The vacant Hastings Records and upcoming Shopko spaces present an opportunity for new large box tenants to enter the South Hill market.

Retail Vacancy Rates





Retail

continued

The West Plains market has grown considerably. The opening of the the four-story West Plains 2+ million square foot Amazon fulfillment center will both facilitate retail growth and continue Amazon’s challenge to some physical building storefronts. The overall Spokane retail market

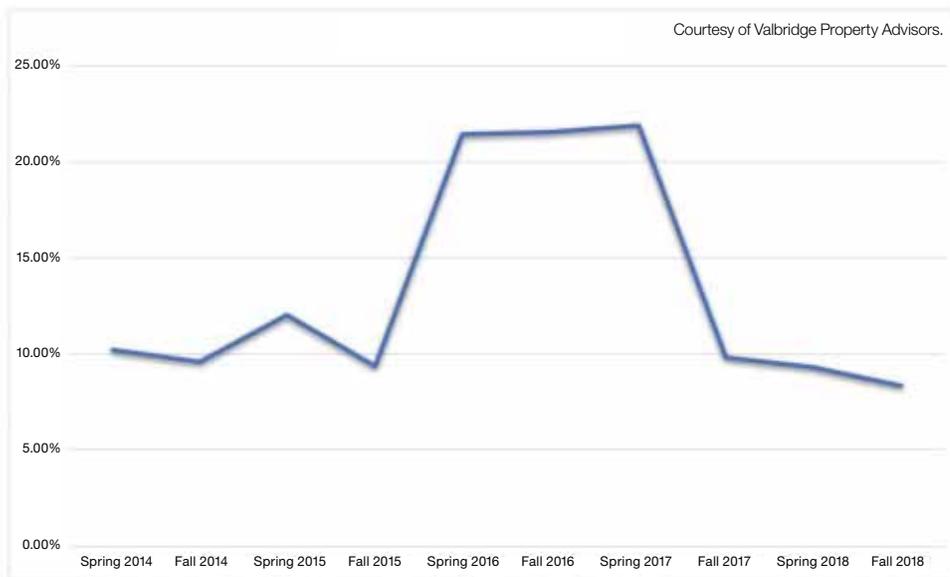
will, however, benefit from the estimated 1,500 new employees at this facility. The West Plains has a 2.6% vacancy rate for 2018 compared to 10.68% in 2017.

Kendall Yards, exhibiting the best attributes of economic development, continues to grow its own “neighborhood core” of commercial success with creative retail and professional services added each year.

In the midst of brick-and-mortar uncertainty, Spokane County has still seen 294,000 square feet of new retail space constructed in 2018.

This is likely a result of the increasing costs of re-purposing old box retail, reasonable land costs, and lower interest rates. Our construction industry is strained for manpower, causing an increase in labor, as well as material costs. In this real estate climate, more retailers are looking to own in the Greater Spokane market. ■

Retail CBD Vacancy Rates



Coeur d'Alene and Kootenai County

The North Idaho Commercial Real Estate market continued at a strong pace in 2018. Significant interest was shown by major companies with a number of tours conducted by national site locators and major retail tenants.

Office - The office market continues to be led by medical uses. Kootenai Health will lead that growth with hospital expansion, new offices, and physician practice acquisition. Private practice groups and sole practitioners continue to expand. This medical growth could result in over 50,000 square feet of office space absorption in 2019.

Industrial - Entering 2018, industrial vacancy was under 3%. Some new product was constructed or started in 2018 in Hayden, Post Falls and Rathdrum. The most significant change for 2019 will be two new major user buildings proposed at Wadsworth Development's "The Pointe at Post Falls". Land values in the Post Falls/State Line area are now \$3.50 to \$4.00 per square foot. Small incubator space is demanding rent at \$0.75 per square foot NNN. One major new project will be the Inland NW Tech Park ("INTP") being developed by GVD Commercial Properties, Inc., in the Highway 41 corridor. This fully entitled 350-acre master planned industrial, office, and residential mixed-use project will offer a complete live/work/play experience. Growth in this area will be accelerated by the expansion of State Highway 41, beginning in late 2019. INTP combined with the Hayden/Highway 95 sites, Riverbend, and The Pointe will give Kootenai County enough quality industrial land to be a good competitor to Spokane.

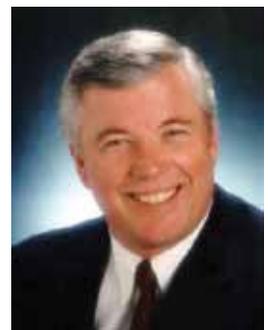
Multifamily - Multifamily has been at the top of the real estate activity tier over the last couple of years with strong demand for multifamily rentals. Construction starts have slowed; however, primarily due to a backlog in the entitlement and approval process. Coeur d'Alene is at the forefront of this activity with additional projects in Hayden and Post Falls.

Retail - Coeur d'Alene has led the area in retail expansion. A bright spot for the market is the redevelopment of the former Kmart at Highway 95 and Neider along with the redevelopment of Highway 95 and Kathleen Avenue. We see a shift of destination retail moving south along Highway 95 towards I-90. The Crossroads/Winco development at Ramsey and Appleway and Riverstone on the south side of I-90 will continue to be strong retail areas. Retail in Post Falls will continue to grow in 2019 led by the 50-acre Prairie Crossing project being developed by GVD Commercial Properties, Inc., on Highway 41. 2019 should be a year of continued growth for all sectors in Kootenai County. ■

"2018 was a year of forward investment and planning for significant project size development in 2019."



Jim Koon



Steve Ridenour

Large Box Industrial Is On the Rise in 2019.

“Two new-to-market industrial giants, Katerra and Amazon, have really put Spokane on the map.”



Darren Slackman SIOR

The Spokane industrial market continued to grow strong through 2018. Lease rates held steady and vacancy remained low. Lease rates for warehouse space under 10,000 square feet averaged between \$0.50 and \$0.60 NNN. On the low end, lease rates on older product range from \$0.45 NNN, and on the nicer, well-located product, lease rates were as high as \$0.76 NNN. As rentable square footage increases in size above 15,000, the average rental rate decreases slightly to between \$0.42 and \$0.48 NNN per square foot. However, those users who found themselves in new concrete tilt-up, energy efficient space with 30-foot plus clear height ceilings and plenty of dock high loading doors, paid well over \$0.70 NNN per square foot. Demand for that type of product is what will drive increased development planned for 2019.

Playfair Commerce Park, owned and operated by LB Stone Properties, continued to develop a large box industrial warehouse on their property that occupies the former Playfair race track located on Ferry just east of downtown Spokane. In 2018, LB Stone came out of the ground with two buildings, one 60,000 square feet and the other 75,000 square feet. Each building was completed by the end of 2018 and fully leased by the time construction was done. LB Stone Properties are currently working on a building for 2019 that will offer 75,000 square feet of space. This building will be available in the first quarter of 2019. The marketing information for this building has lease rates starting at \$0.75 per square foot NNN. LB Stone is in the process of purchasing approximately 18 acres in northeast Spokane on Freya, just south of Wellesley. A site plan has not yet been released but LB Stone plans to build additional big box industrial buildings on this site similar to those at their Playfair Commerce Park.

The success of the Playfair Commerce Park has motivated other local developers to move forward with projects that will bring additional new space to the industrial market in 2019. Leavitt Capital Companies has two projects they are marketing for 2019. The first is Montgomery Logistics Center located on East Montgomery next to Central Business Park. Leavitt began grading the site at the end of 2018 and plans on delivering three new industrial buildings of 39,600 square feet, 65,000 square feet, and 36,000 square feet in 2019. The marketing piece for

this project boasts 30-foot clear height, large truck courts, and ESFR sprinkler systems. The asking rate starts at \$0.69 per square foot NNN and moves up from there based on the tenants' need for office space. Leavitt's other project is the East Garland Business and Industrial Park. This project is located on 22 acres and can offer 200,000 to 300,000 square feet of buildings. Leavitt is in discussions with multiple users and will begin construction as soon as leases are signed.

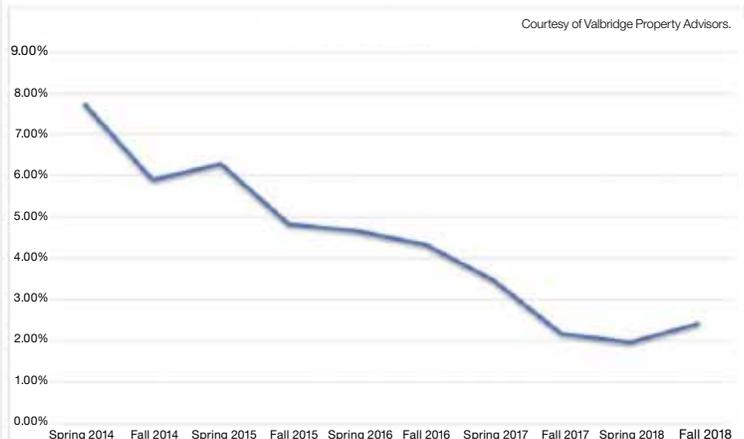
Steve Schmutz, owner of SDS Realty, Inc., started a new 110,200 square foot industrial building located on East Marietta near the Spokane Industrial Park in 2018. According to the marketing information, 64,000 square feet has been pre-leased, leaving 46,200 square feet available to lease, which can be split up into five different bays. Construction should be complete early in the first quarter of 2019. The asking lease rate is \$0.70 per square foot NNN.

In 2018, two new-to-market industrial giants, Kattera and Amazon, have really put Spokane on the map. Kattera's Spokane factory is located on 29 acres in the Spokane Valley. Kattera plans to finish construction of its 250,000 square foot mass timber manufacturing facility early in 2019. There, Kattera will build glulam structural beams, and cross-laminated timber wall panels and timber floor systems. (See kattera.com)

Amazon purchased approximately 80 acres near the airport in 2018 and immediately started construction on a fulfillment center. The building footprint will be 700,000 square feet and up to four floors high, with a total area of 2,644,275 square feet of space. The reports out of the Spokesman-Review state that Amazon will employ 1,500 – 2,300 people once the facility is up and running at full capacity. ■



Industrial Vacancy Rates



Spokane Office Shows Signs of Improving Demand.

“A huge success...has been the pre-leasing of Wonder Spokane, the adaptive rehab of the historic Wonder Bread building into a 100,000 square foot office building.”



Jon J. Jeffrey SIOR



Christopher D. Bell SIOR

Leasing activity in the Central Business District (CBD) increased dramatically in the second half of 2018. The CBD, comprising of over 3,000,000 square feet of Class A, B, and C office space, saw the vacancy rate hold steady from 2017 at 16.62%. Class A office space remained unchanged with a vacancy rate of 10.22% and average rental rates at \$20.48 per square foot per year, full service. Class B office space softened a bit with an increased vacancy rate of 21.45% at an average rental rate of \$15.73 per square foot per year, full service. Class C saw some absorption with a 5% decrease in vacancy rate to 15.07% with average rental rates of \$12.78 per square foot per year. Operating expenses vary from building to building but on average are \$8 per square foot. Older, less efficient buildings, are \$10 per square foot while newer, efficient buildings are \$6 per square foot. 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. A huge success in the Class A office market has been the pre-leasing of Wonder Spokane, the adaptive rehab of the historic Wonder Bread building into a 100,000 square foot office building with a 4-level attached parking garage offering 4:1000 parking ratio. Offering on-site parking, state of the art building systems, and unobstructed views of the Spokane River and downtown Spokane, Chris Bell of NAI Black and Mike Sharapata of Jones Lang LaSalle partnered to pre-lease over 75% of the office space before the first tenant moved into the building in December 2018. The CBD also saw the sale of the approximate 330,000 square foot Bank of America Tower for around \$47,000,000. The approximate 110,000 square foot Old City Hall was purchased for around \$5,250,000 by local investors who have started a top-to-bottom modernization and retrofit to bring back to life a historic office building with unobstructed views of Riverfront Park and the Spokane River. The building has been rebranded The OCH.

North Spokane saw an increase in vacancy in 2018. Vacancy rates in the North submarket had a slight increase to 21.52%. Average rental rates are \$16.35 per square foot per year, full service. North Spokane in 2018 had very little change; no major tenants leased or vacated this portion of the market and no new notable office construction projects were completed.



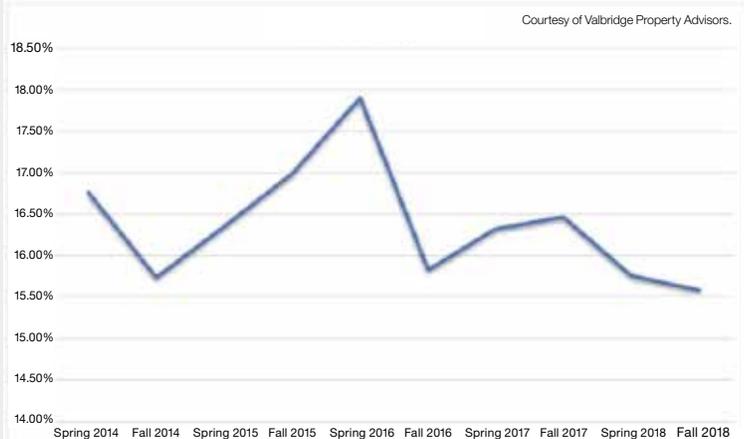
The South Hill saw an increase in vacancy in 2018, up 4.75% to 19.09%. Recent rental rates held steady at \$18.41 per square foot per year, full service. The South Hill market is one of our smallest submarkets and easily feels the effects of a couple of larger offices' leases or vacancies.

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 held steady at 16.45%. Average rental rates increased from \$14.50 per square foot per year, full service, to \$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 approximate 250,000 square foot Riverview Office Center sold in 2018 for around \$38,000,000. Another major office sale in the Spokane Valley was the sale of the approximate 67,000 square foot Trent Plaza for around \$9,500,000, handled by Jon Jeffreys and Steve Ridenour of NAI Black, partnered with Steve Sutherland of CBRE.

The medical office sector had a slight increase in vacancy with the market giving back approximately 30,000 feet. The current vacancy is 10.1% up from 8.97% in 2017, but the average annual rental rates have increased over \$0.30 a foot to \$22.62 per square foot. Even with the small pull back in 2018, Spokane's medical office market is and will continue to be very healthy. ■

Office Vacancy Rates



Downtown Is a Happening Place.

“Spokane can best be measured by many of the historic building re-utilization projects ...Macy’s building, now called the “M”...was converted to mixed-use living and retail.”



Mark C. McLees



Thomas P. Hix CPM®

Downtown Spokane is on the verge of a boom. Many, if not most, downtown cores across the country have seen a surge in both sales and leasing activities over the last year. This is great news, and every city desires a vibrant economy. However, these rapid type of turn-arounds can come at a cost.....inflated prices to purchase real estate, rapid increases in lease rates, and an ever increasing cost of living expenses. Downtown Spokane has a different story.

The story of downtown Spokane is that of conservatism. With an abundance of quality product, unique historic building re-utilization, record construction and development permits, reasonably established purchase prices and lease rates, and a very manageable cost of living index, downtown Spokane lends itself to a robust and growing community.

An iconic representation of the quality of products being provided in downtown Spokane can best be measured by many of the historic building re-utilization projects. For example, the former 11-story, 370,000 square foot Macy’s building, now called the “M,” was converted to a mixed-use living and retail center. Consisting of 105 upscale apartments and approximately 60,000 square feet of retail on floors one and two, this project is the last of many underutilized existing structures to be converted over the last three years, adding to the already vibrant retail shopping and entertainment district along Main Avenue. To top it off, a 12,000 square foot Nike Factory Store opened its doors on the ground floor of the “M” in the summer of 2018. As a testimony to the vibrancy of downtown Spokane’s retail market, sales at the Nike store have exceeded Nike’s expectations!

A surge of construction permits was experienced in 2018, with record numbers expected in 2019. Although projects have been scattered throughout downtown, two particular areas are of epic proportions. For example, the west periphery, an area that was extremely promising in new developments during 2006 through 2008, has now re-emerged as a hot-spot for new living and retail developments. These projects include the much anticipated 7-story, \$9.5 million residential tower at 1309 West 1st Avenue, along with multiple other historic buildings planned for re-development to retail and living units in the immediate area.

Another area experiencing tremendous growth and activity is the University District. The long-anticipated University Gateway Bridge, which has created an iconic pedestrian breezeway linking the University District on the north with the East Sprague Periphery on the south, has just been completed.



At the epicenter of the bridge landing on the south is the Catalyst project, which is a joint venture between Avista and McKinstry, a Seattle-based company that specializes in energy-efficient buildings.

The first building under construction on this site is the \$50 million, 150,000 square foot Catalyst Building. It will house three EWU degree programs and will accommodate about 1,000 EWU students. The building will host dry labs, classrooms, offices, and common study areas. In addition to the Catalyst Building, Avista and McKinstry just announced a partner building that will be the 40,000 square foot Hub Building. This building will include a restaurant, office space, and a central energy plant that will power both buildings.

Affordability is one key to downtown Spokane's growth in 2019. This includes affordable building prices (typically \$100 to \$150 per square foot finished product), lease rates (typically averaging around \$18 per square foot full service for office and \$18 per square foot NNN for retail), and cost of living (overall index of 97, with a very attractive 78 point index for utilities).



2019 will bring continued growth and vitality to downtown Spokane. This includes increased retail shopping visits, conventions, sporting events, hotel stays, and tourism. It is a great time to enjoy the vibrant lifestyle provided by downtown Spokane! ■

Apartment Building on Success.

“Multifamily forecast is for another strong year with continued lower-than-average vacancy rates... which will drive rental rates upwards.”



Mitch D. Swenson CCIM



Kim Sample ARM

The multifamily market in the Greater Spokane area continued to remain very robust in 2018. The overall average apartment vacancy rate sustained historic levels at or near 2% throughout the year. There were several exceptions, however, with some submarkets reporting vacancy in the 5% to 6% range because they were the most affected by new construction being absorbed into those areas.

Average rental rates in 2017 for all apartment types peaked at \$886. In 2018, these rates were easily surpassed with an overall 10% increase in average rental rates, ending the year with a new average of \$977. Even with climbing rental rates and decreasing vacancies, there were rental concessions reported throughout the individual neighborhoods impacted by new construction. In the Cheney submarket, which saw a rapid increase of new apartment units, rental concessions were commonplace by mid-2018 and many new construction apartment communities throughout Spokane County offered rental concessions through 2018 to increase their rate of absorption.

With rapidly increasing employment opportunities over the next two years; specifically, the completion of the Amazon fulfillment center and Fairchild Air Force Base's employment increase of about 1,000 new jobs by 2020, a housing shortage on the West Plains is predicted. New single-family and multifamily housing will be needed to meet this forecasted demand. However, with ever-diminishing supply of shovel-ready zoned land on the West Plains, the City of Airway Heights is looking at options such as the expansion of city boundaries and changes to the urban growth areas that surround the city.

New multifamily construction of apartments and absorption rates for these units remained strong in 2018. Most new construction apartment units were being steadily absorbed throughout the region.

Apartment trends likely to influence both new construction and acquisition/rehab projects in the future include continued development of mixed-use properties, a reduction in average unit size, an increase in available tenant services, additional affordable housing units, and offerings of tenant customization within individual apartment units.

Multifamily Sales

The sales volume of multifamily properties in Spokane County set a new record high in 2018. The year finished with \$146,000,000 of apartment sales with an average price of nearly \$87,000 per unit. This compares to \$93,000,000 sold with an average price of \$62,500 per unit in 2017 and \$106,000,000 sold in 2016 with an average price per unit of \$74,000.



2019 Forecast Spokane County

The multifamily forecast is for another strong year with continued lower-than-average vacancy rates. These historically low rates will continue to drive rental rates upwards.

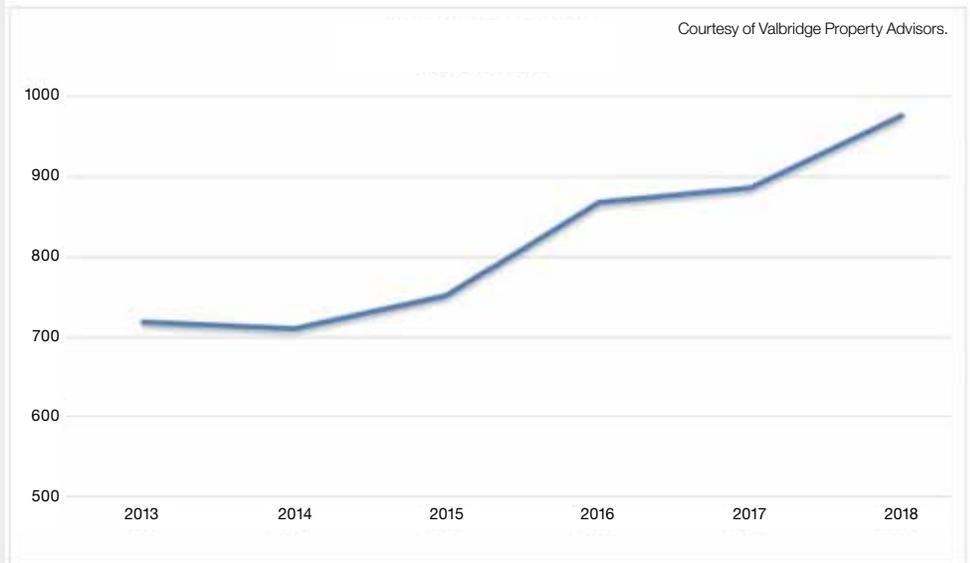
Forecasting for the multifamily investment and sales market is dependent on ever-changing economic factors and only time will tell where 2019 will take us. With interest rates that crept up near the end of 2018, the conventional thinking is that this may put a damper on the activity nationwide in the apartment resale and construction market. However, the 10-Year Treasury Note has just recently dipped below 2.70% from its high of 3.2% just a few short weeks ago, which may allow an extension of the multifamily fever. Low capitalization rates driven by a huge amount of purchasing demand, and fueled by relatively low interest rates, may very well continue for some time to come. Some cap rates in 2018 went below 5.5% for premium, well-located multifamily product. If interest rates remain stable, 2019 could be another solid year for multifamily investment sales.

See two Apartments Graphs on next page.

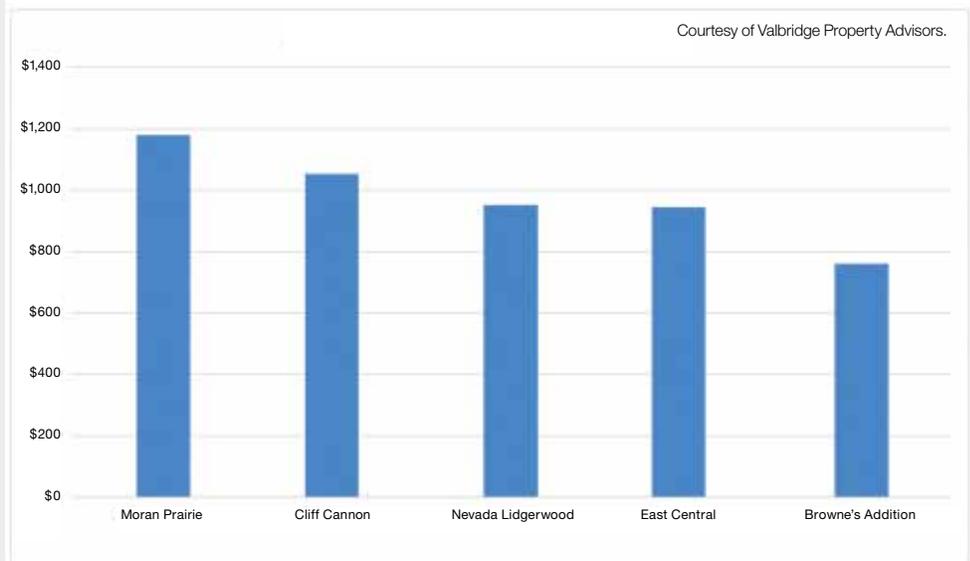
Apartments

continued

Apartment Average Rental Rates



Avg. Rental Rates By Neighborhood





Property Management.

Black Realty Management is a leader in the multifamily and commercial property management field with a portfolio of more than 4,000 multifamily units and more than 125 commercial properties managed in Spokane, Eastern Washington, and North Idaho. 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.

Black Realty Management’s services are driven by a passionate focus on quality service to our clients and residents. This focus on service results in high employee/tenant/client retention; insightful and detailed operational management; strategic planning; and exceptional communication with our owners, tenants, and all other stakeholders. We strive to optimize both gross and net operating income while maintaining physical infrastructure in top condition to preserve income streams over the long-term and enhance property values.

Our philosophy has earned us the reputation as an entrepreneurial leader in the property and facilities management business. Each property we manage receives 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 goals that the owner has established for the asset.

Our valued clients are the reason we are here and have been in business so long. If we continue to successfully meet the needs and goals of our clients, our company will remain on a 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 as being of superior value. Our commitment to success is a combination of our core values. ■

OUR CORE VALUES

- 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 to our community.



Kim Sample ARM



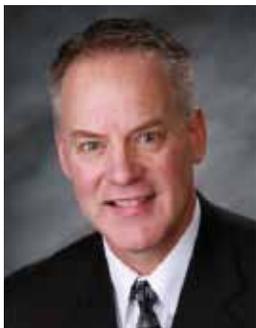
Thomas P. Hix CPM®

Investment Market to Remain Strong in 2019.

“It appears that increasing interest rates are stabilizing, which should bode well for the investment real estate market in Spokane, regionally, and nationally.”



James S. Black III CCIM



Jim A. Orcutt

The investment real estate market stayed strong locally, regionally, and nationally in 2018. With attractive yields and lending institutions ready and able to loan, the 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 2018 remained historically low and the stock market continued in flux. Bank deposit yields continue to be in the 0.5% to 1% range. Uncertainty in the financial markets, together with low yields on CDs and bonds, have brought investment real estate to the forefront of investment alternatives. Real estate investments will continue to be an excellent way to generate greater returns on investment capital.

Money from larger cities continues to flock to the Inland Northwest as investors seek out higher yields found 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 supply of quality income-producing properties. Spokane, as a very conservative community, has always had a buy and hold mentality towards income-producing real estate. Significant appreciation rarely is the case in Spokane, so buyers here 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 property owners to dispose of their properties. This has created substantial competition for the few quality income properties that become available. This unique market dynamic commonly results in multiple offers for well-located properties with solid credit tenants in good condition that come on the market.

Cap rates have stayed relatively low in 2018. One example here locally was the sale an off-market multi-tenant retail strip center at 3rd and Walnut to an investor out of Seattle doing a 1031 exchange, which traded at a 6% cap. This transaction was a product of a very strong desire and ability to purchase quality income property, with staggered leases in place, and to national and local tenants. Average local deals are trading in the 6.5% to 7.25% cap rate range, and cap rates vary somewhat depending on the quality, age, and location of the asset. Lease term and the cost of replacement are also factors contributing to the prices being paid.

The Spokane area investment market should continue to remain strong in 2019, no matter what happens in the national economy. We anticipate a slight increase in cap rates if interest rates increase in 2019. At this time, it appears that increasing interest rates are stabilizing, which should bode well for the investment real estate market in Spokane, regionally, and nationally. Investors will continue to chase the stable yields found in the Spokane/Coeur d'Alene area. This should make 2019 eerily similar to the year we had in 2018. Should you or anyone you know be interested in purchasing an income-producing property this year, please do not hesitate to contact us. ■



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John T. Powers, III



Scott Martin

In 2018, we were involved in the sale of eight companies and we are currently representing several new clients in marketing their businesses for sale. Service-based businesses such as restaurants and automotive repair continue to be popular among buyers. 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). Those seller difficulties 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. Buyers who cannot obtain external financing are forced to rely on the seller to finance the sale. Seller financing can be an effective solution but does not always meet the needs of the seller. A seller note can, however, provide the seller with an investment after the sale. 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. Another option is to have the seller stay on for a one- to three-year transition period. We do not see many purchasers wanting to buy themselves a job, but rather wanting a business that will deliver a market return on their cash invested and provide competitive compensation for a qualified manager to run the business. If the buyer elects to be an owner operator, then they expect the business to provide them with market compensation to manage and grow the business.

A secondary challenge lies in the expectations of some sellers. Some business owners from the baby boomer generation are interested in selling their hard-earned businesses but have unrealistic pricing goals, desiring multiples of five to eight times EBITDA. We have recently studied the psychology of business exits and read a great dissertation written by Allie Taylor titled, *“The Psychology of Business Exits: Measuring Entrepreneur Role Identity Fusion”*. This contains some excellent questions every seller should consider, preferably a few years before they contemplate a sale. Sellers who take the effort to mentally prepare to sell their business should be able to approach the sale with more realistic expectations. If the seller has not taken those steps, there could be numerous issues that will hinder the sale process. We are very optimistic about 2019! ■

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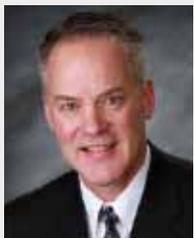
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