

2023 Market Report

Greater Spokane and Kootenai County



Table of Contents

Letter from CEO.....	1
Retail	3
Industrial	5
Office - Medical Office	7
Downtown	9
Apartments	11
Investment	13
Property Management	15
Coeur d’Alene - Kootenai County	17
Principals - Brokers - Property Managers.....	20



Letter from the CEO

NAI Black and Black Realty Management had a great year in 2022, despite the changes in the real estate market over the last few months. We have an incredible client base with our Brokerage, Management, and Development “3-Legged Stool!”

Our brokerage group, under President Jeff Johnson, had the second-best year in history with the best year being 2021! Our brokers are an amazing bunch and the most cohesive group around. I’m proud of them all.

Led by Kim Sample, President, and Josh Gutzwiler, Vice President, Black Realty Management Inc., had its best year ever with new accounts added from new and existing clients. Our revenue in this company set a record in our company history. Our individual property managers worked hard all hours of the day (and night)!

On the development side, we started and finished several

projects, including the first phase of Redband apartments on Wistalk Way, a Dairy Queen, Divines Auto, Garden Coffee at 57th and Palouse Highway, and a Value Village store at Wellesley Avenue and Ash Street. We also made progress on several residential lot plats; most notably 100 acres at the former Painted Hills golf course in the City of the Spokane Valley and 57 acres located at Qualchan View at Meadowlane Road and Highway 195 in the City of Spokane. We were excited to play a crucial role in bringing the new football/soccer stadium to the north bank. We negotiated four real estate deals and, as a past chair of the Downtown Spokane Partnership (DSP), lobbied with the school board and Public Facilities District (PFD) to achieve critical votes to make that happen.

Government handouts during Covid, along with bad energy policy and supply chain issues, created out of control inflation. In response, the Federal Reserve Board raised the Federal Funds Rate multiple times to try and curb inflation. This action has more than doubled interest rates, crippled the housing market, and dramatically slowed price appreciation to less than 5%. This current inflationary cycle will

end, but I’m afraid it will be in a few years, not months.

With increased interest rates, we are starting to see signs of softening prices. This is a change from the high prices and unprecedented low cap rates we have seen over the last few years. This change in the market has created a dichotomy between sellers who still want a lot of money for their properties and buyers that know rents (and prices) are not going up like they once did. It is the classic transitional scenario between a seller’s market and a buyer’s market in real estate. That said, we are still seeing quality properties with multiple offers on them.

There are still cash buyers for commercial real estate. Many investors from out of the area have discovered Spokane as a place to reinvest proceeds from the sale of their properties.

The multifamily rental market is more “normal” now, with vacancy rates in the 5% range. Rent growth has slowed dramatically to around 4% from over 20% in some projects. I believe some currently high-priced multifamily properties will come down in price as savvy buyers study the market and factor in the impact

of higher interest rate financing. Today an investor can get over 4% in a certificate of deposit, so cap rates for apartments need to provide a higher return to be attractive. Also, cap rates are below interest rates, which is referred to as “negative leverage.” To avoid negative leverage, cap rates need to go up or interest rates need to come down. It was an unprecedented time to buy commercial real estate with the historically low interest rates we enjoyed over the last decade.

We sold land at record prices for several years because of in-migration by individuals and companies. We still have bidding wars going on over prime properties, and I am constantly amazed at how much demand there is in the commercial land market. Prices for existing buildings are strong as well because it costs so much to build new buildings and it takes much longer due to labor and supply chain issues.

Much of our commercial brokerage business is in leasing, and leasing activity is steady, especially in the industrial market. The office markets and retail markets are doing well in the best locations. “Location, location, location!”

The restaurant industry is active, and we have completed many new quick-serve restaurant deals. It’s an interesting time for that sector, as good labor is scarce and food costs are high. Many restaurants have shut down but companies such as Chipotle, Cafe Rio, Starbucks,

Panda Express, and others are still looking for good sites. Even so, it is tough for developers to make the numbers work with high construction costs and rents needing to be \$50 to \$60 per square foot. This is double what it was five years ago.

Our quality of life in Spokane is unparalleled. Where else can you pheasant hunt a half-hour from town, fish in one of our 75 lakes within an hour, enjoy four great ski areas, and play golf at world-class golf courses. Our young people used to move to the coast because there was “nothing to do in Spokane,” but now, the culture here is amazing. There is an emerging arts community among millennials that no one really knows about. In any given week, there are multiple concerts, plays, comedy shows, and other cultural events. The restaurant scene is truly prolific and diverse, even though many establishments never recovered from Covid.

For an economy that has transitioned from mining, agriculture, and timber, we now have a very diverse industry base. Our healthcare industry is thriving, we have a growing aerospace manufacturing base, a good supply of venture capital, a great University District with two medical schools, and numerous startup companies worth millions of dollars.

I think the next generation will see the Spokane area change from a large, small town to a metropolitan area. Spokane will continue to be discovered because of its quality of life,

increased technology (the ability to work anywhere), and great people. This will bode well for every facet of real estate moving forward.

One more factor must be addressed so we can continue to enjoy our quality of life and remain competitive with other regions. We must address our homeless, drug, and crime problems and get people off the streets and out of the cold. It does no one any good keeping people on the streets. We need to keep Spokane clean and safe. This is important to our region and to commercial real estate.

That said, I am bullish on our region and will continue to encourage investment in real estate. Even if tough times are ahead, the old saying holds true: “There is no bad real estate. You just have to live long enough.” We are working harder than ever. I thank all of our clients, brokers, and employees for making my job the most exciting one around!

David R. Black, CCIM, SIOR
Chief Executive Officer

Retail



Stephen Pohl



Jesse Clark

By Stephen Pohl and Jesse Clark

Despite Covid, retailer’s hard work and resilience over the past three years has kept the retail market steady. Businesses were able to combat obstacles associated with Covid by being creative in their marketing and delivery strategies. This hard work and creativity allowed them to weather the storm and show growth in 2022. According to the website Insider Intelligence, in 2022 e-commerce slowed to a growth rate of 9.4%, its lowest since 2009, reflecting consumers return to brick-and-mortar shopping.

CoStar reports that only about 35,000 square feet of new retail space was delivered over the past 12 months. With continuing demand and a lack of inventory, the market now has an overall vacancy rate of 4% resulting in average market rent increasing 3.3% to \$15.28 per square foot.



North Spokane

During 2022, the Northeast area of the North Metro retail submarket (NMRS) had an 8.4% vacancy rate with an average rental rate of \$16.97 per square foot. In the Northwest area of the NMRS, the vacancy rate average was 4.3% with an average rental rate of \$17.01 per square foot. In the Southeast area of the NMRS, vacancies landed at only 2.1% with an average rental rate of \$13.28 per square foot. The Southwest area of the NMRS had a 5.2% vacancy rate with an average rental rate of \$15.07 per square foot. Of note, Idaho Central Credit Union opened their first northside location located at 9506 North Newport Highway. Apex Physical Therapy opened another location in Wandermere at 12501 North Division Street. Porter’s Real Barbecue, the popular Tri-Cities-based restaurant, inked a lease at 9420 North Newport Highway. Petco plans to relocate from 6302 North Division Street to the Northtown Square Shopping Center located at 4727 North Division Street.

Spokane Valley

In the Spokane Valley retail submarket, the vacancy rate was 2.5% with an average market rent of \$13.61 per square foot. Although roughly 78,000 square feet of retail space has been delivered in the past three years, no new projects are currently under construction. Noteworthy deals include Market Street Pizza opening their second location at 11420 East Sprague Avenue and Dutch Bro’s executing a lease for space at 204 North Barker Road; Salon Services relocated from downtown Spokane to Argonne Village Shopping Center at 9331 East Montgomery Avenue; and Starbucks broke ground on a new location at 18707 East Laberry Drive.

South Hill

The South Hill retail submarket ended the year with a 7.9% vacancy rate and an average rental rate of \$20.91 per square foot. The South Hill has traditionally been a sought-after retail market and commands above-average rental rates. Note that the South Hill Grill will be moving from their location on 29th Avenue to the former Rock City Grill space at 2911 East 57th Avenue, and The Careshop Health and Wellness Co-Operative opened a location on 14th Avenue and Grand Boulevard.



West Plains

Over the past 12 months, the West Plains retail submarket has been very active. The vacancy rate is 4.3% with an average rental rate of \$17.10 per square foot. National tenants have been aggressively seeking locations in this market due to the continued growth of Airway Heights. Idaho Central Credit Union purchased land at Highway 2 and Hazelwood Road, Circle K: Convenience Store and Gas Station broke ground at 9132 West Highway 2, and Chipotle Mexican Grill will be opening at 9926 West Highway 2.

Spokane Central Business District (CBD)

In the Central Business District (CBD), market rents averaged \$18.40 per square foot with a vacancy rate of 3.1%. Liberty Lake Juice Co. opened their second location at 180 South Howard Street. The House of Brunch is to open in the former Sushi Sakai space at 818 West Riverside Avenue; the Arizona based secondhand shop Buffalo Exchange is set to open at 407 West Main Avenue; and The Original Pancake House leased space at 245 West Main Avenue, which was previously occupied by Luigi’s Italian Restaurant.

The Spokane area has continued to generate interest from regional and national restaurants. Health and fitness-related businesses, medical providers, credit unions, and thrift stores continue to be key users in the market. Local retailers have expressed interest in expanding but face the challenges of a labor shortage and inflation. New mixed-use developments are a continuing trend for retail expansion. NAI Black is the retail market leader in Eastern Washington and North Idaho.

Industrial



Darren Slackman, SIOR



Drew Ulrick, SIOR

By Darren Slackman, SIOR and Drew Ulrick, SIOR

The size of the Spokane industrial market continued to grow in 2022. Amazon added another 250,000 square feet (GEG 5) in the West Plains on Hayford Road next to their initial facility. Fred's Appliance and Selkirk Pharma also completed construction projects in the West Plains. Fred's Appliance developed a 100,000 square foot distribution warehouse building and Selkirk Pharma completed the development of a 114,000 square foot manufacturing facility.

Even with a changing market, speculative development continued in 2022. AT Industrial will have its 208,000 square foot distribution warehouse completed early in 2023. 70,000 square feet of that building is pre-leased to Huppins. Barker Logistics, developed by Crown West Realty, LLC (owners of the Spokane Business and Industrial Park) completed a 131,000 square foot distribution warehouse on North Barker Road. 40,000 square feet of that building was leased before construction was completed. The Douglass Legacy Park

continued to add buildings to their project. By early 2023, Douglass Legacy Park will have completed five buildings with approximately 200,000 square feet available for lease.

Panattoni Development Company, a worldwide industrial developer, started two speculative projects in 2022. West Plains Logistics (www.westplainslogistics.com) located at 10015 West Hallet Road, is a three-building development totaling over 528,000 square feet. The scheduled completion date for these buildings is December of 2023. Their second project, Greenacres Distribution (www.greenacresdc.com) located at 17710 East Euclid Avenue, is a single building totaling 192,000 square feet with a completion date of August 2023.

In total there will be approximately 1.4 million square feet of new distribution warehouse space delivered in the Spokane MSA in 2023.

With all this new construction it should be easy to find space, right? Wrong. Vacancy is still very low for small and mid-size bay industrial users. According to Rob Amsden at Village Square Realty, vacancy in small bay space is about 1%. Rob manages almost 500,000 square feet of small bay warehouse space (0 to 2,500 square feet) and has over 150 tenants. He has maintained a 1% vacancy

rate for more than a year with solid demand allowing him to continue increasing rental rates. His rental rates range between \$0.55 - \$0.65 per square foot NNN. With very limited availability, some small bay lease rates are now pushing \$0.80 per square foot per month NNN.

The same low availability and high demand is true for mid-size bays in the 2,500 – 10,000 square foot range as well. Nearly all new industrial buildings coming online are high bay distribution projects over 20,000 square feet. This leaves many local businesses at a distinct disadvantage trying to grow their businesses. The mid-size bay market is incredibly tight and consists primarily of second-generation space. Most tenants have to get creative and make undersized space work for their business until they can justify a larger space with a significant jump in monthly rent. Lease rates in this space category range from \$0.65 per square foot up to \$0.85 per square foot. There is a wide range of price per square foot due to a mix in building quality and yard space.

It doesn't get much better for the tenants that need 10,000 – 25,000 square feet. According to Dean Stuart, Vice President of Crown West Realty, LLC, his vacancy rate is also at 1%. The Park has nearly five million square feet of space with three different product types: Value, High Bay, and new Class A

distribution warehouse. Rates vary between the product types, ranging from \$0.50 per square foot for the Value product, \$0.65 per square foot for High Bay storage, and above \$0.80 per square foot for their new construction Class A distribution warehouse like Barker Logistics.

Another factor in this low vacancy sector of the industrial market is the demand by owner/users to purchase buildings up to 15,000 square feet. This demand has quickly taken vacant buildings out of the market and resulted in considerable appreciation in the value of small industrial buildings. This increase in value has been driven both by a high demand for a small inventory of available

buildings to purchase and the high cost of new construction. New construction costs as high as \$200 per square foot has helped drive up the sale price of existing buildings from \$100 per square foot to as high as \$190 per square foot. That is an increase from sale prices three years ago ranging from \$50 to \$85 per square foot.

NAI Black and our partners foresee another solid year ahead for the industrial market. That said, we are approaching a stabilized vacancy in some submarkets. We anticipate new construction slowing as landlords work to fill their current inventory of Class A large bay spec distribution warehouse space. As interest rates continue

to increase and the economy slows, we may see lease rate reductions by landlords motivated to fill large blocks of spec space. Small to mid-size industrial space should continue to stay competitive and lease and sale prices for that product should remain stable. Investors who own small to mid-size industrial buildings continue to enjoy higher rents, stable occupancy, and the ability to sell an asset for top dollar!



Office - Medical Office



Jon Jeffreys, SIOR



Devin Mecham, CCIM

By Jon Jeffreys, SIOR
and Devin Mecham, CCIM

In 2022, the Spokane office market saw a solid increase in leasing activity in the general office and medical office sectors, while large call center and back-office vacancies began to flood the market. Remote employment and hybrid work models are becoming long-term options for the call center/back-office employers. However, general office and medical office seem to favor more in-office employment and use remote work much more sparingly. Rents have been increasing for both general and medical office as the cost of new construction, tenant improvements, and expenses have all felt the pressures of inflation. Vacancy, on the other hand, will be somewhat misleading as we have had a few major blocks of back-office space come on the market swinging the vacancy rate. With Spokane only having approximately 12 million square feet of total office space, the impact of five to six large vacancies, totaling close to 300,000 - 400,000 square feet, have a great impact. Even though large vacancies have increased the overall vacancy rate, the average office space

user still faces a tightening market. Another challenge facing office users is finding and hiring qualified staff. With job openings outnumbering unemployment two to one, hiring will continue to be a factor limiting businesses expanding and leasing additional office space.

Sales activity had another very strong year with users and investors taking advantage of low interest rates early on. Record sale prices per square foot were seen in office and medical office. Towards the end of the year, we started to see buyer demand soften with interest rates nearly doubling in less than nine months. In our opinion, this will stymie the 2023 purchase market and put downward pressure on values. The problem lies with new construction still being at near record highs. Sellers may not be apt to drop pricing much at all. This should all be a boon for future leasing in the office and medical office sectors.

The Central Business District (CBD) is comprised of close to 3,000,000 square feet of Class A, B, and C office space. Vacancy has continued to rise into 2022. In 2021, overall vacancy was at 17.24%, with this number being closer to 20% at the end of 2022. Tenants in the market continue to be drawn to properties with amenities such as ground floor retail, exercise facilities, and on-site parking. Conversions of Class C office buildings to

multifamily continued into 2022 and we anticipate it will into 2023, which, naturally, will begin to lower vacancy levels with less overall space in the CBD market. We feel this is positive for the CBD office market and also the overall downtown core as the CBD begins to not only be a 9-to-5 city core, but night and weekends as well. There were very few sales in the CBD in 2022.

North Spokane had a solid 2021, which continued to be strong in 2022, but large vacancies in the Rock Pointe Complex will have a dramatic effect on the vacancy percentage that we anticipate will increase by 3%, raising the market vacancy to just over 10%. Again, this is a little misleading as these are large floor plates that don't necessary compete in the typical general office market. There were very few large office building sales in 2022 in the North Spokane market, but the following are a few notable ones: 111 West Cataldo Avenue sold for \$3,400,000 (\$142 per square foot); and 101 West Cascade Way sold for \$3,800,000 (\$176 per square foot). There is very little new construction, except CHAS's second 90,000 square foot building in the Iron Bridge Campus on the North Bank just east of Gonzaga. This looks to be slated for completion by the end of 2023 to early 2024.

Spokane's South Hill office market continues to have very low vacancy at what we believe is below 5%. The South Hill office market is small, so a few vacancies or new leases can have a large effect. The South Hill market is only approximately 190,000 square feet. Sales: 312 West 8th Avenue sold for \$5,000,000.

The Spokane Valley/Liberty Lake submarket will also see a large swing in the vacancy percentage with this market being home to the majority of Spokane's call center/back-office users. Large users have downsized their space or went completely remote. Some of these include PEMCO Insurance, Liberty Mutual Insurance, Comcast, and Verint, to name a few. Some notable sales include: 1421 North Meadowwood Lane sold for \$6,000,000; 12825 East Mirabeau Parkway sold for \$17,200,000; 16114 East Indiana Avenue sold

for \$4,600,000; and 9317 East Sinto Avenue sold for \$5,200,000.

The medical office market has continued to improve. This is one of the only markets in the office sector where we are seeing strong absorption but also new product being brought online and achieving record-high lease rates per square foot. Rental rates for existing product look to be rising with new construction pricing beginning to put pressure on those numbers. Medical office is one of the office sectors that continues to see new construction build-to-suits and owner-user projects. This market should continue to see growth as our population continues to increase and staffing shortages begin to stabilize. With a large regional pull, multiple medical schools, low vacancy rates, and a growing population, we will continue to see medical office be the darling of the Spokane office market.

As far as the outlook for 2023, there will continue to be a shift away from remote work for many local and regional companies. A recession could affect hiring stability especially with National tenants. High construction costs together with high interest rates will limit new office space coming on the market. This will push growing tenants to second-generation office and medical space. Office building sales will remain flat until interest rates decrease pushing user purchasers to the leasing market and keeping investors on the sidelines.



Downtown

A Bright Future for Downtown Spokane!



Mark McLees



Christopher Bell, SIOR

By Mark McLees and Christopher Bell, SIOR

Downtown Spokane and the surrounding downtown periphery remain resilient and strong despite some of the challenges of the last few years. With life getting back to normal post-Covid and with efforts by downtown Government and business leaders to keep downtown clean and safe, the future of downtown Spokane has never been brighter!

Continued investment in downtown and the downtown periphery by the City of Spokane, local developers, and a growing number of regional developers are anchoring Spokane for a very successful future.

High impact community projects like The Podium sports venue and the new downtown stadium, together with related property acquisitions, rehab projects, new mixed-use, and apartment projects (completed, under construction, and proposed) will easily result in over \$300 million worth of investment in the downtown area. Many of these projects will fill the growing

demand for more downtown area housing. The occupants of this new housing inventory will, in turn, provide an increased customer base for downtown area businesses. Additional housing also helps downtown Spokane to mature into the live, work, and play environment that is in demand by consumers young and old.

Covid-related remote work has had an impact on the downtown area office market. Many companies who sent workers home to work remotely during Covid have re-evaluated their office space needs. Some companies have found that maintaining company culture and productivity has been tough to do with a remote work environment. Those companies are bringing workers back to the office. Other companies have found that certain jobs can be done effectively with qualified staff working remotely. That said, many companies were prompted by Covid-mandated remote working to review their business goals and their office space needs. This has and will continue to result in some downsizing by downtown and downtown periphery office users.

The Central Business District (CBD) Office Vacancy Report for 2022 has not been completed at this time but the trend from 2019 through the end of 2021

has shown increased vacancy in downtown Class A and B office properties. Vacancy in Class A office buildings increased from 12.62% in 2019 to 16.36% by the end of 2021. Vacancy in Class B office buildings increased from 15.33% in 2019 to 18.75% by the end of 2021. The bright spot was downtown Class C office space, which decreased from 12.63% at the end of 2019 to 9.89% at the end of 2021. When the economy is doing well, some office space users with growing businesses tend to move to nicer space, thus lowering vacancy in Class A and B buildings. When the economy is contracting the opposite can be true, thus improving occupancy in Class C buildings. The increased occupancy in Class C buildings can also indicate the formation of new small businesses.

With the past challenges of Covid, 2022 was a year of positive recovery for most downtown retail businesses. Downtown retail vacancy increased from 8.32% in 2019 to 9.14% by the end of 2021. Downtown was the beneficiary of numerous new businesses in 2022, which should result in stable retail occupancy levels going into 2023. Some of those new downtown businesses include: Uno Más Taco Shop at 835 North Post Street, Lokey Café at 903 West Riverside

Avenue, Do It With Soul clothing at 112 South Cedar Street, Solitude barber shop at 9 South Howard Street, Outsider sandwich shop at 908 North Howard Street, Liberty Lake Juice Company at 180 South Howard Street, and The PNW Dream gift shop in Riverpark Square. The opening of these new and expanding businesses shows the confidence that their owners have in the future of downtown Spokane.

With limited properties available for sale and increasing interest rates, there were very few notable sales of commercial

properties in the downtown Spokane area in 2022. The last significant sale was the acquisition of the former Banner Bank Building at 41 West Riverside Avenue by Idaho Central Credit Union in November of 2021. With record-high interest rates, some investors and developers have put plans for projects that are not already under construction on hold. Despite the challenge of higher interest rates and high inflation, downtown Spokane continues to mature and become a great place to live, work, and play! 2023 should be a positive year for downtown Spokane!

- A few of the \$300 million worth of investments include:**
- The construction of the \$31 million Spokane Public Schools Stadium.
 - An estimated \$36 million worth of real estate transactions in the North Bank neighborhood.
 - Phase one of the 298-unit apartment project in the U-District costing \$62 million.
 - A proposed \$40 million mixed-use project at 7 West Spokane Falls Boulevard.
 - Construction of a \$25 million 160-unit apartment project at Iron Bridge.
 - The 206 West Riverside mixed-use development with a cost of \$35 million.
 - Kendall Yards addition of the Flat Iron and Jefferson Alley buildings totaling \$20 million.
 - The Regional Health Partnership Building at 840 East Spokane Falls Boulevard costing \$60 million.



Apartment



Mitch Swenson, CCIM



Jody Johnson

By Mitch Swenson, CCIM
and Jody Johnson

2022 Multifamily Rental Market Highlights

In 2022, Spokane's multifamily rental rate gains fell far below the past five-year average and occupancy levels dropped throughout the market. Despite a changing market, new construction apartment development continues to surge throughout Spokane County. This wave of new apartment construction is having a notable effect on rent growth, which plummeted from an all-time high of almost 16% during the time period between 2020 and 2021 to a current average rent growth of 2.5%.

Currently, there are approximately 2,300 apartment units under construction in Spokane County. This addition of new inventory to the rental market in the next 12+ months will continue to moderate rental rate growth and increase vacancy rates.

The current average vacancy rate for all unit types, all ages, and all locations is at 5.5%

for Spokane County. Class A newer construction properties are currently experiencing higher vacancy rates that average up to 7%, while Class B and Class C properties are averaging more closely to the 4% range for vacancy.

Spokane County was recently identified as one of the very top markets in the nation where renting is more financially prudent than buying. This designation is due to the elevated single-family home property values and ever-increasing mortgage interest rates. This market factor will continue to augment demand for rental units, leaving many who were previously considering home ownership no option but to remain as apartment renters. This dynamic will continue to assist the Spokane County multifamily arena by providing an ongoing healthy and slowly but steadily growing market despite the influx of new construction apartment units.

2023 Multifamily Market Predictions

The 2023 projected average rent growth for Spokane County is estimated in the 4% range, and this rate will be entirely dependent on the property age, property style, and location. Class A new construction properties that are already at

or near market rates may see a lower rent growth than 4% in 2023 and, conversely, Class B and Class C properties may see rental rate increases at or higher than 4%.

The 2023 projected vacancy rate for all unit types, all ages, and all locations will most likely mirror 2022 with the overall vacancy rate hovering around 5.5%. Spokane County continues to be a good market for apartment investors.

Multifamily Sales Update

2022 was a UNIQUE year in the multifamily investment sales sector in Spokane and surrounding areas! Finally getting out of the Covid-19 pandemic was a needed respite. Sales of apartments in the Spokane metro market were a bit hit and miss. The major theme for 2022 was the substantial increase in the price per unit of apartment sales.

In 2018 the average sale price per unit on apartment sales was \$103,000, which increased in 2019 to \$109,000, then in 2020 prices retreated slightly to \$104,000 per unit. In 2021 prices jumped to \$135,000 and then prices went off the charts. The average price per unit in 2022 in the Spokane area was \$170,000; an increase of 26% over 2021.

Capitalization rates remained strong through most of 2022 averaging 5% across all levels of classes. As in the recent past, the most aggressive prices were paid by large volume of out-of-town buyers. These buyers were willing to pay high prices anticipating continued future rental increases.

There were not an overly large number of transactions that closed escrow in 2022, but the sales that were consummated were at record prices. The highest price set a record in our market at \$145,000 per unit.

2022 multifamily sales volume was 18% above 2021 numbers. Multifamily investment closed sale transactions totaled \$180,000,000 compared to \$152,000,000 in 2021. The number of units trading hands was down from 1,024 units in 2021 to 925 units in 2022.

The competition to acquire quality multifamily units remains strong. Most properties do not make it to the market as many properties are bought and sold "off market." This high degree

of demand will most likely continue subject to the impact of increasing interest rates.

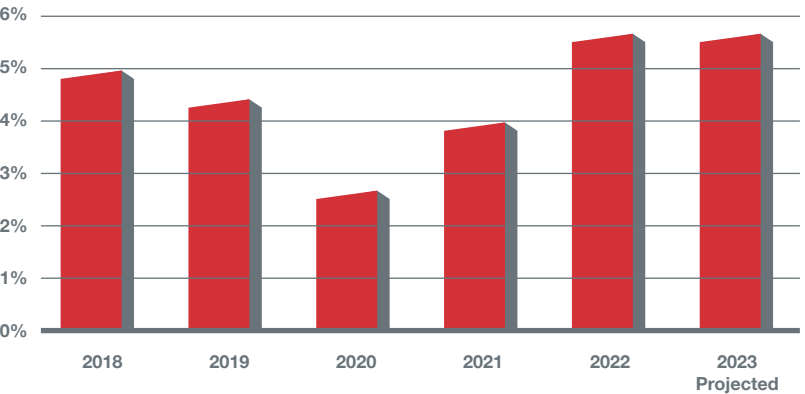
Multifamily Sales Outlook for 2023

With increasing in-migration, a dwindling supply of multifamily development land, and the rising cost of single-family homes, the demand for multifamily investment properties in the Spokane area should remain

strong for the foreseeable future. The caveat to this is the trend of the Government wanting to reduce the private property rights of landlords. These continued efforts could dampen the appreciation of residential rental properties. With low vacancy rates and more investors discovering the Spokane market, 2023 should be another strong year of multifamily property sales.



Spokane County Vacancy Rate History



Investment



James S. Black III, CCIM



Kayla Saunders

**By James S. Black III, CCIM
and Kayla Saunders**

The investment real estate market remained reasonably strong locally and regionally in the first half of 2022, with an aggregate sales volume for net leased retail properties (non-apartment transactions) of just over \$64 million for the year.

The first half of 2022 provided reasonable interest rates to fund acquisitions and very few options for investors looking for quality income properties. During the second half of the year, the Federal Reserve raised rates at an unprecedented pace amid persistently high inflation. Even through these economic headwinds, investor money continued to flow into the Spokane area as investors chased investment property yields in a non-income tax state. Investment real estate continued to provide better returns than could be obtained by investors in the stock and bond markets.

Additionally real estate has always been, and will continue to be, an excellent hedge against inflation.

Some notable transactions in the area included the Evergreen Market Place grocery-anchored shopping center with space leased to Safeway, Big Lots, and Office Depot. This property traded at \$9,200,000 and a 7.25% cap rate. Two Walgreens' transactions also traded in the 5.5% cap range, and a Great Floors (sale lease back) transaction traded at \$8,000,000, which equated to a 5.29% cap rate.

The investment market in 2023 will continue to remain competitive. Property owners will be reluctant to sell and give up low interest financing that they currently have in place. As a result of interest rate increases, cap rates too will rise and result in decreased investment property values. The lack of inventory/supply, however, should keep real estate a viable investment option. Spokane has long been a buy and hold mentality concerning income-producing real estate with a finite number of transactions every year.

We anticipate a slowdown in transaction deal flow for the first half of 2023 as our country is amidst a total asset-class valuation reset, which makes perfect sense when one can earn 5% or better in CDs and the money market. The tide has receded and the global financial systems remain over-leveraged. All is not doom and gloom however, as, unlike securities, some of the best real estate transactions occur following economic hardships and uncertainties as investor capital remains patiently on the bow waiting for the winds to change.

We look forward to what the future holds.

Property Management



Kim Sample, ARM



Josh Gutzwiler

**By Kim Sample, ARM
and Josh Gutzwiler**

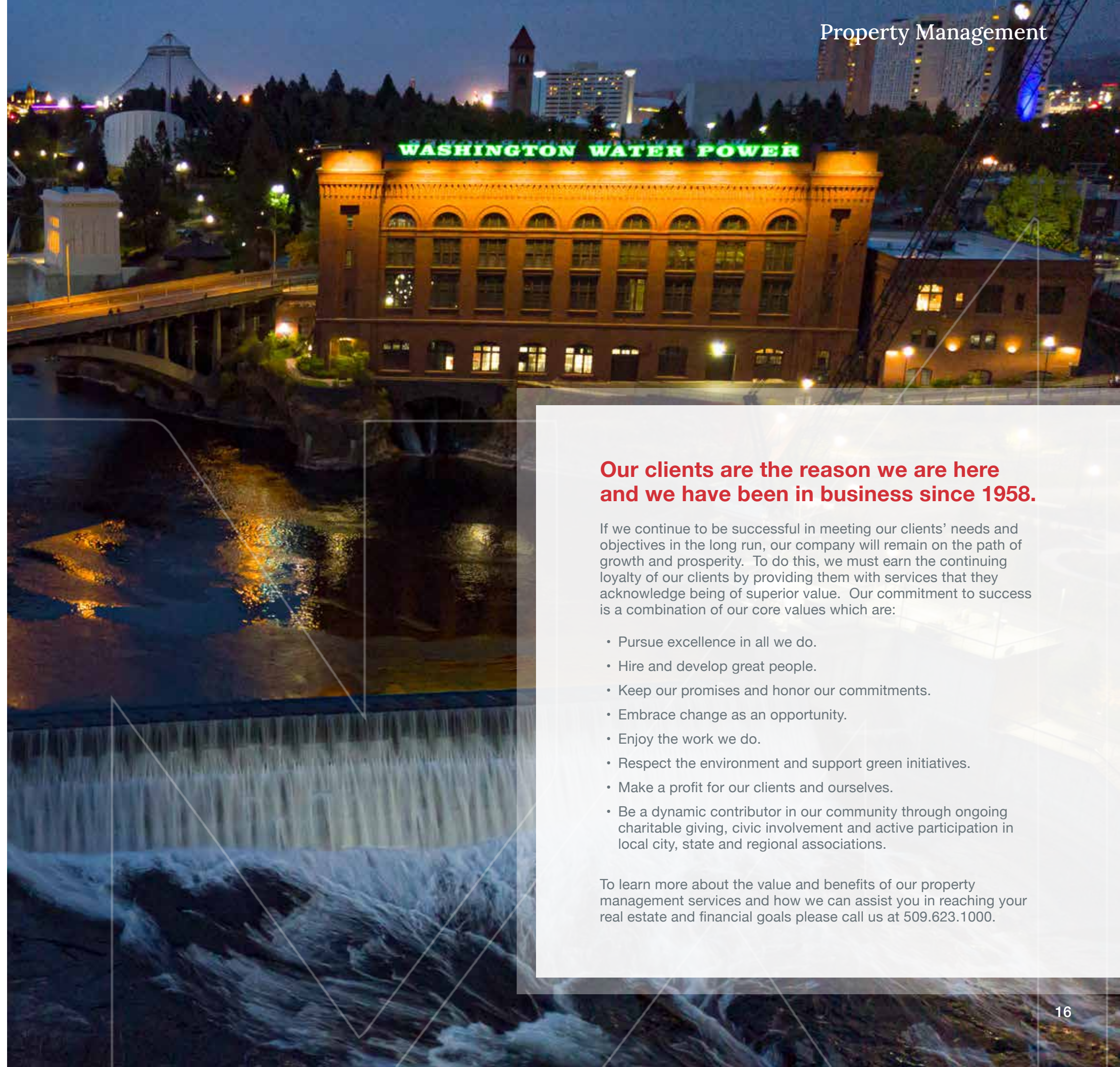
Black Realty Management is a leader in the multifamily and commercial property management field with a large portfolio of multifamily units and commercial properties managed throughout Washington, Idaho, Utah, Oregon and Montana. Our property management team is a group of specialists who are dedicated 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 dependent upon 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 both gross and net operating income while maintaining the physical infrastructure with the goal of preserving client income streams over the long-term and enhance property values.

Our philosophy has earned us the reputation of being an entrepreneurial leader in the management field. Each property we manage merits 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.



Our clients are the reason we are here and we have been in business since 1958.

If we continue to be successful in meeting our clients' 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. Our 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 real estate and financial goals please call us at 509.623.1000.

Coeur d'Alene - Kootenai County



Steve Ridenour



KC Reese

By Steve Ridenour and KC Reese

North Idaho began 2022 with hope for continuing the strong market of 2021, but with a bit of caution based on upward trending interest rates, high inflation, and a potential recession. By mid-year 2022, the market was cooling and by fall the brakes were fully engaged. North Idaho did enjoy some bubble market protection due to its continued attraction as a top vacation destination and continued in-migration from urban centers in the West. That said, the last quarter of 2022 really set the table for a real estate slowdown in all sectors for 2023.

Office

Very limited office construction was completed in 2022 with no significant planning for 2023. The limited activity which did occur in 2022 was mainly for owner/users or infill. A substantial amount of medical office expansion and development was delayed in 2022 due to backlog of construction and supply chain problems. 2023 will see completion of a few projects, such as the Indigo Urgent Care in the Crossroads Center in Coeur d'Alene and a to-be-constructed micro-hospital scheduled to close escrow in January 2023 at The Pointe at Post Falls. No significant medical office development along the Highway 41 corridor in Post Falls materialized because of substantial governmental processing delays and road projects under construction.

We believe that in 2023 office space demand will be primarily driven by lower base rental costs (\$12.00-\$20.00 per square foot, NNN) which will be used to compensate for record high TI costs. General office TIs are ranging from \$50.00-\$100.00

per square foot with medical office starting in the \$100.00-\$200.00 per square foot range. High tenant improvement costs and high interest rates will have a negative impact on office growth in 2023.

Industrial

The North Idaho industrial market is and will remain strong but may dampen due to lack of available space for lease, especially in larger format buildings. Planning and construction of industrial buildings, from small incubator types to over 100,000 square foot shells, should continue in 2023. Planned industrial projects may slow down like the rest of the market due to high land and construction costs, supply chain issues, and a potential recession. From the master planned Riverbend Commerce Park to the Bighorn lot sales area, Wadsworth Development Group's Pointe at Post Falls infill and development of sites along the Highway 41 corridor (like the Inland Northwest Tech Park and

GVD's Rathdrum Industrial Park), North Idaho is the place to be for business and investment. A critical mass of standing inventory will be necessary to sustain North Idaho's ability to compete as a location of choice for in-migrating business. However, the appeal and demand for North Idaho real estate in recent years has also pushed industrial land values to the point that rents for new buildings could impact affordability in 2023. Shovel-ready industrial land values made a quantum leap in 2022, which resulted in increased rental rates for new construction. These increased rents are threatening to price local business expansion out of the market. Prime entitled

industrial land that could be purchased in the \$5.00-\$6.00 per square foot range in 2021 became \$7.00-\$10.00 per square foot in 2022. This cost increase resulted in industrial rents moving into the \$0.85-\$1.00 per square foot range for shell construction and upwards of \$1.25-\$1.50 per square foot for built out office space.

With a slowdown in the market, we expect to see land and construction costs stabilize in 2023. Despite these current market changes, we have confidence that the North Idaho industrial market will continue to be a catalyst for business expansion.



Retail

So long, mom and pop! Retail lease rates in the North Idaho area have skyrocketed as market conditions and building costs have restricted expansion of new retail space construction. Based upon current land and construction costs combined with elevated interest rates, new vanilla retail shop space requires a \$30.00 per square foot NNN rental rate to provide even a minimal developer return on investment. This condition has caused second-generation space to increase in demand and result in higher rental rates for small business owners. TI improvements have doubled in many instances, and with the lack of available space, these costs are increasingly falling on tenants to absorb. Some affordable space in the \$12.00-\$15.00 per square foot range still exists in non-prime locations, but increasingly tenants are having to take odd-shaped, mis-sized, and/or lesser locations if they want space.

The most prominent signaled corners in the Coeur d'Alene market have been snapped up by national retailers willing to pay top rents. The Highway 95 corridor has locations such as the Lake City Marketplace redevelopment at the NEC of Highway 95 and Neider Avenue, the NWC of Highway 95 and Kathleen Avenue, as well as the Highway 95 and Wilbur Avenue intersection. Each of those locations will involve new construction and land values requiring rental rates at the highest levels of the market. The Post Falls retail scene is taking off, as Wadsworth

Development Group's Point at Post Falls retail center between I-90 and Pointe Parkway has broken ground and continues to secure national retailers and quick service restaurants. GVD Commercial Properties' Prairie Crossing at the NEC of Highway 41 and Prairie Avenue will be a major shopping center anchored by Super 1 Foods and other major retailers. Unfortunately, the Highway 41 corridor development has experienced delays attributed to a slow governmental approval process and infrastructure work, pushing development timelines into 2023. Look for the intersection of Highway 41 and Prairie Avenue to come alive with activity in the last half of 2023!

Looking north, the Crossings at Athol Shopping Center, by developer Hughes Investments, continues to thrive with only a few parcels remaining and many national retailers beginning construction this year. Smaller development parcels continue to pepper both Highway 95 in Hayden and Coeur d'Alene and along Highway 41 in Post Falls, and while construction and labor costs may begin to cool off, we project that retail rents will remain at their historic high for the foreseeable future.

Investment-grade retail properties are few and far between and the investment market itself has screeched to a halt due to inflated interest rates and an uncertain economic and political climate. There continues to be an expectation gap between seller's and buyers' respective estimations of cap rates, which has yet to be fully

reconciled with increasing interest rates.

Multifamily

The multifamily market in North Idaho is virtually untouchable to the small or casual investor. Large apartment complexes almost never hit the market and, when they do, throw cap rates out the window. Smaller multifamily investments such as condos and duplexes can still be found; however, the hot housing market has pushed those prices up to unreasonable levels as well. A market correction has come with many overpriced units left sitting on the market until reality sets in. With housing prices continuing to fall back to appropriate levels, smaller multifamily properties should fall back in line and become solid investment options once again.



Photo Credit:
Sky Definition Photography
Cover Page, Table of Contents, Pages 15-16 and Back Page.
Valid Media
Pages 9-10



Dave Black, CCIM, SIOR, CEO



Jeff Johnson, CCIM, SIOR, President, Brokerage



Kim Sample, ARM, President, Management



Josh Gutzwiler, Vice President, Management



Holly Poquette, CPA, Chief Financial Officer



Mary Kay Knudsen, Corporate Operations Director



Christopher Bell, SIOR



James S. Black III, CCIM



Derek Budig



Jesse Clark



Jason Dolloph, CPM®



Stephanie Fromont



Don Jamieson



Jon Jeffreys, SIOR



Jody Johnson



Jim Koon



Johnathan Larsen



Sean McGinnis



Jeff McGougan



Mark McLees



Devin Mecham, CCIM, Sales Manager



Jim Orcutt



Mark Pinch, CCIM



Stephen Pohl



Shannon Pottratz



John T. Powers III



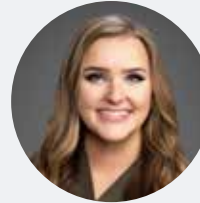
Brenda Redell, Human Resources Manager



KC Reese



Steve Ridenour



Kayla Saunders



Darren Slackman, SIOR



Mitch Swenson, CCIM



Drew Ulrick, SIOR



Bryan Walker



Matt Walsh



Brent Johnson
In Loving Memory
June 20, 1985 - July 14, 2022



801 West Riverside Avenue, Suite 300
Spokane, WA 99201
509.623.1000

105 North 1st Street, Suite 300
Coeur d'Alene, ID 83814
208.665.6475