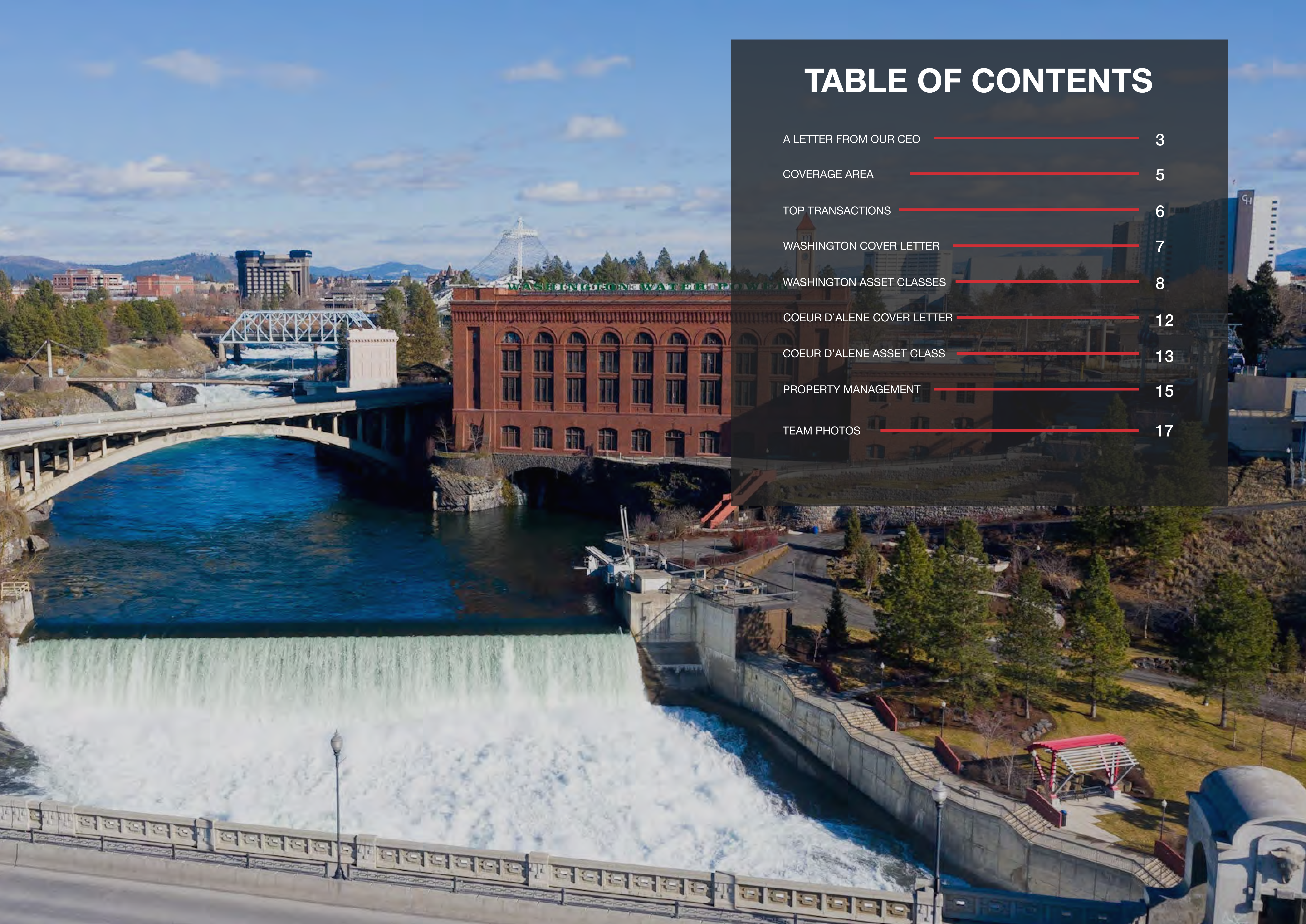
2024

NAI Black

BLACK
REALTY MANAGEMENT
INC.

MARKET REPORT
GREATER SPOKANE AND KOOTENAI COUNTY



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A LETTER FROM OUR CEO

DAVE BLACK CCIM, SIOR
CEO

NAI Black and Black Realty Management had a good year in 2023. We have an incredible client base with our Brokerage, Management, and Development "3-Legged Stool!"

Our brokerage group, under President Jeff Johnson and Sales Manager Devin Mecham had record years in 2021 and 2022. We were down in 2023 but finished strong. Our brokers are an amazing bunch and the most cohesive group around. I'm proud of them all. 2024 looks to be great.

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

On the development side, we finished Red Band Apartments, Phase 1. 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 as well as 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. It is a great addition to the community and it opened to great fanfare last fall.

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 has slowed and we are hoping to see lower rates in 2024.

With increased interest rates, prices are dropping. This is a change from the high prices and unprecedented low cap rates we saw during COVID. 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 prices (and rents) are not going up like they did in the past. It is the classic transitional scenario between a seller's market and a buyer's market in real estate.

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. 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 5% 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. We hope positive leverage will be back in 2024.

Prices for existing buildings are strong because it costs so much to build new buildings and it takes much longer due to labor shortages and added regulations. Supply chain issues have improved as a result of slowing construction starts.

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 $60 to $70 per square foot. Rents are double what they were 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.

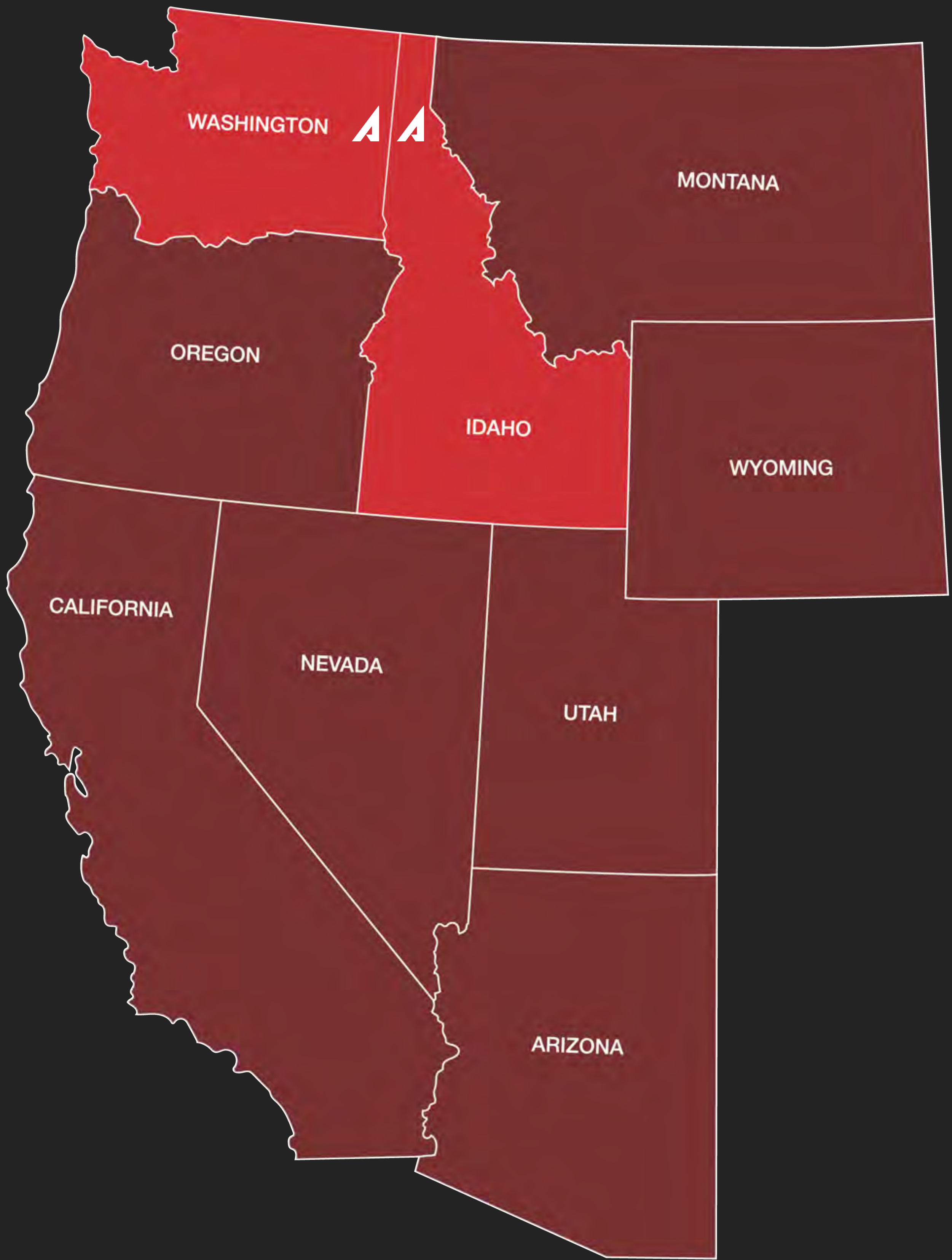
I think Spokane is changing and we will see the Spokane area change from a large small town to a metropolitan area. Spokane will continue to be discovered because of its quality of life, increased technology (the ability to work anywhere), and great people. This will bode well for every facet of real estate moving forward.

Our new Mayor and City Council 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, to commercial real estate, and our quality of life.

That said, I am bullish on our region and will continue to encourage investment in real estate. 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

David R. Black, CCIM, SIOR
Chief Executive Officer



2023 TOP TRANSACTIONS

INW Holdings, LLC SOLD AT $645,000 BROKERS: KAYLA SAUNDERS & MITCH SWENSON **SOLD** MULTIFAMILY	Spotted Loafer, LLC SOLD AT $700,000 BROKERS: DREW ULRICK, DEVIN MECHAM, & KAYLA SAUNDERS **SOLD** MULTIFAMILY	Rex and Relax, LLC = 4,920 SF BROKERS: KAYLA SAUNDERS & CHRIS BELL **LEASED** RETAIL	6104 N. Division St. SOLD AT $22,600,000 BROKERS: CHRIS BELL & BRYAN WALKER **SOLD** RETAIL	Buyer Representation SOLD AT $8,000,000 BROKERS: CHRIS BELL **SOLD** LAND
Tenant Representation = 38,434 SF BROKERS: JEFF MCGOUGAN **LEASED** OFFICE	IO Management Company, LLC = 14,367 SF BROKERS: JEFF MCGOUGAN **LEASED** MEDICAL OFFICE	IO Management Company, LLC = 4,980 SF BROKERS: JEFF MCGOUGAN **LEASED** MEDICAL OFFICE	Medcurity, Inc = 4,106 SF BROKER: DEVIN MECHAM **LEASED** OFFICE	Anchor Counseling Services = 4,980 SF BROKER: DEVIN MECHAM **LEASED** OFFICE
10 Acre - Land Sale SOLD AT $500,000 BROKERS: DEVIN MECHAM, MARK MCLEES, & DON JAMIESON **SOLD** LAND	Coffman Engineers, Inc. = 28,275 SF BROKERS: CHRIS BELL & JON JEFFREYS **LEASED** RETAIL	4501 Investments, LLC SOLD AT $1,400,000 BROKER: DARREN SLACKMAN **SOLD** INDUSTRIAL	BRC TPP Pointe, LLC/ Selkirk Sport = 83,435 SF BROKER: DARREN SLACKMAN **LEASED** INDUSTRIAL	SPW-Dist, LLC/ Motion Industries = 75,971 SF BROKERS: CHRIS BELL & DARREN SLACKMAN **LEASED** INDUSTRIAL
Rich Development/ Ross Dress for Less = 25,000 SF BROKER: STEPHEN POHL **LEASED** RETAIL	Rich Development/ Home Goods = 24,000 SF BROKER: STEPHEN POHL **LEASED** RETAIL	Skechers = 10,946 SF BROKER: STEPHEN POHL **LEASED** RETAIL		

300+ Active Listings

524 Closings in 2023

$151M Transaction Volume

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WASHINGTON

In 2023, Spokane, Washington's economy showcased growth and diversification, driven primarily by its health care, education, and manufacturing sectors. The presence of major institutions like Providence Sacred Heart Medical Center and academic entities such as Gonzaga University significantly contributed to economic vitality, especially in health care and education. Manufacturing continued its steadygrowth, supported by technological advancements and a skilled workforce.

The year also marked a rise in the technology and service sectors, with Spokane's strategic location and affordable living attracting start-ups and established companies, diversifying the economic base. Retail and hospitality sectors benefited from the growing population and robust tourism, linked to Spokane's natural attractions. This economic variety enhanced the appeal of Spokane's commercial real estate market, positioning it as an attractive investment hub in the Pacific Northwest, with proactive economic development initiatives further boosting its business-friendly environment.

RETAIL
SPOKANE

During the last year, the Spokane retail market has ostensibly weathered the last of the COVID impacts. Retailers dealt with high labor shortages, spiraling inflation, and Fed rate hikes that reduced personal incomes, thereby inducing consumer value-driven trends, as well as national and international tensions. Surviving retailers adapted, changed, and adjusted delivery options of their goods and services to successfully manage their business bottom lines and mitigate the perils of an uncertain market. Increasing rental rates and triple net costs have tempered some leasing programs as landlords deal with rising operating costs. The cost of construction only temporarily furloughed new development during 2023.

2023 highlights included The Esplanade at Northpoint, with the opening of Ross Dress for Less, HomeGoods, a signed lease with Planet Fitness, and a Hops n Drops in the old Pizza Hut building in the North market as well as Houston TX Hot Chicken. The North market continues to attract the national retailers to plant their first flag in the growing Spokane market. Spokane's downtown, anchored by River Park Square, welcomed the opening of The Lego Store and Shiki Sushi. Insomnia Cookies opened their first Spokane store in the Gonzaga University neighborhood. In Spokane Valley, Dutch Bros Coffee, Killer Burger, and Hotworx opened their doors during 2023. The West Plains, home to Fairchild AFB and Spokane's International Airport, welcomed a new Chipotle Mexican Grill to the market. Retail Space on Spokane's South Hill remains tight with MUV Fitness taking the vacant Albertson's footprint on Grand Blvd. The vacant large box Shopko is in discussion with a national retailer for a 2025 opening.

In our opinion, the Spokane market, driven by consumer demand for excellent value and affordability, performed well during 2023 and is poised for more growth. The demand for space to keep pace with the influx of new arrivals has been encouraging for the developer community as they are eager to start new projects when bank lending metrics improve in 2024. Not surprising, with a decreasing dependency on the Internet, "Medtail," national QSRs, banking/credit unions, and wellness retailers are leading the way for neighborhood centric retailing. Acknowledging a growing national eco-friendly emphasis, the thrift store segment buttresses the ongoing success of recent new store openings of the ARC in Spokane Valley, Goodwill's first ever hybrid retail store in Airway Heights-West Plains, and Value Village opened on the corner of Wellesley Avenue and Ash Street in North Spokane. A revival of our enterprising local merchant community continues to grow stronger. This positive activity should bode well for continued retail growth in 2024.

Written by: Stephen Pohl

INDUSTRIAL
SPOKANE

Spokane saw its largest growth in Class A distribution warehouse square footage in 2023. All the speculative construction started in 2022 was completed in 2023 and totaled over 1.9 million square feet. Approximately 515,000 square feet was leased, which, historically, is above average for Spokane absorption rates. With more than six properties that can accommodate users looking for more than 100,000 square feet, absorption rates will continue to trend upwards in 2024.

The submarket with the most available square footage is the West Plains, which is located near and around the Spokane International Airport.

Panattoni Development company completed its three-building project totaling over 528,000 square feet late in 2023. This property offers easy access to Interstate 90, large truck courts, and trailer parking. Douglass Legacy Park completed three buildings in 2023 offering 323,000 square feet. They also broke ground on two additional buildings, which will be complete early in 2024. AT Industrial has 95,000 square feet available at McFarlane II. That 208,000 square foot project was completed late in 2022 and had good leasing activity in 2023. AT Industrial plans to start McFarlane III next door in 2024, which will be similar in size and design as their previous building.

Right behind the West Plains is the Spokane Valley submarket. Barker Logistics completed the first of their planned four-building project. The first building is 131,000 square feet, with 66,000 square feet remaining for lease. Currently, they don't have plans to begin construction on any additional buildings in 2024. Selkirk Industrial built a third building on their site in 2023 totaling 67,500 square feet. They have one lot remaining and are planning on starting construction on that last building in 2024. The largest space available in Spokane Valley is Panattoni's Green Acres Distribution Center building, which is 192,306 square feet.

Post Falls, Idaho saw tremendous development in 2023. Buzz Oates development built two new 60,000 square foot buildings in Riverbend Commerce Park and they pre-leased 30,000 square feet to KODI. Right off the freeway at Beck Road, Wadsworth Development completed a two-building project totaling over 407,000 square feet. They were able to pre-lease 83,000 square feet to Selkirk Sport, a local manufacturer and distributor of pickleball equipment.

Leasing rates for Class A distribution warehousing stayed relatively flat over the course of the year and the same should hold true for 2024. The largest rate increases were seen in the small bay industrial sector, raising by over 30%. The small bay supply remains extremely tight. Construction costs remain high and even with increasing rental rates, developers struggle to achieve the required returns to risk building speculative small bay industrial buildings. These projects are also difficult to finance as lenders are more cautious due to current economic challenges both locally and nationally.

In the last three years Spokane has seen an explosion in the industrial real estate market. There are finally big box options over 100,000 square feet that many national tenants require, which should result in more quality jobs for our great city.

Written by: Darren Slackman, SIOR

MULTIFAMILY
SPOKANE

More new units, more competition, and higher vacancy rates.

In the past 12 months over 1,700 new multifamily apartment units were brought to the market with new construction projects being completed. To date, approximately 800 of these units have been absorbed. As of December 2023, there were approximately 2,200 apartments still under construction.

This increase in overall apartment units being available and coming online has increased vacancy rates to an overall 7.8% at yearend. Some submarkets are experiencing an average vacancy rate of 14% or higher.

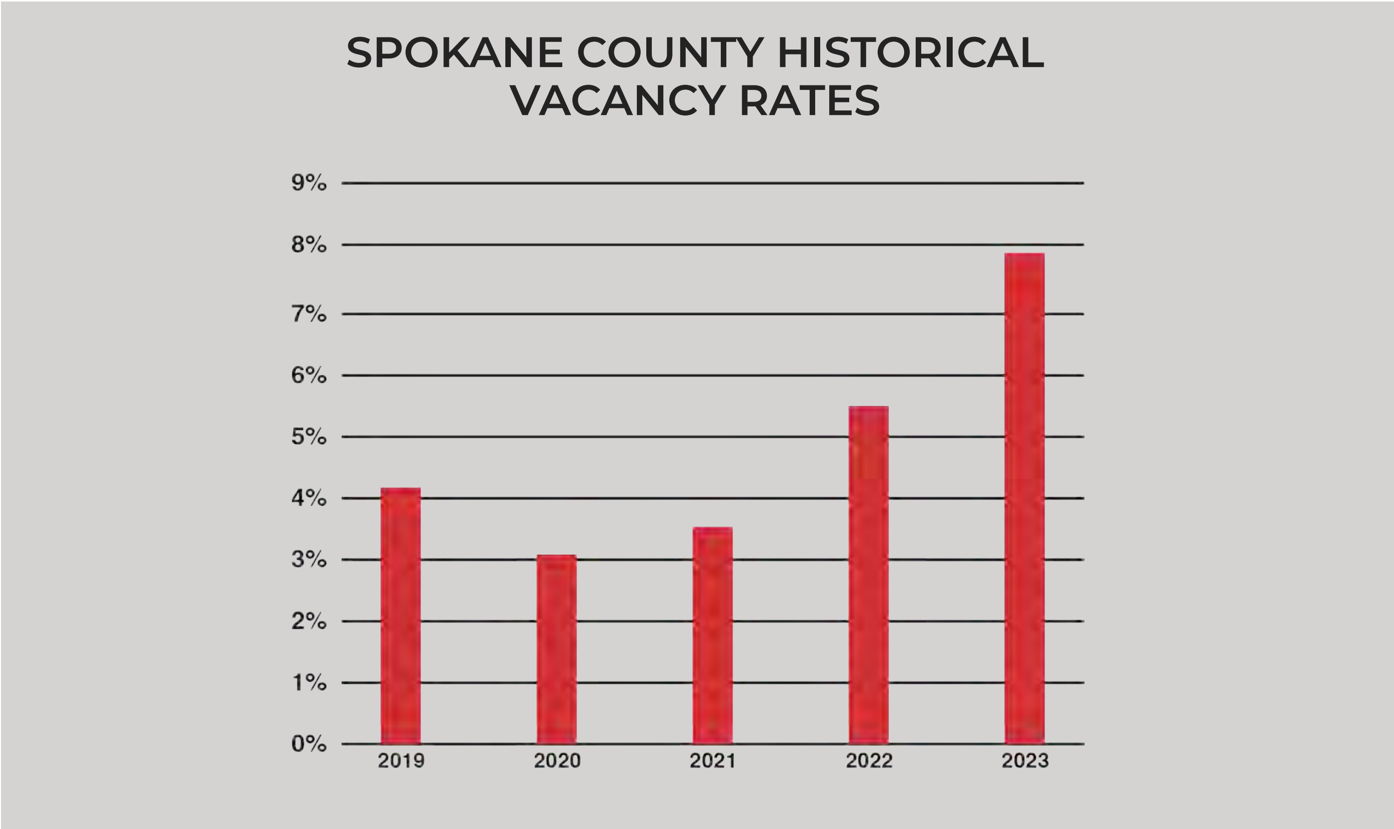
Year End 2023 – Submarket Vacancy Rates

- Downtown – 6%
- North Spokane – 5.5%
- South Spokane – 4.5%
- Spokane Valley – 8.3%
- Cheney – 14%

Increased vacancy rates were met with decreased rental rate growth that averaged 0.5% for all property types combined. This is in sharp contrast to the rapid increase upwards of 14% or higher that we saw in the timeframe of 2020 to 2021.

Going into 2024 we can expect more of the same with rental rate growth being decreased and combined vacancy rates hovering around 7% to 8% for all product types and years built. Large pockets of higher vacancy rates will continue in new construction, Class A properties. Those higher vacancy rates are projected for 2024 predominately for new construction properties located in the Spokane Valley and Cheney submarkets.

Written by: Kim Sample, ARM



OFFICE/MEDICAL
SPOKANE

The Spokane office market saw another good year of leasing activity during 2023 in the general office and medical office sectors. Conversely, large call center/back-office, and downtown office space continue to represent most of Spokane's vacancies. With little to no new construction on the horizon, office occupancy should continue to improve as the impacts of COVID and employer downsizing has run their course. Class A and new medical office space saw an increase in rental rates, while Class B and call center rental rates were either flat or declined. Leasing rates should remain stable or increase slightly as 2024 progresses. The cost of office construction, which has been on a tear for the last few years, seems to be finally cooling off. This change will help moderate the cost of tenant improvements and should make new lease transactions easier for both landlords and tenants.

Sales activity did a one-eighty from the previous couple of years. Interest rates rose nearly 400 basis points reducing the attraction of office ownership. Record sale prices per square foot were seen in office and medical office in 2022, but 2023 saw those prices begin to recede. Few sales happened in 2023 as supply was limited and there was lower user/investor interest. The 2024 purchase market is expected to remain stagnant. Although construction pricing is softening, the price of new construction is still at record levels. This will limit new office construction, sustaining sale and rent values. A potential recession with increasing unemployment levels would most likely result in the office market declining from its current position.

The medical office market had another strong year. This is one of the only sectors of the office market where we see strong absorption year-in and year-out. Existing product rental rates are and will continue to be strong in 2024. This is due to low supply, high interest rates, and little new medical office product coming online. Some submarkets have little to no vacancies of larger square footage space. This market should continue to see growth as our population continues to increase and medical staffing shortages stabilize. With a large regional draw, multiple medical schools, low vacancy rates, and a growing population, medical office will continue to be the darling of the Spokane office market.

As far as the outlook for 2024, remote/hybrid work models have stabilized for most office space users providing a clearer path forward with their office needs. We are starting to see a glimmer of hope as call center and back-office users are becoming active in the market for the first time since 2019, albeit for less square footage. We anticipate positive absorption in office/medical office in 2024, barring potential recession risks. Second-generation office and medical space in good condition will continue to see an increase in demand. We anticipate that sales will continue to be flat, with the high interest rate market pushing users to look at leasing as a more affordable option.

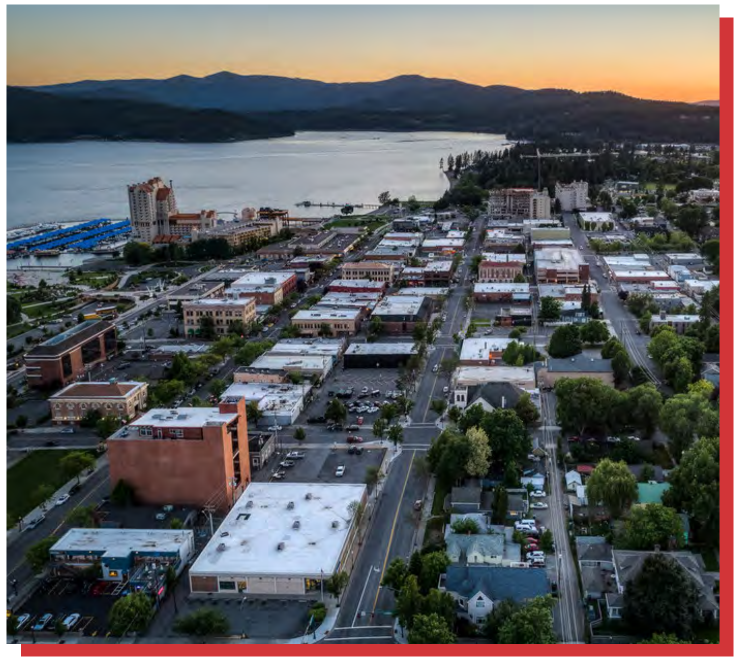
Written by: Jon Jeffreys, SIOR

IDAHO

In 2023, the Coeur d'Alene and Post Falls markets in Idaho witnessed significant growth and diversification, mirroring regional economic trends. Coeur d'Alene, known for its stunning natural scenery and vibrant tourism sector, saw continued expansion in hospitality and retail industries. This growth was fueled by a steady influx of tourists and new residents drawn by the area's quality of life. Additionally, the real estate market in Coeur d'Alene remained robust, driven by demand for residential and vacation properties, which in turn stimulated local construction and related services.

Post Falls, strategically located near the Washington-Idaho border, capitalized on its position as a commercial and industrial hub. The city experienced growth in manufacturing and technology sectors, attracting businesses with its competitive cost of operations and skilled workforce. The expansion of these industries, coupled with a growing population, also led to increased demand in the commercial real estate sector, particularly in industrial spaces. Both Coeur d'Alene and Post Falls benefited from regional economic initiatives aimed at fostering business-friendly environments, thus cementing their status as key players in the economic landscape of the Pacific Northwest.

RETAIL
IDAHO



Well…the *Economic Slow Down chickens* came to roost in the 2023 North Idaho market. The highest interest rates in 30 years, continued high labor costs, and supply issues, together with uncertainty in money markets, impacted decision-making for new retail locations and projects. We hope for improvement as 2024 progresses but as of this writing, most Landlord/Tenants and Seller/Buyers have adopted a wait-and-see attitude. Hopefully, there will be some good news from the Fed on interest rates in March and optimism from the upcoming presidential election.

Retail lease rates in North Idaho for new construction remained at peak levels due to market conditions and building costs. It has proven difficult to support new multitenant retail construction with less than $30/SF/NNN rent for vanilla shell space.

Freestanding pad rents with minimum tenant improvements have soared above $50/SF/NNN. Second-generation space is still in high demand with rental rates in the $18-$24/SF/NNN. For small business owners, these rates are high and challenge business profitability. The days of $12/SF rents are quickly disappearing and can only be found in older, off-traffic locations. Tenant improvement costs have nearly doubled, causing landlords to pass more costs onto tenants. In 2024, small local businesses will be faced with choosing from sub-quality space options.

Northwest Boulevard – Downtown/East Sherman
South of I-90 has seen some well-placed in-fill development, which will provide space options in 2024. With land values eclipsing $20/SF, we have seen a renewed interest in land acquisitions by well-capitalized developers wanting to buy before land values increase further. Riverstone saw occupancy stabilization with East Sherman and 4th Street midtown seeing new restaurant and local service development supported by integrated residential projects.

Coeur d'Alene/Hayden – I-90 and North/South Corridors
Many of the most prominent development sites and signalized corners in the Coeur d'Alene and Hayden markets have been acquired by national retailers willing to pay top prices. The Highway 95 corridor has several new projects coming, including the Lake City Marketplace redevelopment at the NEC of Highway 95 and Neider Avenue. Hats off to Dave and Brian Knoll for their bold acquisition and repurposing of the old Silverlake Mall and for revitalizing their Blacksheep Sporting Goods store.

Post Falls
The Post Falls retail scene has arrived, as Wadsworth Development Group's Point at Post Falls retail center between I-90 and Pointe Parkway experienced retail and service user growth in 2023. New users opening in 2024 will be Nutex Health, Taco Bell, GESA Credit Union, Wendy's, and a NAPA Auto Parts store.

GVD Commercial Properties' Prairie Crossing, at the NEC of Highway 41 and Prairie Avenue, will finally commence construction in Spring of 2024. This major shopping center, anchored by grocery and other retailers, will be a catalyst for additional development along the Hwy 41 corridor.

Rathdrum and Athol
The Rathdrum retail corridor remains largely unchanged as there is limited opportunity for growth in general. The Lakeland Shopping Center, anchored by Bi-Mart, has started to revitalize on the north side and some smaller pieces across from Super 1 Foods are slated for development.

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. Tractor Supply is open for business and Idaho Guns & Outdoors will finish their construction later this year.

Investment Market
Investment-grade retail properties are few and far between, and the investment market itself has screeched to a halt due to high interest rates and an uncertain economic and political climate. There continues to be an expectation gap between Sellers' and Buyers' respective estimations of cap rates and related market values.

Written by: Steve Ridenour & KC Reese

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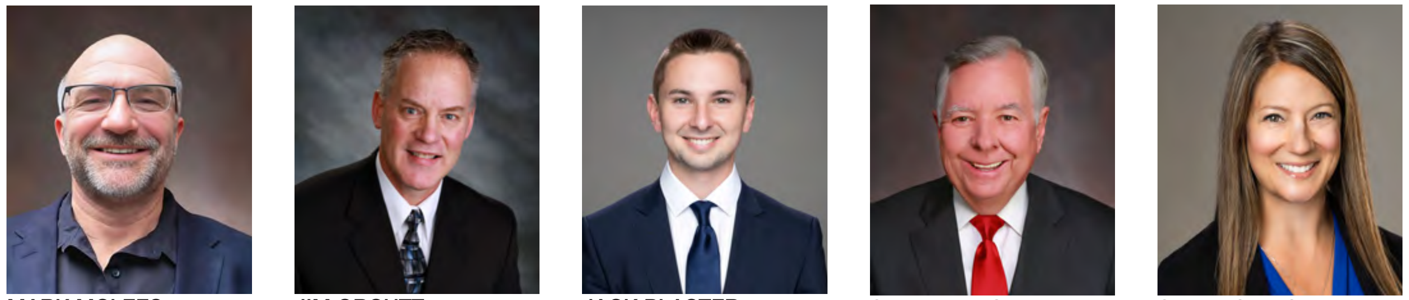

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