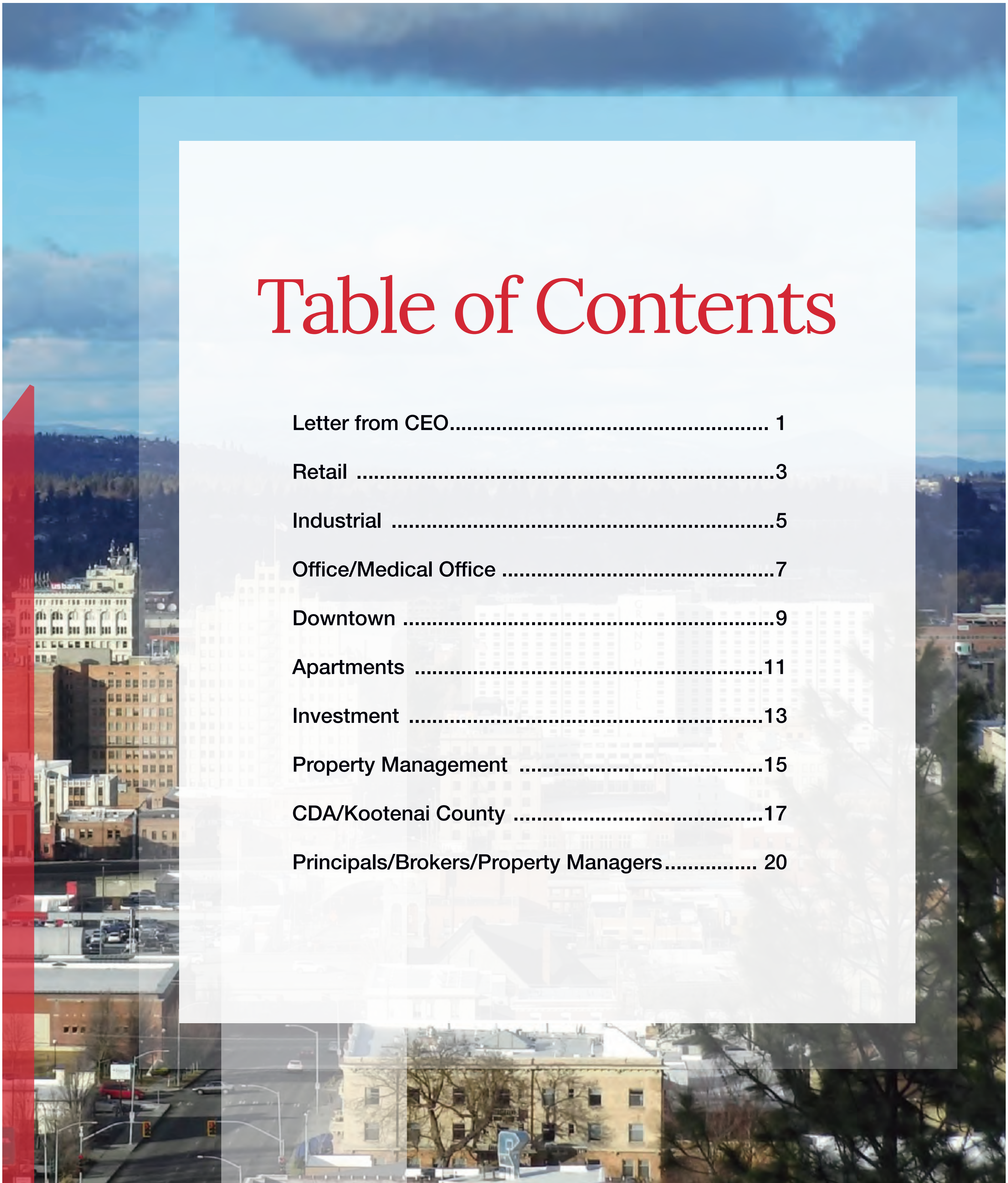
NAI Black

BLACK
REALTY MANAGEMENT
INC.

Market Report 2021

Greater Spokane and Kootenai County


WELLS FARGO
CHASE
PARKADE
verizon



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Letter from the CEO

2020 will go down in the history books as the most uncertain, tumultuous, and volatile year in our history! The year started out with the best economy America has ever seen. It was hitting on all cylinders until the Covid-19 pandemic hit the world hard. Travel bans were enacted, lock-downs were mandated, some businesses moved to remote working, and others were closed. Downtown Spokane experienced riots and looting! What a year for me to be board chair of the Downtown Spokane Partnership! No matter how you slice it, 2020 affected the lives of EVERYONE in the world!

Spokane is usually insulated a bit from the major ups and downs of the national economy. Not this time! My career has spanned decades from the eruption of Mt. St. Helens, to the high teen interest rates of the 80s, to the advance of technology in the 90s (when I got a computer and a cell phone), to 9-11 in New York (I was there), and the Great Recession starting in 2008! Nothing has affected us more than the pandemic!

Through all the challenges of 2020, we have remained calm as a company, and went about our business. We transitioned staff to remote working while retaining a core work force for our "Essential" property management company, Black Realty Management, Inc. (BRMI). We grew BRMI this year with revenue up over 10%. We added some family real estate portfolios with retail, self-storage, and multifamily properties. Under the leadership of Kim Sample (President) and Tom Hix (Vice President) we grew our business and worked harder than ever.

We had national tenants (and less local tenants) QUIT paying rent starting in March, even though they hadn't yet experienced the brunt of the pandemic. Our dedicated property managers had to figure out how to deal with pandemic-related tenant issues and keep moving forward. 2020 brought the addition of Josh Gutzwiler (a former real estate director at Wells Fargo in Portland) to our team, who has done a fantastic job with our largest clients.

Our entire property management team has been providing incredible service to our amazing clients throughout this pandemic. Our multifamily team has kept our properties physically and economically full, and we have increased revenue for our clients without evictions. Thanks go to our great team, including our accounting staff led by new CFO Holly Poquette! Holly came from Inland Northwest Bank and has been a tremendous addition to our Executive Team. Our Operations Director Mary Kay Knudsen and HR Director Julia Guinn have worked especially smart and diligent this year handling pandemic-related issues. These ranged from getting people set up to work remote, to deciding what to do when someone breathed someone else's potential Covid breath! Thanks to Mary Kay and Julia!

Black Commercial, Inc., led by President Jeff Johnson, was down mid-year over

20%, but ended the year on a really strong note with several major transactions. It was a challenging year for our brokers as they adjusted to working with Governor Inslee's Stay at Home order but continuing to serve their client's needs. Our brokers had to work extra smart and be diligent while staying Covid safe. I appreciate their hard work! Despite Covid, we actually had several brokers with a record year in 2020.

On the investment and development side we had an amazing year. I have never seen a bigger spread between cap rates and interest rates! Positive leverage in 2020 was truly unprecedented. An 8% cap turns into a 14% cash on cash return before tax, based on current interest rates. We continued the development process on four or five subdivisions and we exchanged into a legacy 20-acre retail property in Mead. We also moved forward with the conversion of our former office building (the James S. Black Building) into 50 apartment units. We renamed the building after my mom, "MARJORIE APARTMENTS". We also are remodeling the Wave restaurant on the ground floor.

The biggest challenge in 2020 was our hospitality tenants, specifically full-service restaurants. As a landlord to over 50 restaurants, this year has been unprecedented. We helped many of our restaurants get PPP loans and other grants so they could try to stay in business. The jury is still out on this sector of our economy, but that said, several bold entrepreneurs opened new restaurants this year!

I keep hearing about a "NEW NORMAL" and certainly things have changed! Virtual meetings are not going away! The Inland Northwest is growing and North Idaho is booming. People don't have to live where they work anymore. Given these factors, our entire area will continue to grow. I predict that with the new vaccine we will return to an amazing economy. The Spokane region continues to be attractive to out of area investors, home buyers, and major employers!

The term "HAPPY NEW YEAR" had special meaning this year! A big thank you to all of our clients, our great employees, and brokers for sticking with us this crazy year!

David R. Black

David R. Black
Chief Executive Officer

Retail

By **Stephen Pohl and Matt Walsh**

NAI Black annually tracks average rental rates, occupancy, and vacancy by submarket, comparing and contrasting to the prior years as a measurement of market trends and performance. The extraordinary and challenging headwinds of 2020, which carried forward into 2021, will present a significant adjustment to the norm. As frequently predicted by national observers, the anticipated "Retail Apocalypse" is giving way to a new paradigm - the Omni Channel marketing platform (blending internet and physical stores), which has been accelerated by the pandemic. More than ever, traditional retailers are reinventing themselves!

Turning our focus on the year 2020, our veteran retailing industry adapted and adjusted. As retailing was tested to the core with mandated shut-downs and Covid-19 protocols, the creativity and incredible resourcefulness of many determined operators resulted in new ways to sustain sales and extend consumer interaction. Talented marketing efforts substituted in-house shopping experiences with curb side pick-up, increased digital shopping platforms, and home delivery options; many aspects of which will likely be permanent. During the fall of 2020, North Spokane's vacancy rate increased to 11.45% compared to a 2019 vacancy rate of 8.55%, with average rent remaining stable at $16.84 PSF. This submarket typically enjoys the attention of national retailers first entering the Spokane market. In 2020,Texas Road House and Chick-Fil-A opened their doors in this exciting submarket.

Also in 2020, Spokane Valley experienced a lower 3.69% vacancy rate with rents averaging $13.00 PSF, compared to a 2019 vacancy of 5.70% and unchanged average rent. Several long shuttered big box spaces (Shopko and Toys R Us) provided new locations for Ashley Furniture and Burlington Coat.

Spokane's South Hill experienced an increase to 13.48% vacancy during 2020 with average rents of $18.22 PSF, compared to a 2019 vacancy rate of 12.47% and average rent of $18.49 PSF. Natural Grocers opened in 2020 taking the old Hastings store, and Thai Bamboo started construction on their newest restaurant in the Grape Tree development on 29th Avenue. The South Hill retail market is one of Spokane's smaller suburban submarkets but enjoys a unique retailing vitality. In an otherwise stable market, the shuttered Albertson's on Grand Boulevard and the Shopko on Regal Street continue to "weigh" on the South Hill vacancy factor.

Central Business District retail space showed an increased vacancy rate of 7.49% in 2020 compared to 6.92% vacancy in 2019. Average rent remained stable at $16.00 PSF. The Cosmic Cowboy Grill and LUSH, Fresh Handmade Cosmetics opened in River Park Square in early 2020. Wooden City restaurant opened their doors on Riverside and Tavolata Italian restaurant announced plans to open in Old City Hall. The new $53 million Sportsplex with completion planned for the fall of 2021 on the North River Bank should provide a boost to CBD retail!

With the introduction of several new retail projects, the West Plains 2020 vacancy rate rose to 13.63% from 2.61% in 2019. Average rental rates decreased to $13.51 PSF compared to $16.46 PSF in 2019.

Attempting to evaluate the comparative performance for 2020, clouded by mandated closures, rental concessions, foreclosure prohibitions, and other COVID-19-related factors,

is tough. Faring well were grocery operators, drug stores, pet supplies, fast food drive-thru or in-store pick up, medical retail providers, big box home retailers such as Walmart and Target, sporting goods, and home improvement stores. Correspondingly, cinemas, sit-down full dining experience restaurants, small business, bars, health club/exercise facilities, travel industry, and retail entertainment venues such as arcades and gaming suffered. Many resulting in store closures.

Our predictions and trends for 2021 envision: increased healthy choices in grocery, especially farm-to-market; a steady advance of medical retailing in traditional shopping centers; athletic facilities, including gyms (a great source of repeat customers for retail properties); an increase in fast food delivery/QSRs; "ghost kitchens" (off-premises food prep) facilitated by Uber Eats and Door Dash services; and experienced-based indoor restaurant operators addressing curb side pick-up and outdoor dining options. Artificial Intelligence will expand the ability of retailers to alert shoppers of buying options based on buying patterns and search results. There will be a continuation of product transparency, displaying what is better for a consumer's health; and, finally, the emphasis on ethical, sustainable clothing and renewable items, surpassing $7 billion in sales last year. Prudent landlords will master Covid-19 relief lease language, embrace more substitutive percentage rent, and provide free rent in lieu of TI dollars to attract and retain great retailers. E-commerce will continue to log impressive digital sales fueled by the pandemic. "Clicks and Bricks" will continue to merge, producing a new blended retailer who provides a shopping experience based on convenience and delivery efficiency.

Retail, clearly in transition, will continue to evolve in 2021 with new brands, concepts, and ideas increasingly coupled with new mixed-use developments. Spokane continues to be a viable market for retail expansion based on its economic stability, growing in-migration, labor force availability, and a strong regional customer base.

Industrial

By **Darren Slackman and Drew Ulrick**

2020 saw significant industrial development in the Spokane area driven by the growth of E-commerce, low vacancy rates, and developers anticipating demand for larger spec industrial space. The fall survey of industrial space showed a vacancy rate of 3.23% out of 34 million SF surveyed.

For users seeking space, there continued to be a large range in lease rates. New buildings with amenities such as dock doors, ESFR sprinkler systems, and 30' plus clear height, not to mention the continued increase in construction costs, kept the lease rates near $0.70 PSF NNN. Property owners of existing buildings having fewer amenities, lower ceiling heights, and a lack of 3-phase power or fire sprinklers, were able to command lease rates in the $0.40 - $0.45 PSF NNN range. This gives the end user a range of options to consider when they are shopping for warehouse space. With limited options, it's never been more important for tenants to seek professional help with their search for space.

LB Stone Properties saw continued success with the Playfair Commerce Park project, with initial asking rates of $0.70 PSF. That project has filled all but one of its recently constructed buildings, leaving only 60,800 SF available at the end of 2020. Playfair has four more available sites for additional buildings. The next industrial project for LB Stone Properties will be to develop additional quality tilt up buildings on their 20-acre site on North Freya Street in northeast Spokane (The Yard).

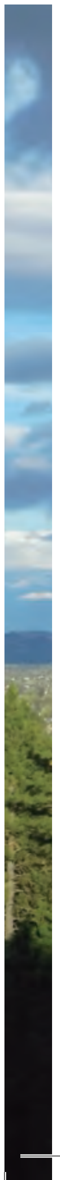
Spokane Industrial Park completed the first of four 120,000 SF buildings that they announced in 2019. 96,000 SF of the first building was leased to two national tenants prior to completion of construction. With only 24,000 SF remaining available in the first building, The Park started construction on their second 120,000 SF building at the end of 2020 with a planned completion date of May 2021.

Developer Harlan Douglass, who purchased over 100 acres adjacent to Amazon on the West Plains at the end of 2019, has begun construction on 96,000 SF of concrete tilt up with plans for approximately 1.5 million total square feet of warehouse space on the 100-acre site. In addition to the current building, Douglass plans to building two more buildings in 2021. Asking lease rates are estimated to be $0.75 PSF for shell space.

The Montgomery Logistic Center completed their second building of three in 2020. The second building is 36,000 SF and offers 30' clear height, ESFR sprinklers, and dock high loading. At the end of 2020, they also had 50,000 SF available in their first building. The project owners said that activity was starting to pick up at the end of the year with the receipt of several LOIs.

Selkirk Industrial Park off of Barker Road continued to move forward in 2020 by completing the first of four buildings. Krueger Sheet Metal will occupy the entire 60,000 SF building in building one. The next two buildings are planned to be 67,500 SF each and will share a truck court area. Site work is complete for the entire project; however, the developer will wait for a build-to-suit before starting construction on the next building. Asking lease rates are $0.70 PSF NNN for the warehouse shell.

Amazon is expanding its presence in Spokane, this time to Spokane Valley, per numerous media reports. Public documents have indicated that a national developer started construction



on a new Amazon facility on land owned by Centennial Properties. The plans at the city show the building to be over 1 million square feet in size. In addition, there are currently three other potential Amazon deals happening in our market involving their expansion. Last mile distribution and other uses are growing for the tech giant faster than anticipated.

Land Outlook

Currently, the growth of our industrial market is only being held back by a limited supply of shovel-ready buildable sites. Centennial Properties, Inc., recorded a Binding Site Plan of 20 lots of industrial land off of Barker Road at the end of 2019. During 2020 they completed the infrastructure improvements for the BSP which included a new road, Garland Avenue, and bringing utilities to each site. This created shovel-ready sites in a market that desperately needed that product. By the end of 2020, all but one lot was either sold or under contract. These lots traded between $3.25 and $4.50 PSF. Other buildable infill sites in the Spokane area are seeing values exceeding $5 to $6 PSF.

E-commerce will continue to be a key driver of demand for industrial space in 2021.

With low vacancy rates and land becoming more limited for development, the industrial market will continue to favor landlords in 2021. Tenants will have limited choices; especially tenants seeking smaller industrial spaces. All of this bodes well for a dynamic and active Spokane industrial market in 2021!

Office - Medical Office

By **Jon Jeffreys and Chris Bell**

The Spokane Office market saw limited office leasing and sale activity in 2020 due to the uncertainty surrounding all commercial real estate markets, but there were pockets that showed promise leading into 2021. As a whole, rents continued to increase and vacancy rates held flat due to absorption and a lack of new inventory being introduced in the market. Many tenants put off discretionary leasing decisions and used their time to analyze their long-term office occupancy needs. The good news is many office tenants weathered the storm and there should be pent up demand as tenants desire to get back to in-person collaboration. 2020's changing office environment was followed closely by investors looking to capitalize on opportunities in the market.

The CBD, comprising of close to 3,000,000 SF of Class A, B, and C office space, saw the overall vacancy rate inch up slightly from 2019 levels at 14.21% to 15.03% at the end of 2020. Class A office space increased its vacancy slightly up from 12.62% to 14.21% and average rental rates staying flat at $20.63 PSF per year full service. Class B office space held flat from a vacancy rate of 15.33% to 15.52% with an average rental rate of $16.47 PSF per year full service. Class C softened, going from a vacancy rate of 12.63% to 15.55% with an average recent rental rate of $12.39 per square foot per year. Tenants in the market continue to be drawn to properties with amenities such as strong ground floor retail tenants, exercise facilities, and on-site parking. We continue to see CBD office buildings being removed from the market completely and being converted to multifamily.

North Spokane was a bright spot in the office leasing market. Vacancy rates in the North submarket dropped substantially to 8.68% from 15.96% a year prior. Average rental rates are currently $16.41 PSF per year full service. North Spokane in 2020 had one major change; Spokane International Academy leased approximately 100,000 SF of space in the property located at 777 East Magnesium. There were no new notable office construction projects completed and very few large office building sales in 2020 in the North Spokane market. 220 West Rowan was one of the largest office building sales. The approximately 46,000 SF medical office building sold for $6,850,000. There were a handful of smaller office buildings that sold, such as 9921 North Nevada containing approximately 11,600 SF selling for $1,550,000. The Seller was represented by Jon Jeffreys of NAI Black, and Darren Slackman of NAI Black represented the Buyer. 101 West Cataldo, a 17,000 SF office building on the North Bank of the CBD sold for $2,100,000.

The South Hill saw a decrease in vacancy in 2019 to 4.18% from 17.97% in 2020. Recent rental rates held steady at $18.81 PSF per year full service. The major reason for the absorption on the South Hill was leasing activity in the Ben Burr Building at 5915 South Regal (the building is now full) together with other leases being completed in a market with a limited supply of space. The South Hill market is one of our smallest submarkets and easily feels the effects of a few larger office leases or vacancies. The South Hill office market is more a bedroom community office market consisting of smaller, local tenants. No notable office buildings traded hands in 2020 on the South Hill.

The Spokane Valley submarket held steady at 11.68% vacancy, slightly down from 12.58% the year prior. Average rental rates remained steady at $15.34 PSF

Office-Medical Office

per year full service. The Spokane Valley was similar to the rest of the Spokane submarkets where very few office buildings traded hands. The few that did were a pair of neighboring office buildings at 8815 East Mission, an approximate 13,500 SF building which sold for $1,900,000 (Buyer was represented by Jon Jeffreys of NAI Black) and 8775 East Mission, an approximate 13,600 SF office building that sold for $2,825,000.

The medical office market held steady with the current vacancy now at 9%, up slightly from 8.41% with the average rental rate at $21.72 PSF per year. We saw hospital systems retract their space requirements in 2020, which we believe contributed to the slight uptick in vacancy. Medical office is one of the office sectors that continues to see new construction from investor build-to-suits and owner-user projects. With a large regional pull and multiple medical schools in Spokane, we feel Spokane's medical office market is and will continue to be very healthy.
As far as the outlook for 2021, some companies with leases coming up for renewal may consider downsizing their space as a result of Covid-19 and the shift to remote working. That said, many employees look forward to returning to the office, post Covid-19, to maximize collaboration and enjoy their business culture. The Spokane office market appears that it could hold steady in 2021.

Downtown

By **Mark McLees and Tom Hix**

Reset 2021. Year 2020 was the most bizarre year for all classes of real estate.

The downtown and periphery real estate transaction activity took a long pause before moving in slow motion to produce a limited number of sales and lease transactions through the end of the year. Those few sale and lease transactions that did occur resulted in sale prices and lease rates remaining stable, indicating that the Spokane real estate market remains resilient to a major national crisis.

As we begin to move past the pandemic, lease rates for retail and multifamily will most likely begin to increase. The major driver of increasing rental rates is low vacancy rates and limited options. The surge of new out-of-state residents moving into Spokane is placing a high demand on downtown housing options. With the exception of a few restaurant closures (Luigi's and Rocky Rococo's) most downtown office and retail businesses are still occupying and maintaining their space while working through all of the new social distancing regulations and costs associated with the pandemic.

As long as the pandemic subsides and business can return to a "new" normal, downtown Spokane is positioned for a robust recovery. Just drive down the streets of downtown Spokane and see for yourself. Buildings are being well maintained, the streets are clean, loitering and homeless issues are being dealt with, and many building owners/landlords are making building improvements with the anticipation of better days ahead. Spokane has a safe and secure downtown thanks to the efforts of the Downtown Spokane Partnership (DSP), the Mayor and City Council, and the Spokane Police Department, which recently opened a new police precinct downtown. With mandated business closures and social distancing abated, downtown is waiting with open arms for the return of customers, residents, and visitors coming back to enjoy all that downtown has to offer, including movies, concerts, dining, shopping, sporting events, exploring, and hospitality.

With most downtown historic buildings already redeveloped and occupied for current use, the options for downtown to grow are to the West and East peripheries, as well as across the river to the North periphery. The West periphery still has a few historic buildings for development, like the Jefferson and Norman buildings on the corner of First Avenue, and a few future potential redevelopment sites. Year 2020 saw West periphery projects completed, including the former Watt's Automotive historical building, which was converted to the Brick West Brewing Company; the former Otis Apartments converted to Hotel Indigo, a 108-unit room hotel; and remodeled automotive dealerships along auto row (Second and Third Avenue couplet).

The North periphery growth continues with Kendall Yards' mixed-use and urban (By Nature) development still growing. North periphery growth also includes the new state-of-the-art indoor multi-sport venue called the Podium, located on the north edge of Riverfront Park, which will be completed and ready to host sporting events by September 2021. The Podium is part of a larger athletic venue, a 135,000 SF development called the Sportsplex. Construction is underway for the Flatiron three-story, 13,000 SF building and the Jefferson five-story building, which are mixed-use projects. The Papillon buildings are in the final design which will include a six-story, 36,000 SF mid-rise tower, along with a 12- or 14-story, 178,500 SF high-rise and a 468-stall parking garage.

The greatest growth potential is in the South University District. That area east of downtown adjacent to the South Hill Medical District, five universities, 11,000 enrolled students, and all located in a Qualified Opportunity Zone. The South University District is an area with redevelopment opportunities mixed in with fully occupied and income producing properties, as well as new developments like the 159,000 innovative and collaborative science, medical and higher education hub; the Catalyst Building which will be occupied by the Spokane Medical Examiners office and 60,000 SF being occupied by Eastern Washington University. This project and others are tied to the North U District by the U District bridge, which provides pedestrian and bike access between the two districts. A number of other ground-breaking, new developments are underway in the U District in 2021. Although the majority of the unobstructed Spokane River and U-District views are already being developed, there are other potential sites offering panoramic views of downtown, Mount Spokane, and the Spokane River shorelines.

The CBD office core shows Class A space with 159,594 vacant square feet (or 14.21%) with rates starting at $20.63 PSF. Class B space has 257,511 vacant square feet (or 15.52%) with rates at $16.47 PSF. Class C space has 28,913 vacant square feet (or 15.55%) with rates at $12.39 PSF. The future revitalization and/or redevelopment of many fully occupied light industrial warehouses will be the staging point of much commercial real estate transactions in the coming years.

Apartments

By **Mitch Swenson and Kim Sample**

Multifamily Investment Sales

The year 2020 brought a very robust and active multifamily investment sales market to a crawl!

Sales of apartments in the Spokane metro market declined substantially due to the uncertainty of Covid-19's impact on the market. Investors were fearful that job losses and Governor Jay Inslee's emergency "NO EVICITION/ NO RENT INCREASE" mandate would result in a significant loss of rental income. Thus, the 2020 multifamily volume of sales was 37% below 2019 numbers. Multifamily investment sales transactions totaled $84,752,800 in 2020 compared with 2019 sales of $134,569,000. Additionally, the number of units traded was down by 39% from 1,228 units changing hands in 2019 to 746 units closing escrow in 2020.

Despite the effects of Covid-19 on the volume of transactions in 2020, the amazing part of the multifamily market was the large increase in the sale price per unit. For the first time the average sales price per unit in the Spokane market exceeded $110,000! In 2020 the average sales price per unit was approximately $113,610. This is a 4% increase over 2019's average sales price per unit of $109,535. Price per unit in 2018 was $103,558 and 2017 came in at $81,309 per unit. These substantial increases in sales price per unit over the last four years was mainly attributed to a few very large, newer multifamily projects that were sold at high price/unit values.

Cap rates were driven down over the last year and have remained low due to a lack of inventory, high investor demand, and record low interest rates.

So, what's in the wings for 2021? A very small inventory of multifamily product for sale, low vacancy rates, a housing shortage, low interest rates, and more investors discovering the Spokane market should result in continued record setting sale prices for apartments. With increasing in-migration, a dwindling supply of multifamily development land, and the rising cost of single-family homes, the demand for multifamily rentals should remain strong for the foreseeable future. The multifamily market will be further strengthened by the lessening effects of Covid-19 and the

end of governmental-related restrictions on landlords. This should result in investors who own multifamily investment properties continuing to enjoy excellent returns in the years ahead.

Multifamily Rental Market

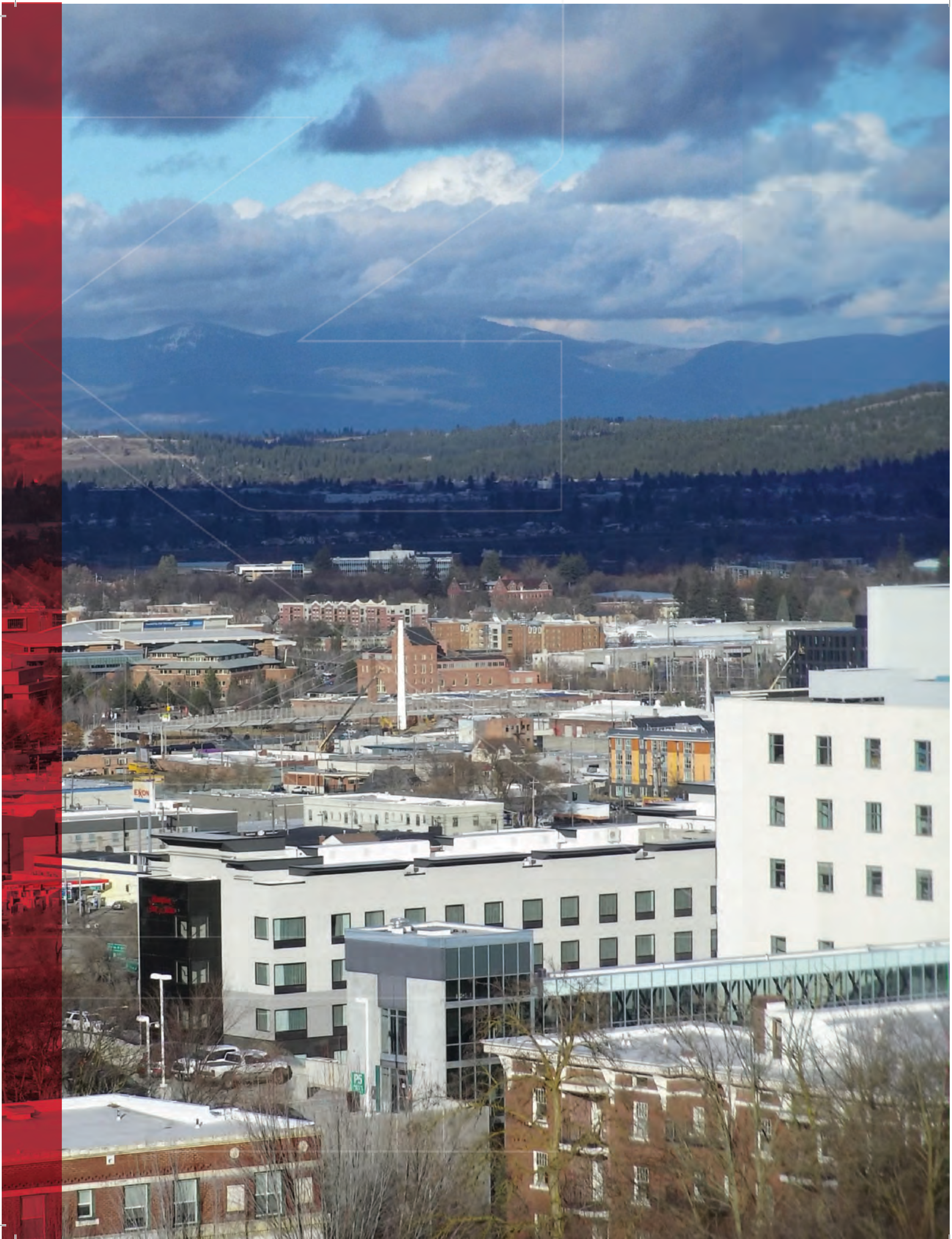
The Spokane multifamily market for 2020 can be described as a challenge successfully met. With the shocks of the pandemic impacting all sectors of commercial real estate, the multifamily market felt the effects of an economy in a downturn and a state-wide moratorium on rental increases. These effects; however, resulted in property owners and managers stepping up to the plate and adapting to the changing market, and by year-end generally coming out ahead.

Rental rates over the past 12 months have astonishingly increased by 5.2%. This rental rate growth was achieved through new construction leasing and rental rate increases upon apartment turnover. Premium new construction Class A apartments are leasing at 20% above median average rents. Absorption for new apartment projects averages 12 – 18 months. The average rental rate for all units regardless of size, class, location, and style was just over $1,000 per month at the end of 2020.

Economic occupancy in the Spokane market remains fluid with properties reporting anywhere from 0% to 10% in delinquent rents due to the moratorium on evictions and the inability for landlords to collect delinquent rents. Class C properties, workforce housing, and student housing have been the most severely impacted by Covid and have the largest number of delinquent rents. The overall vacancy rate in the Spokane market landed at 4.9% at year-end. Submarket vacancy rates reported: downtown Spokane 3.5%, West Spokane 6.1%, North Spokane 1.7%, Spokane Valley 4%, South Hill 4.3%, and Cheney at 10%+. Student housing in Cheney, dependent on EWU students, experienced the highest vacancy rates in Spokane County. Demand for apartments in the Spokane market remains moderate to strong. This demand is the result of new employment in healthcare and education, the stability of employment at Fairchild Air Force Base, and new jobs at Amazon. Strong in-migration and a very tight single-family home market have added to the demand for multifamily rentals as well.

1,054 new apartment units were brought online in 2020 and at year-end another 1,084 units were under construction. Absorption rates for new construction is predicted to remain steady; however, some rental concessions will likely remain in the marketplace.

The forecast for 2021 is for a continued strong multifamily market with rental rates inching upward as new construction apartments come online and as higher rents are achieved at unit turnover. Vacancy rates are predicted to average 5% overall with the exception of the student housing market in Cheney. Further extensions of the state-wide moratoriums on eviction and rental rate increases will most likely have a dampening effect on future rental rate growth and rent collections.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Investment

By **James S. Black III and Jim Orcutt**

The investment real estate market stayed strong locally, regionally, and nationally in 2020. With lending institutions ready and able to loan, appetite for investment real estate remains very high. Many local investors are looking for higher yields than can be obtained through traditional banking instruments, CDs, money markets, etc. Interest rates in 2020 remained extremely low and the stock market continued influx. Bank deposit yields continues to be in the .5-1% range.

Money from larger cities continues to flock to the Inland Northwest as investors seek out higher yield in tertiary markets like Spokane and Coeur d'Alene. There is a lot of cash sitting idle on the sidelines looking to be invested. 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 investment real estate transactions.

The biggest problem facing potential investors wanting to buy in the Spokane/Coeur d'Alene market has been the low supply of quality income-producing properties. Spokane investment property owners have a long history of a buy and hold investment philosophy. Significant appreciation is rarely the case in the Spokane area, so buyers here tend to hold their properties for the long haul. Most local investors have the goals 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 existing real estate yields, there is a strong reluctance for many sellers to dispose of their properties. This has created substantial competition for quality income properties as they become available. Our firm has been involved in property sales with multiple offers over the last year because of these market dynamics.

Cap rates have stayed low in 2020. One example here locally was the sale of a Texas Road House ground lease to a Spokane buyer doing a 1031 exchange. This property traded at a sub 5% cap. Average local deals are trading in the 5-7% cap rate range and vary depending on the quality, age, and location of asset. The length of lease and replacement costs are also contributing factors to the prices being paid. Another recent transaction was the sale of a Valvoline Instant Oil Change property located in the Spokane Valley, which traded at a 5.75 cap and had 15 years remaining on the lease in place.

The investment market will continue to remain strong locally, as well as nationally, in 2021. We anticipate a slight increase in cap rates as interest rates will most likely rise as a result of the Covid stimulus money printed by the US government. This, in turn, would probably decrease prices slightly. Investors will continue to chase yield in Spokane/Coeur d'Alene, which should make 2021 eerily similar to the year we had in 2020. Should you or anyone you know be interested in purchasing an income-producing property this year, please do not hesitate to contact us.

Property Management

By **Kim Sample and Tom Hix**

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.

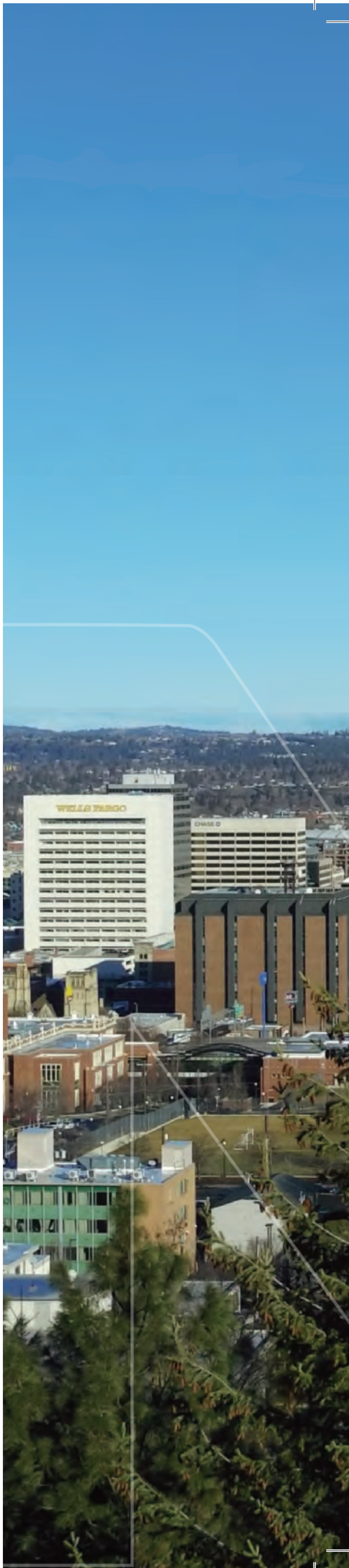
Our property management team is a group of specialists who are dedicated to providing excellence and exceeding client expectations. We deliver a platform designed to provide comprehensive, long-term, profitable client services.

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 our property owners and all other stakeholders. We strive to optimize both gross and net operating income while maintaining the physical infrastructure to preserve the income streams over the long-term and enhance property values.

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

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 client's needs and objectives, our company will remain on the path of growth and prosperity. To do this, we must continually earn the 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 goals, please call us at 509.623.1000.

CDA-Kootenai County

By **Steve Ridenour and Jim Koon**

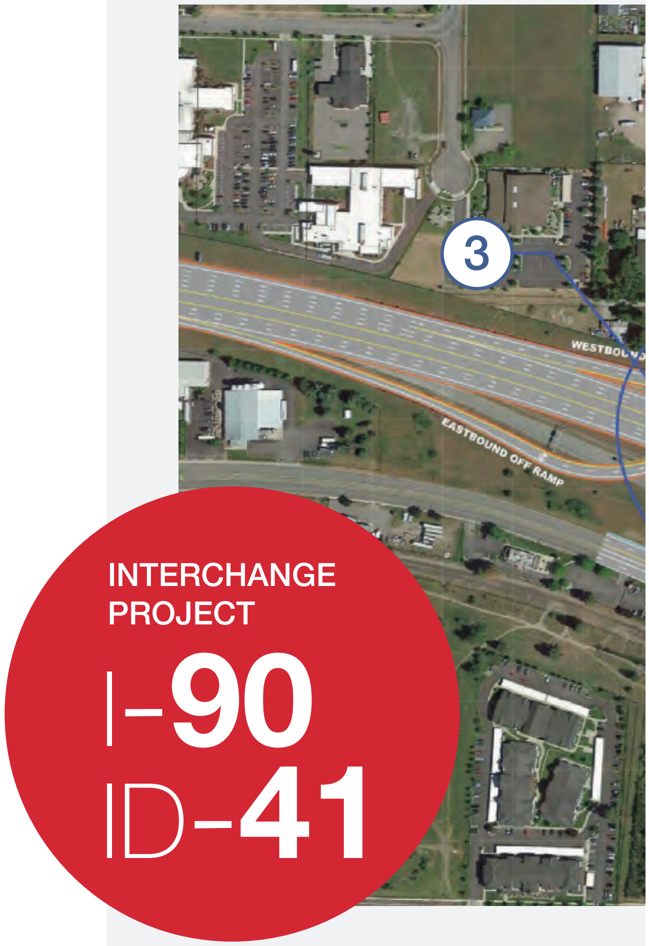
The North Idaho commercial real estate market paused for a moment in 2020.

While the effects of the Covid-19 pandemic and broad national economic shutdown were certainly felt, there is no question that North Idaho weathered the storm much better than other western states. Idaho stayed "open for business", relatively speaking, as state and local leadership instituted responsible but common-sense policies that fit Idaho's unique demographic characteristics. This avoided the long-term negative effects that a sustained shutdown would have had on the population and business sectors.

Consequently, businesses in the service sector from restaurants to hair salons saw less volume loss than similar businesses in neighboring Spokane, Washington. In many cases, they benefited from consumer traffic in-flow from the "closed" states of Washington, Oregon, and California. For example, during the summer and height of the pandemic, North Idaho experienced hotel occupancy in the 75% + range while West Coast hotels slipped well under 50%. This doesn't mean North Idaho didn't feel the sting of the downturn, but it profited from out-of-state tourism and commerce.

Perhaps the most significant and positive effect of the pandemic going into 2021 is the shift to remote work. Additionally, overreaching governmental policies in other Western states resulted in substantial population in-migration and business relocation to North Idaho. According to US News and World Report, Idaho is now the fastest growing state and Kootenai County is the fastest growing county in Idaho. The Census Bureau reports that 75% of the Kootenai County growth is in-migration from other states. Out of state commerce combined with increasing population growth will provide the engine for North Idaho's 2021 commercial real estate market.

Office –
The office market is a reflection of the national trend of downsizing due to the Covid-19 effect with increased numbers working from home. However, due to the smaller nature of the North Idaho office market, we expect that it will remain stable without major work space reductions. The main change in this market sector will be less new construction. The vacancy rate going into 2021 sits at 5.2% of almost 4,000,000 SF of GLA in Kootenai County. We expect rental rates to remain in the $18 to $22 Class A and $14 to $16 Class B ranges with rental incentives being offered to fill vacant space.

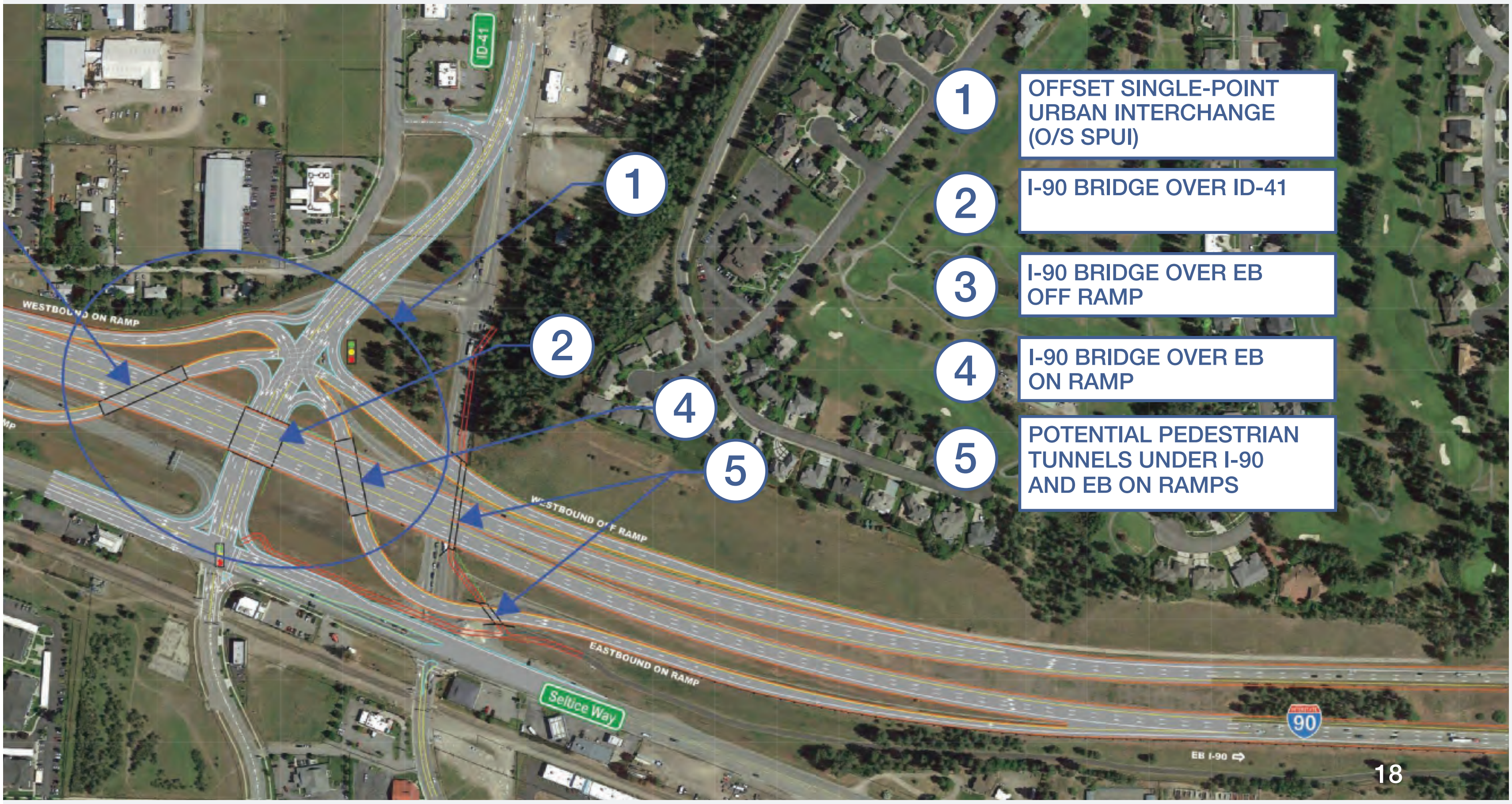


Industrial –
Substantial land acquisition and planning for new projects occurred during 2020 with construction starts scheduled for 2021 in response to low vacancy and a lack of inventory. Land values generally range from $1.50 PSF for larger parcels without utility service to $6 PSF for high visibility and freeway-oriented properties. Rental rates range from $5 PSF gross for Class B to $9 PSF NNN for Class A small format buildings. The North Idaho industrial vacancy rate of 1.61% continues to be the lowest in the greater Kootenai/Spokane market and will drive 2021 new construction activity.

Inland Northwest Tech Park (INTP) -
This 350-acre project is following the four-lane expansion of State Highway 41 (completion 1st quarter 2022) with grading and interior road construction commencing in the spring. Plans range from large format distribution to incubator tech industries, with INTP having unique access to rail service from an existing Union Pacific rail spur. The project will also contain 40 acres of high-density workforce housing. INTP is being developed by BGI, Inc., a GVD Commercial Properties, Inc./Jerry Dicker company. Land pricing is from $2 PSF.

Rathdrum Industrial –
Industrial development in the City of Rathdrum has progressed and includes projects near the Highway 41 corridor. Expect 300 acres coming to market within this business-friendly city. Land will be available at a lower cost than Coeur d'Alene or Post Falls.

Offset Single-Point Urban Interchange
Shifted West



CDA- Kootenai County

Riverbend Industrial Park –
Most of Riverbend's acreage has been absorbed. It still offers the occasional vacancy or sublease opportunity for users that require immediate proximity to the I-90 corridor at the Idaho/Washington state line. Land pricing from $5 PSF.

The Pointe at Post Falls -
Located at the Beck Road/I-90 Freeway Exchange, The Pointe saw UPS open a new facility in 2020 and Crown Distributing purchased a 15-acre site. Approximately 24 acres with freeway identity remains with parcels priced from $6 PSF. The owner, Wadsworth Development, has commenced construction on a 20,000 SF divisible building with additional spec development planned.

Coeur d'Alene Commerce Park-
While Coeur d'Alene is not as "industrial rich" as Post Falls, it is still an important part of the conversation. Especially for companies who do not require immediate highway or freeway access and want to be in Coeur d'Alene. Coeur d'Alene Commerce Park is a high-quality development with very high occupancy. Pricing from $5 PSF.

Multifamily –
Multifamily will continue to be strong into 2021. Kootenai and Bonner County have a housing shortage which has led to average single-family values over $350,000. This has resulted in an increasing demand for multifamily housing and an explosion of multifamily development.

Planned multifamily construction will hopefully keep up with growing demand. Post Falls is now one of the fastest growing cities in the country and its 2020 4.74% growth rate could exceed 5% in 2021.

Retail –
Continued disruption or a new day of opportunity? This is the big question for retail in 2021. Even with the pandemic, North Idaho retail weathered the vacancy storm much better than other parts of the country. Across the board landlords worked to assist their tenants in getting through 2020, and we expect to see that pay dividends in 2021. There is no question that bricks and mortar is giving way to digital on-line shopping. That shift, accelerated by the pandemic, has caused retailers to adjust to new ways of retaining and serving their customers.

The retail strength of the North Idaho market will continue, and most new major retail and shopping center construction will occur in Post Falls in response to the explosion of growth on the Prairie. The Post Falls/Rathdrum trade area is expected to sail past Coeur d'Alene, tripling in population to over 100,000 by 2035. The epicenter of most significant retail projects in 2021 will be State Highway 41 and Prairie Avenue. The 50-acre mixed use shopping center, Prairie Crossing, will be the first project to come out of the ground this summer. It will be on track to open for business in the spring of 2022, along with the Highway 41 four-lane expansion. This project will have a forward architectural look and will include 15 acres of lifestyle apartments as part of the project.

Athol Crossroads Center, north of Coeur d'Alene at Highway 95 and Highway 41, opened with huge super market volumes in 2020. This project is anchored by Super 1 grocery stores and will offer outparcels for sale in 2021. There has been a very strong retail response to this underserved part of Kootenai County.

Retail Investment -
Single purpose and essential retail from grocery stores, to Starbucks, to urgent care properties will continue to be investor favorites in 2021. We anticipate that cap rates will remain stable in 2021, provided that interest rates remain low and there are not any substantial increases in construction costs.

Forecast -
With 2020 vacancy rates averaging a surprising 4.88% during 2020 in a year crippled by the pandemic, we expect 2021 to be a year of growth for North Idaho retail.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