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Industrial and Office Market Report

April 2023

Prepared for: **Idaho State Bar – Real Property**

Contact: Greg Gaddis (208) 869-9294 | Bill Beck (208) 841-3530 |

The image features a city skyline with various buildings and a prominent dome, likely a state capitol building. The sky is clear and blue. The letters 'TRA' are prominently displayed in a large, serif font, with a red horizontal line underneath them. Below the line, the text 'Tenant Realty Advisors' is written in a smaller, sans-serif font.

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2023 INDUSTRIAL REAL ESTATE FACTS:

- Very low vacancies (3.7%) and highest rents (.80/SF market average) on record but vacancy and rents are rising!
 - New construction rents .75-.85/SF!
 - Stand-alone or Flex properties rents .90 – 1.10/SF! This is higher than some office rents!
- 2022 net positive absorption was only 500,000 SF. . . it would be higher but there hasn't been any product!
- Our Industrial market size is 51 Million square feet.
- Sales prices for existing building pushing \$200/SF+ and average CAP rate 5%! This is increasing closer to 6% now as interest rates climb and loans become harder to secure. Most sales now are to owner/users.
- Industrial land prices have increased since 2019 from an average of \$4.50/SF to \$8-12/SF! This is reflective of a lack of industrial zoned land. . . it has all been gobbled up by developers.

** source CoStar*

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2023 INDUSTRIAL TRENDS

- Up to 6 Million SF of Class A new buildings are delivering now or under construction.
- Asking rents are rising faster than rents under existing leases. In other words, Tenants are potentially facing large rent increases at renewal...as much as 25 -50%!
- Few options for lease or sale. Occupants in need of more space will be have to get by as-is or forced into new product. Be diligent, remain engaged and act quickly!
- Meta's and Micron's announced projects has their vendors already looking for more space, industrial, office and flex on the East side, of which we have virtually none!
- We have heard the interest only cost on a vacant new construction 200,000 SF industrial shell building can be \$100,000 per month. Ouch!

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A panoramic view of a city skyline at dusk or dawn, featuring several high-rise buildings and a prominent domed capitol building. The sky is a mix of blue and orange. The letters 'TRA' are overlaid in a large, black, serif font on the left side of the image.

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2023 OFFICE REAL ESTATE FACTS:

- Low vacancies (5.5%) and stable if not increasing rents (\$18.50 full service overall average). Lots of demand for small (under 5,000 SF) spaces
- “Flight to Quality” is a national trend as companies try to entice employees back to in person office use
- Large Class B spaces continue to hit the market for sublease or direct from landlords as tenants give back unneeded office space.
- Sales prices for existing empty offices are dropping as user activity remains slow and banks aren’t loaning money on office space.
- Speculative construction has halted across the valley and given the ‘flight to quality’ trend, could lead to a very tight office market in the coming years.

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POST COVID 'WORK FROM HOME' IMPACTS ON THE OFFICE MARKET

- Since Q2 2020 over 3,000,000 SF (spaces over 10,000 SF) has come back on the market either as sublease or directly given back to Landlords. Most of this space could be described as 'back office', call centers or office functions that aren't customer facing.
- During this same time, 700,000 SF has been leased in new construction Class A downtown or Suburban offices. We are calling this trend a "Flight to Quality" and it is happening nationally as well. Class B/C office spaces are not enjoying this activity.
- Most companies not yet back in the office are large corporate tenants based outside the Treasure Valley. Our local employers (mostly) are back in the office.
- The Car Park, a local parking lot management company, reports that downtown parking garage use is 32% below pre pandemic levels. Weekend and evening street parking is way up while day parking on streets is down from pre-pandemic levels.

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LOCAL OCCUPIERS WHO CHANGED THEIR USE OF OFFICE SPACE

| | | |
|------------------------------|-------------------|---|
| TANDEM DIEBETIES | 90,000 SF | NEVER OCCUPIED, BOUGHT OUT LEASE |
| ONE OCEAN NETWORK | 25,000 SF | CAME BACK AND RELOCATED |
| AMERICOR | 22,000 SF | TRYING TO COME BACK |
| VACASA | 34,000 SF | TYRING TO SUBLEASE THEIR SPACE |
| INTUIT | 120,000 SF | TRYING TO SUBLEASE THEIR SPACE |
| CENTURY LINK | 98,000 SF | NOT COMING BACK |
| VERIFIED FIRST | 24,000 SF | SUCCESSFUL SUBLEASED ALL |
| SYKES | 55,000 SF | SUCCESSFUL BUYOUT OF LEASE |
| THE BBB | 22,000 SF | SOLD BUILDING, MOVED TO KILN |
| DIRECT TV CALL CENTER | 150,000 SF | SELLING BLDG, ONLY NEED 25K SF |
| CITIBANK CALL CENTER | 175,000 SF | SELLING BUILDING, ONLY NEED 40K SF |

MOST OTHER VALLEY CALL CENTERS HAVE NOT COME BACK, THEY ARE STILL SITTING ON UN-USED OFFICE SPACE

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DOWNTOWN CLASS A OFFICE MARKET

- Downtown's overall vacancy rate is 7%. This is 250 office buildings of all types and vacant spaces of all sizes.
- But, for a large law firm, for spaces over 10,000 in "Class A" buildings, vacancy is 3%.
- For spaces over 20,000 on one floor, there is one option (Boise Plaza).
- The 200,000 SF "11th and Idaho" building leased up 100% during 2020.
- No new office development is under construction downtown with only the ICCU/BVA building planned at 4th and Jefferson on the horizon. Delivery would be 2 years from now if it started today.
- Downtown law firms seem to be staying put for the most part.

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COMMERCIAL INVESTMENT MARKET:

- Rising interest rates and uncertainty about the economy has significantly slowed investment sales activity.
- Large discrepancy between Buyer desires and Seller expectations. Sellers want 2021 prices and Buyer are looking for deals.
- CAP rates are still lower than interest rates. Therefore, deals don't make sense.
- Example of a large local Seller with an industrial real estate package for sale. 100+ signed confidentiality agreements, no offers!

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KEY TAKE-AWAYS

INDUSTRIAL:

- **Space will begin to loosen up in 2023 as a glut of new large class A space is delivered.**
- **Rents will continue to rise for the foreseeable future.**
- **Options for smaller/mid size tenants will remain tight for the foreseeable future.**

OFFICE:

- **Options for small tenants will remain tight...larger blocks of "B" space over 10,000 SF will continue to hit the market as companies adopt flexible work schedules.**
- **Class A new construction space will dry up and little to no spec development will happen.**
- **With a few exceptions, rents will continue to rise.**

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THANK YOU!

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