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Tenant Realty Advisors

Industrial and Office Market Report

October 2022

Prepared for: **Idaho State Bar - Real Property Section**

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2022 INDUSTRIAL REAL ESTATE FACTS:

- Lowest vacancies (1.3%) and highest rents (.70/SF market average) on record
 - Ada County rates increased 15% over 2020. 60% in Canyon County!
 - New product rents .75-.85/SF!
- 12 mth net positive absorption is 1.6 Million SF. . .it would be higher but there isn't any product!
- Our Industrial market size is 51 Million square feet.
- Sales prices for existing building pushing \$200/SF+ and average CAP rate 5%!
- 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*

A panoramic view of a city skyline at dusk or dawn, featuring various skyscrapers and a prominent domed building. The letters 'TRA' are overlaid in a large, serif font on the left side of the image.

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2022 INDUSTRIAL TRENDS

- Asking rents are rising faster than rents per existing contracts. Tenants are potentially facing large rent increases at renewal...as much as 25%!
- Few options for lease or sale. Occupants in need of more space will have to get by as-is or forced into new product. Be diligent, remain engaged and act quickly!
- Companies expanding in Boise:
 - Manufacturing, Distribution, Last Mile, Logistics, Construction related, Coastal "refugees".
 - Amazon continues its local expansion. Now with 5+ facilities but a temporary halt has been placed on additional facilities.
 - Meta's 900,000 SF data center has had a huge impact with numerous companies planting a flag in Boise.
 - Micron's announced expansion has their vendors already looking for more space.

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The image features a city skyline with various buildings and a prominent dome, likely the Idaho State Capitol. The letters 'TRA' are overlaid in a large, serif font. Below the letters, the text 'Tenant Realty Advisors' is written in a smaller, sans-serif font. A red horizontal line is positioned below the 'TRA' text.

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INDUSTRIAL CONSTRUCTION!...just wait for 2023!

**Significant planned/under construction industrial projects in the valley.
Some are speculating up to 8 million SF in 2023!**

- Adler Industrial: 1.2 Million SF valley-wide to deliver in 2023
- Panattoni: 700,000 SF planned Caldwell Blvd. Build to Suit only at this time.
- Bow River Capital: 600,000 SF Nampa, delivery Q1 2023
- LDK Ventures: 600,000 SF Nampa, 2023 delivery
- AT Industrial: 300,000 SF Caldwell to deliver Q1 2023
- Boyer Company: 700,000+ SF planned East Boise, 200,000 delivery 2023
- Flint Development: 1.2 Million (900K in one bldg.!) SF planned East Boise 2023 delivery.
- Trammell Crow: 360,000 SF Nampa under construction Q1 2023 delivery.

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NEW CONSTRUCTION INDUSTRIAL SPECIFICATIONS.

- 100,000 SF+ concrete tilt construction
- Large bay depths/sizes....18,000 SF up to 50,000 SF is often the minimum tenant size.
- 30-32' clear height minimum
- Numerous docks and minimal grade level loading.
- Limited excess parking and no yard space
- 2000 amps, 380/277 - 3 phase power. LED lighting. ESFR sprinklers.

EVERYBODY IS BUILDING THE SAME THING!!

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2022 OFFICE REAL ESTATE FACTS:

- Low vacancies (5.5%) and stable if not increasing rents (\$18.50 full service).
 - In 2021 we had over \$1 million SF of positive net absorption . . . historically we see around 500,000 SF!
 - New product rents pushing into the high twenties . . . \$26-\$30/SF full service.
- Tenant Improvement allowances are not increasing to keep up with construction costs increases. In new product, Tenants are covering the overages as users pursue a 'flight to quality' trend.
- Sales prices for existing quality buildings pushing \$200-300/SF and CAP rates trail other product such as multi-family and industrial. Average office CAP rates are 6-7%.
- Speculative construction has largely halted across the valley and given the above trend, could lead to a very tight office market in the coming year.
- A steady drip drip of significantly sized sublease spaces are hitting the market.

** source CoStar*



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

- Since Q2 2020 over 700,000 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, 600,000 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 'new normal' for those companies still leasing office space is a flex work schedule rather than a new floor plan. We expect many corporate or larger office tenants to reduce their SF as their leases expire. However, new demand for Treasure Valley office space will offset this trend, if not overshadow it.

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LOCAL OCCUPIERS WHO CAME BACK AND WHO DIDN'T COME BACK

TANDEM DIEBETIES	90,000 SF	DIDN'T COME BACK
ONE OCEAN NETWORK	25,000 SF	CAME BACK AND RELOCATED
AMERICOR	22,000 SF	TRYING TO COME BACK
VACASA	34,000 SF	SUBLEASING HALF THE SPACE
INTUIT	120,000 SF	SUBLEASING HALF THE SPACE
CENTURY LINK	98,000 SF	TERMINATED 34,000 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 BLDG, MOVED TO KILN

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NATIONAL FIRMS THAT HAVE INDICATED THEY ARE 'COMING BACK'

APPLE

PRUDENTIAL FINANCIAL

GOLDMAN SACHS

MARRIOTT INTERNATIONAL

TESLA

WAL-MART

AMAZON

CVS HEALTH

EXXON MOBIL

NETFLIX

NOTE* MOST OF THE ABOVE HAVE ACTUALLY IMPLEMENTED SOME TYPE OF HYBRID WORK WEEK.

NOTE* IN THE 10 MAJOR U.S. CITIES, OFFICE OCCUPANCY HAS NOT EXCEEDED 50% THROUGHOUT THE PANDEMIC TO TODAY.

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KEY TAKE-AWAYS

INDUSTRIAL:

- **Space will be tight throughout 2022 with a glut of large class A space coming in 2023.**
- **Rates 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 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, rates will continue to rise.**

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KEY TAKE-AWAYS

IN A MARKET LIKE THIS, HAVING A REAL ESTATE ADVISOR WHOSE LOYALTY IS TO YOU, AND ONLY YOU, IS IMPORTANT.

THE MARKET IS NOT FULLY VISIBLE RIGHT NOW... EDUCATE YOURSELF ON THE MARKET AND ENGAGE A REAL ESTATE ADVISOR TO UNCOVER OPTIONS AND CREATE LEVERAGE.

WHATEVER YOU DO, START THE PROCESS EARLY. DEPENDING UPON THE SITUATION, THIS COULD MEAN 1-2 YEARS PRIOR TO YOUR LEASE EXPIRATION OR OTHER KEY DATE.

MAKE TIME YOUR FRIEND, NOT YOUR ENEMY!

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QUESTIONS?

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THANK YOU!

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