



MID-YEAR 2008

MARKET

**UPDATE &  
OUTLOOK**

**KIEMLE &  
HAGOOD  
COMPANY**

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# OFFICE MARKET

OFFICE MARKET BREAKDOWN	*CBD Class A	CBD Class B	CBD Class C	Periphery CBD	South	North	Valley	**West	*Totals
Average Vacancy Rates	13.7% ↓	12.7% ↓	5.5% ↓	7.6% ↓	19.8% ↑	9.9% ↓	16.2% ↑	4.5%	11.5% ↑
Average Rental Rates	\$21.71 ↑	\$15.78 ↑	\$11.72 ↓	\$15.65 ↓	\$20.50 ↑	\$15.92 ↓	\$14.24 ↑	\$15.43	\$16.00 ↑

\*Variation in Total Vacancy & Rental Rate due to reported inventory change. \*\*West Submarket newly added to Spring '08 report  
Data Source: Kiemle & Hagood and Auble, Jolicoeur & Gentry

## Current Market Conditions

Over the last three years, rising construction costs for new product and a strong national economy have caused Spokane's office market



to significantly improve, especially in the Central Business District (CBD) and Periphery CBD Submarkets, as shown in the Spring 2008 Survey. As a result, these submarkets experienced the following: lower vacancy and higher rent for Class A CBD properties; a lack of options for larger users looking for improved office space; lack of speculative space, and rising land prices. The current asking rate for Class A rent in the CBD is \$21.71/rsf. Recent transactions of note include the Lee & Hayes, PLLC lease of 27,000 square feet in the Bank of America Financial Center and an 11,000 square foot lease transaction to CH2M HILL in the Washington Trust Bank Financial Center. These CBD transactions are not included in the survey results, but if adjusted would bring

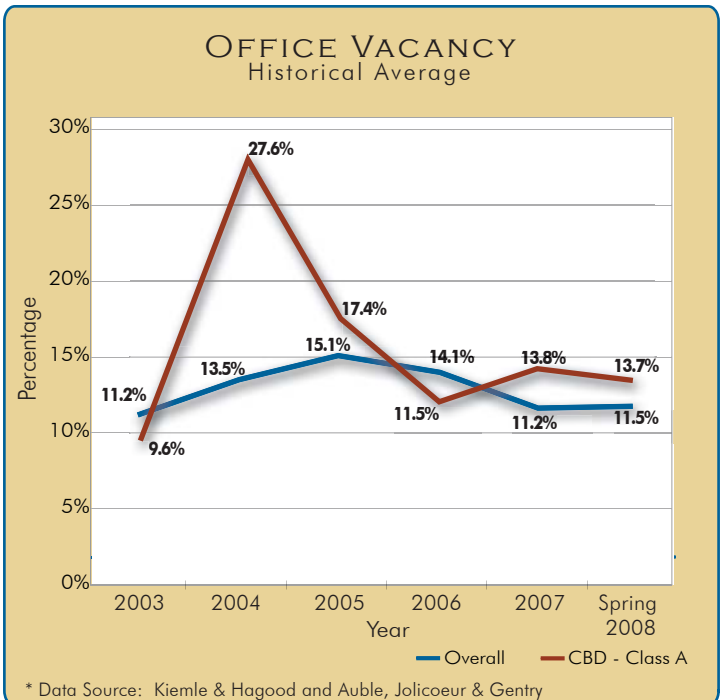
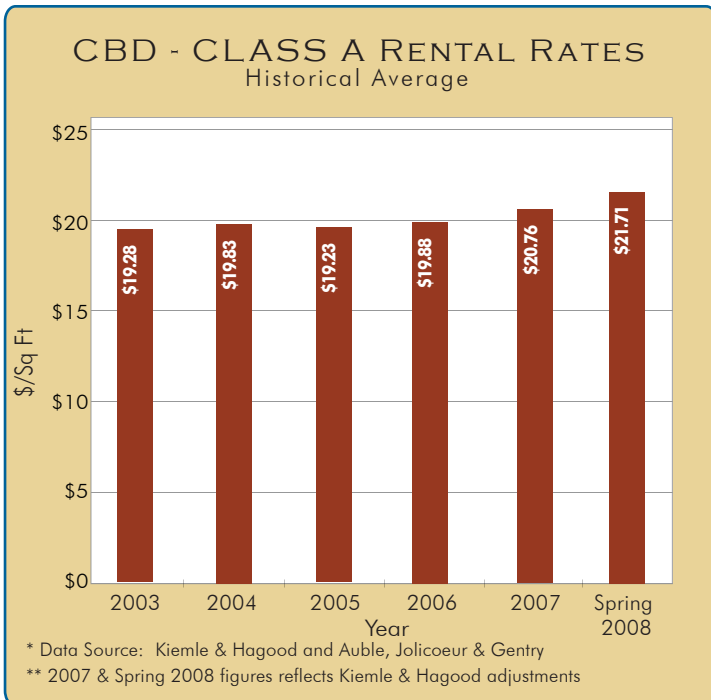
CBD Class A vacancy below 10%.

While not as active as the CBD and Periphery CBD, Spokane's North, South and Spokane Valley / Liberty Lake Office Submarkets continued to be vital contributors to the region's strong economy. Since Fall 2006, the North Submarket vacancy rate has fallen from 16% to 10%, and the Spokane Valley vacancy rate has decreased from 21% to 16%. Spokane Valley represents the majority of the region's logical, developable office-zoned land, which explains its relatively high vacancy rate due to continued new construction. The most significant lease within this submarket was a recent lease of 36,000 square feet to Family Home Health in Liberty Lake. The Inland Northwest's

## Market Forecast

office market will continue to see active leasing for the remainder of 2008, especially within the CBD and Periphery CBD Submarkets. Larger space options will continue to be limited for tenants seeking space within these areas. Volatility will remain high in Spokane Valley with a variety of space availability and price point opportunities. Expect to see Worthy Enterprises' most recent project, River View Corporate Center, complete construction in November 2008. The center will include 250,000 square feet of office space and a one-level parking garage.

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# RETAIL MARKET

RETAIL MARKET BREAKDOWN	CBD	*Periphery CBD	South	North	Valley	**West	*Totals
Average Vacancy Rates	7.7% ▲	7.4% ▲	1.9% ▼	6.2% ▲	12.8% ▼	13.1%	8.6% ▲
Average Rental Rates	\$22.52 ▼	\$14.14 ▼	\$12.64 ▲	\$16.58 ▲	\$12.58 ▼	\$14.59	\$15.21 ▼

\*Variation in Total Vacancy due to reported inventory change \*\*West Submarket newly added to Spring '08 report

## Current Market Conditions

Activity levels have flattened throughout the region's Retail Market during the first half of 2008. Overall vacancy levels have increased by 0.5% to 8.6%, while rental rates decreased slightly from \$15.67 reported in Fall 2007 to \$15.21 in Spring 2008.

Despite the current climate of the national retail market, there continues to be activity throughout the region. In the First Quarter of 2008, Fred's Appliance Design Center opened at Evergreen Crossing, the 230,000 square foot retail shopping center in Spokane Valley. Also, WinCo Foods Inc. purchased the former 100,000 square foot HomeBase Inc. building located on Sprague Avenue.

Spokane's South Submarket saw minimal activity; however, following two years of discussion, Spokane's City Council passed a proposed comprehensive land use plan for the Southgate Neighborhood. The plan changes include an additional 45 acres in three parcels of commercial zoned land, with Home Depot being one of the proposed site occupants.

Pockets of activity continue to occur as new developments come online. Pending projects include Northtown Square, a planned shopping center on North Division. It is scheduled to open in 2009 and will feature a Red Lobster, Spokane Teacher's Credit Union and Starbucks. WinCo Foods, Inc. has also started construction on a new 93,000 square foot store with surrounding retail located on



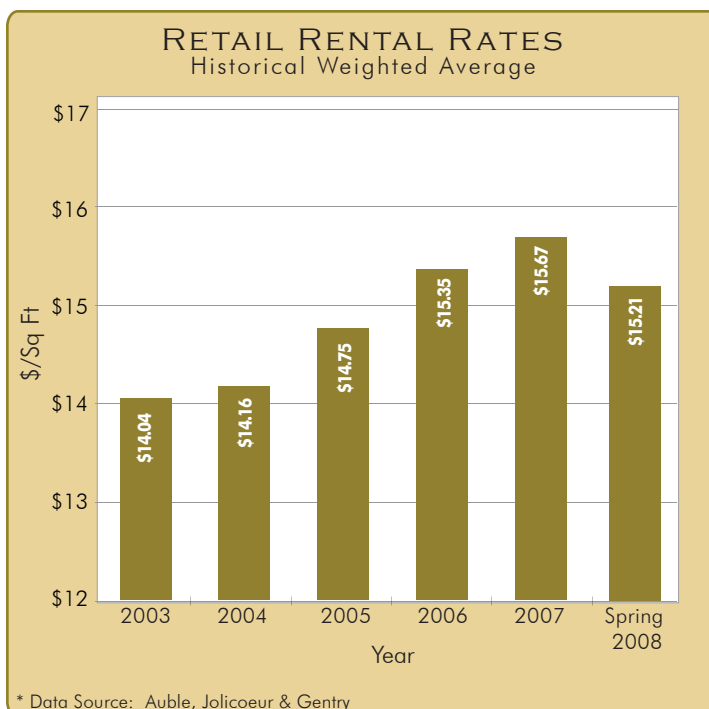
North Nevada Street. Growth within the North Idaho Retail Market will continue with planned retail projects at Government Way and Neider Avenue in Coeur d'Alene, the State Line area surrounding Cabela's, and Highway 41 in Post Falls.

current levels. Rental rates for Class A space should remain stable, with Class B and C building categories decreasing slightly. A shift in the market is expected by mid-year 2009, as retailers start to move forward on new deal opportunities. The Inland Northwest's Retail Market should return to a growth mode by 2010.

## Market Forecast

The Inland Northwest's Retail Market will continue to show consistent activity for the remainder of 2008 and into the first half of 2009. Expect to see vacancy rates maintain

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# INDUSTRIAL MARKET

INDUSTRIAL MARKET BREAKDOWN	Fall 2003	Fall 2004	Fall 2005	Fall 2006	Fall 2007	Spring 2008
Average Vacancy Rates	7.9% ↓	8.2% ↑	5.5% ↓	4.8% ↓	5.0% ↑	5.4% ↑
Net Absorption	535,996 ↑	844,461 ↑	1,436,960 ↑	939,159 ↓	208,099 ↓	35,082 ↓

## Current Market Conditions

Spokane's Industrial Market continues to see activity with an overall vacancy rate of 5.4% reported by the Lucas Survey Group. This recent rate has slightly increased by 0.4% from the previous reported number of 5% at the end of December 2007. Most categories maintained vacancy levels, with the most significant change resulting in the 10,001 – 20,000 square foot category, which saw an increase of 0.9%. Several Industrial transactions are pending and have not been included in the survey results, but will be reflected at year end.

Industrial space availability continues to be limited throughout the region,

with a small number of new construction projects. These include Phase III of the International Gateway Corporate Park at 10010 East Knox Avenue and the recently completed Phase II building at 2205 North Woodruff. Both facilities are within the 20,001-40,000 square foot category and offer a

combination of industrial and office space.

## Market Forecast

The region's Industrial Market is expected to maintain current vacancy levels and positive absorption for the remainder of 2008 and 2009. Purchase and lease space availability will be limited, and build-to-

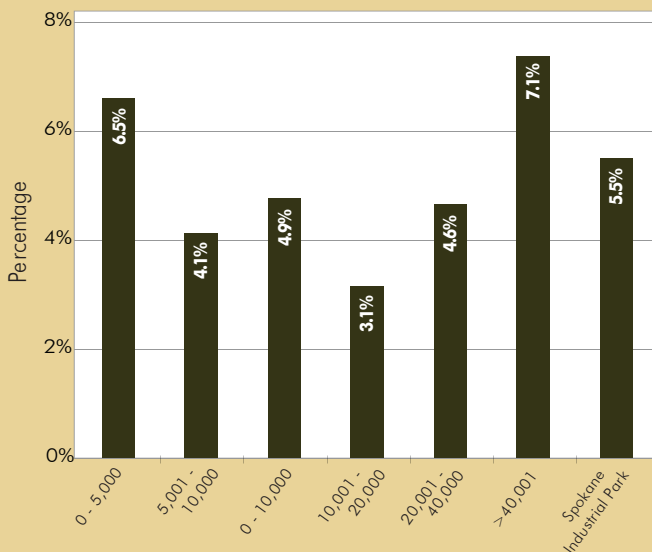
suit options will continue to be a consideration for those seeking facilities within the area.

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International Gateway Corporate Park in Spokane Valley

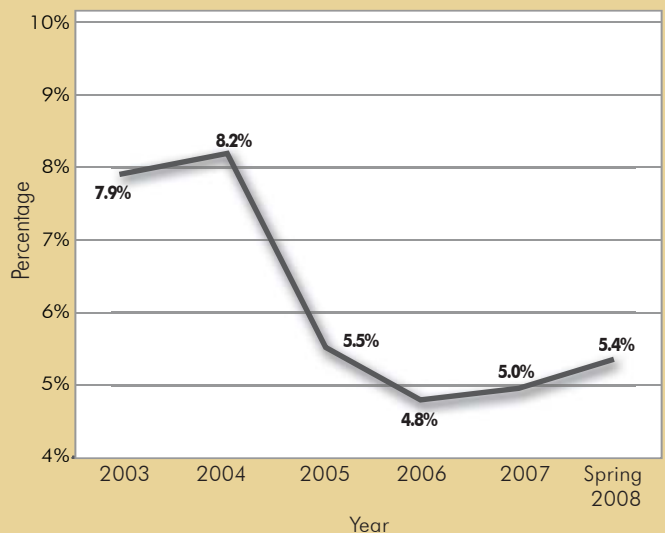


INDUSTRIAL VACANCY RATES  
Average, based on Building Size



\* Data Source: Mark Lucas, SIOR & Tracy Lucas, CCIM - 2008 Mid-Yr Industrial Survey

INDUSTRIAL VACANCY  
Historical Average



\* Data Source: Mark Lucas, SIOR & Tracy Lucas, CCIM - 2008 Mid-Yr Industrial Survey

# MEDICAL OFFICE MARKET

MEDICAL OFFICE MARKET BREAKDOWN		Spring 2008
Average Vacancy Rates		5.7% ↓
Average Rental Rates		\$20.21 ↑

\* Variation in Total Vacancy due to reported inventory change



Holy Family Medical Center - Central Office Building

## Current Market Conditions

The Medical Office Market saw a dramatic decrease in vacancy levels during the first few months of 2008. Vacancy rates dropped from 7.2% recorded in Fall 2007

to 5.7%, while average rental rates increased slightly from \$20.09 to \$20.21.

Available space options continue to be limited for those seeking a location near Sacred Heart Medical Center;



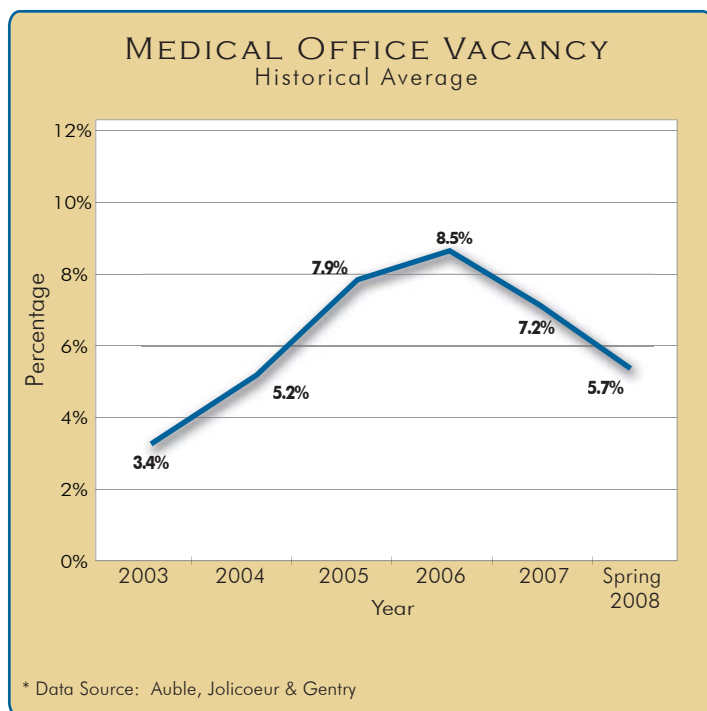
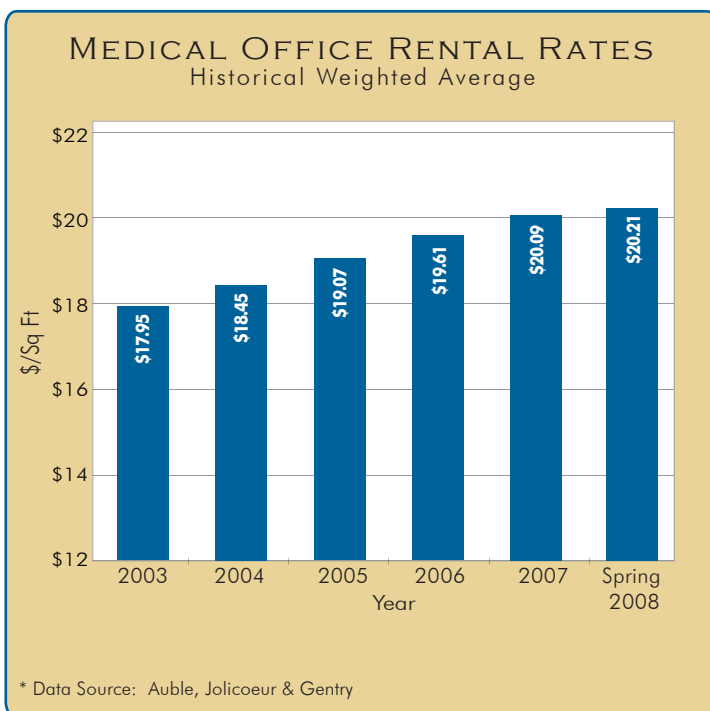
Sacred Heart Medical Center Campus

however, space opportunities remain near Holy Family and Deaconess medical facilities. Several significant transactions and new projects occurred in the first few months of 2008. These include the 45,000 square foot lease of Pathology Associates of Spokane (PAML), a subsidiary of Providence Health Care on the Iron Bridge Campus; the 12,000 square foot Rockwood Clinic lease of a newly constructed building at Quail Run Professional Center, and the Spokane Eye Clinic's construction of a 44,000 square foot building near Spokane's downtown medical centers.

## Market Forecast

Throughout the remaining months of 2008 and into 2009, rental rates for medical office space will increase, while vacancy rates will continue to decline slightly. New projects will remain limited, creating vacancy for those seeking new space options. The region's market will also be affected by the pending sale of Empire Health Services and the vacant office space currently located on the Deaconess Campus.

INFORMATION PROVIDED BY  
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