

MARKET REVIEW & OUTLOOK

MID-YEAR 2010



Photo courtesy of Jill Westerman

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OFFICE MARKET

Information provided by Craig Soehren, Mike Livingston & Marc Mowrer, Kiemle & Hagood Company

CURRENT MARKET CONDITIONS

Spokane's Office Market is not subject to the same boom and bust cycles as other West Coast markets, and has performed more favorably than other Northwest Cities. Consequently office product has avoided dramatic vacancy increases over the last several quarters, albeit with a significant rise in landlord concessions. Spokane's office market stability is largely due to a lack of speculative development of office product.

The most significant sale transaction was Greenstone's purchase of the former Agilent complex in Liberty Lake – a 225,000 square foot building situated on 70 acres. Based on anecdotal evidence, the majority of sale activity is driven by all-cash buyers or owner-users. An absence of quality, well-occupied investment options have hampered investment activity.

Vacancy rates are down for most office submarkets and are closing in on 2007 and 2008 rates. Vacancy within Class

A product in the Central Business District (CBD) lowered to 7.7% with an average rental rate of \$19.90/SF. The periphery submarket continued to be one of Spokane's best-performing with a vacancy rate at 10.1% and an average rental rate of \$16.47/SF. Whitworth University leased approximately 5,000 SF in the Riverfront Office Park, adding another dynamic presence to the University District. The Spokane Valley submarket continues to have the highest vacancy rate in the marketplace (20.3%) due mainly to an abundance of space that appeals to tenants that are sensitive to swings in the economy. The other, smaller submarkets of the South, North, and West remained relatively stable over this period.

MARKET FORECAST

Spokane's office market will continue to see modest improvements for the remainder of 2010 and 2011. The outlook for specific submarkets within Spokane varies widely: the CBD and Periphery should see continued

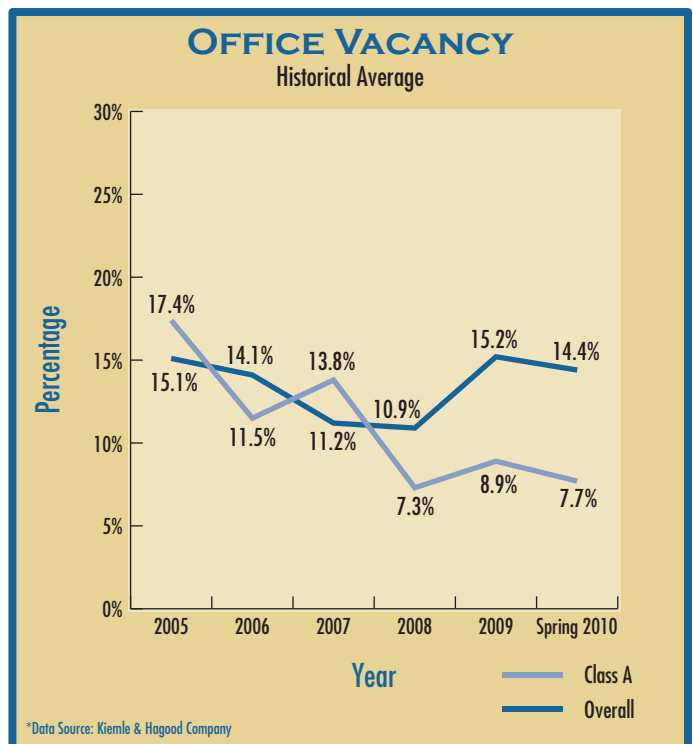
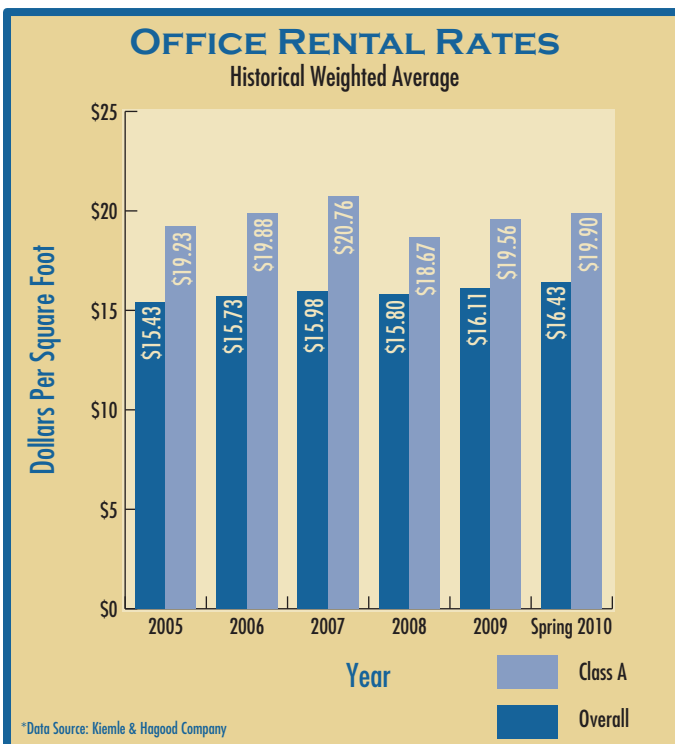
stability and positive performance; in contrast, the high vacancy rate in the Spokane Valley creates an environment driven by landlord concessions and tenant turnover.

Sale activity is also expected to grow slowly but consistently. An easing of financing restrictions for commercial projects would positively alter that projection. The primary driver of sale activity will be owner-users seeking to take advantage of relatively low acquisition costs.

Perceptions of instability for the national and regional economy translate into moderate leasing activity as tenants are driven to renew existing leases. Spokane's office market will see large blocks of space absorbed once leasing activity within the call center industry returns.



OFFICE MARKET BREAKDOWN	CBD Class A	CBD Class B	CBD Class C	Periphery CBD	South	North	Valley	West	Totals
Average Vacancy Rates	7.7% ▼	17.8% ▼	17.5% ▲	10.1% ▼	11.9% ▼	13.2% ▼	20.3% ▼	13.2% ▲	14.4% ▼
Average Rental Rates	\$19.90 ▲	\$15.99 ▲	\$12.61 ▲	\$16.50 ▲	\$21.78 ▲	\$16.56 ▲	\$14.71 ▲	\$16.48 ▲	\$16.43 ▲



* During the latest reporting period some properties were reclassified creating some variations in subsector statistics.

RETAIL MARKET

Information provided by Carl Guenzel, Kiemle & Hagood Company

CURRENT MARKET CONDITIONS

The Retail Market is beginning to see signs of recovery, after being the first affected by the recession. First Quarter 2010 performed more favorably than First Quarter 2009. A number of large transactions were completed during the first half of the year, after being initiated in late 2009. We also saw an increase in the number of sale transactions that were nonexistent during previous quarters. The market is also beginning to see smaller national retailers and mom & pop merchants actively seeking and obtaining retail space. This is an indication that consumer confidence is strengthening.

Overall vacancy saw a marginal increase of .8% to 10.6% as of Spring 2010, with the greatest increase occurring in

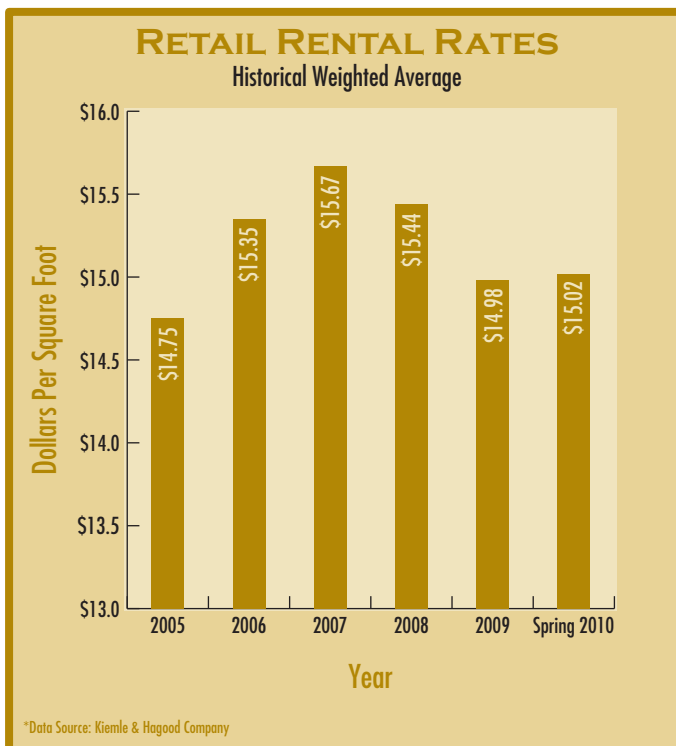
the Periphery CBD submarket. Currently, market activity is not only driven by retailers, but by land owners who have become more realistic about asking rents. Most have adjusted rates to better match the economic climate. Rents have likely reached the bottom for most submarkets and substantial increases will not occur for 5+ years.



MARKET FORECAST

Experts are still cautiously optimistic about the future of the Retail Market and believe our regional activity will plateau at the current level for 12 to 14 months. More retail closures are likely, but expect to see momentum from the retail sector as the end of 2011 approaches and vacancy rates start to drop. Once vacancy rates decline, new construction will be initiated. Bear in mind that development will not be as rapid and abundant as pre-recession levels. Expect completed transactions and new construction projects to be based on solid business decisions by developers, as those who neglected to make better decisions during more prosperous times are no longer active in the market.

RETAIL MARKET BREAKDOWN	CBD	Periphery CBD	South	North	Valley	West	Totals
Average Vacancy Rates	12.2% ▲	10.3% ▲	5.9% ---	9.9% ▲	11.8% ▲	12.4% ▼	10.6% ▲
Average Rental Rates	\$22.35 ▲	\$13.10 ▲	\$14.92 ▲	\$15.89 ▼	\$12.48 ▲	\$15.77 ▲	\$15.02 ▲



INDUSTRIAL MARKET

Information provided by Mark Lucas, SIOR & Tracy Lucas, CCIM, Kiemle & Hagood Company

CURRENT MARKET CONDITIONS

The Spokane Industrial Market continues to provide unpredictable results, as the economy recovers from the recent recession. During the first six months of 2010, vacancy rates rose for all industrial building sizes. Despite the economic climate, Spokane's Industrial Market saw 168,243 square feet of new space built between Fall of 2009 and Spring of 2010. According to the recent mid-year survey, vacancy levels increased slightly by .3% to 8.4% since Fall of 2009.

Lending requirements remain stringent, but despite new financing provisions, the activity level and interest strengthened during First and Second Quarters of 2010. New and existing tenants continue to be aggressive when negotiating leases and renewals, and landlords have become more flexible when making concessions in order to complete a lease.

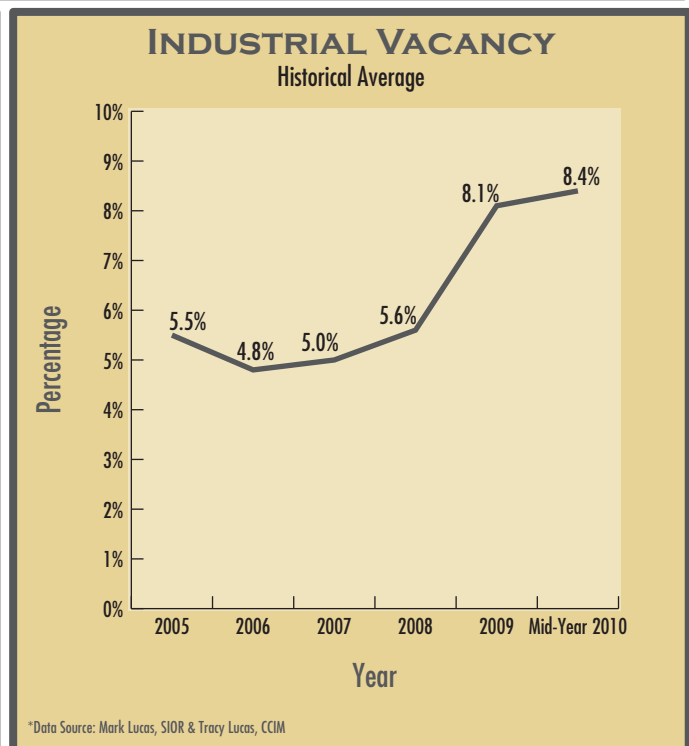
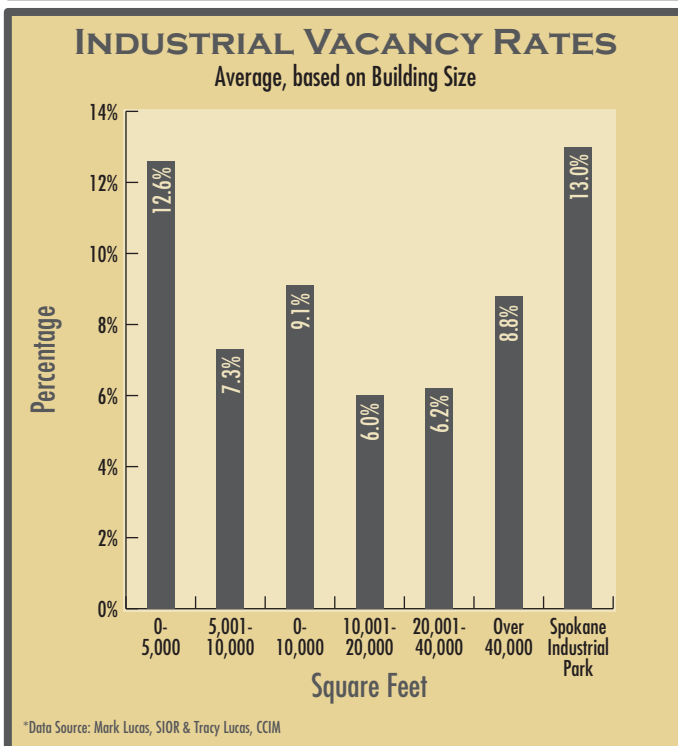


23502-23504 East Knox

MARKET FORECAST

The Industrial Market, along with other commercial real estate sectors will continue to improve with greater economic stability. Expect companies to remain apprehensive when approaching relocations and expansions, and vacancy levels to maintain current levels for the remainder of 2010, with a brighter perspective for 2011.

INDUSTRIAL MARKET BREAKDOWN	2005	2006	2007	2008	2009	Mid-Year 2010
Average Vacancy Rates	5.5% ▼	4.8% ▼	5.0% ▲	5.6% ▲	8.1% ▲	8.4% ▲
Industrial Net Absorption (SF)	1,436,960 ▲	939,159 ▼	208,099 ▼	158,324 ▼	(850,838) ▼	(26,511) ▲



MEDICAL OFFICE MARKET

Information provided by Jim Hawley, Kiemle & Hagood Company

CURRENT MARKET CONDITIONS

Medical Office vacancy rose by .7% from Fall 2009 to Spring 2010. Overall vacancy currently sits at 7.8% within the Spokane region. Rental rates have only increased slightly to \$20.60 and have maintained their levels despite the economic climate.

The result of Rockwood Clinic's move from the Sacred Heart Campus has had a dramatic change in the vacancy condition at specific properties. Deaconess Medical Center has absorbed a substantial amount of the relocated offices. The Eye Surgery Center at 208 West 8th and the former Group Health building on South Regal both have short term leases by Rockwood as part of their relocation effort. These are temporary locations until offices are constructed for those specific practices in the Health and Education Center at Deaconess.

As a result, Sacred Heart has approximately 45,000 square feet of medical space available. However, a large amount of the space is spoken for, but it will be nearly six months until the majority is backfilled with new tenants.

MARKET FORECAST

Expect to see the vacancy rate increase within the next six months due to Rockwood Clinic's relocation. Rental rates will maintain at their current levels with limited new construction plans for the remainder of 2010.

MEDICAL OFFICE MARKET BREAKDOWN	Spring 2010
Average Vacancy Rates	7.8% ▲
Average Rental Rates	\$20.60 ▲



Sacred Heart Medical Campus

MEDICAL OFFICE RENTAL RATES

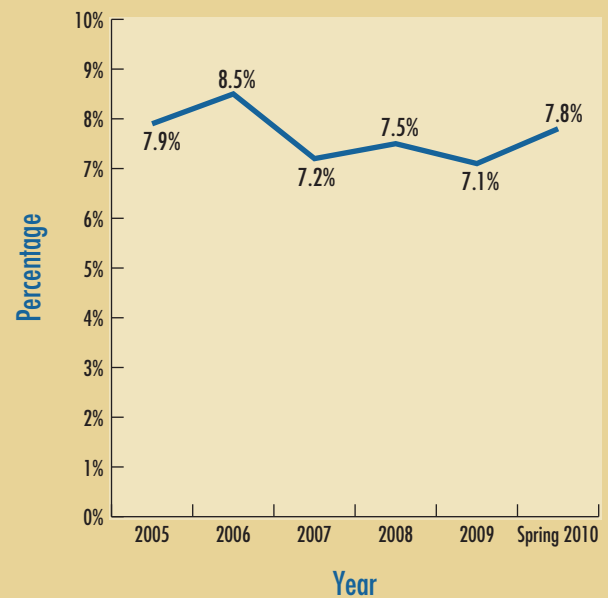
Historical Weighted Average



*Data Source: Kiemle & Hagood Company

MEDICAL OFFICE VACANCY

Historical Weighted Average



*Data Source: Kiemle & Hagood Company

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