

MAGIC VALLEY

2023

MARKET OUTLOOK

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YOUR GUIDE TO THE **MAGIC VALLEY'S COMMERCIAL REAL ESTATE MARKET**





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MAGIC VALLEY

2023

MARKET OUTLOOK

TABLE OF CONTENTS

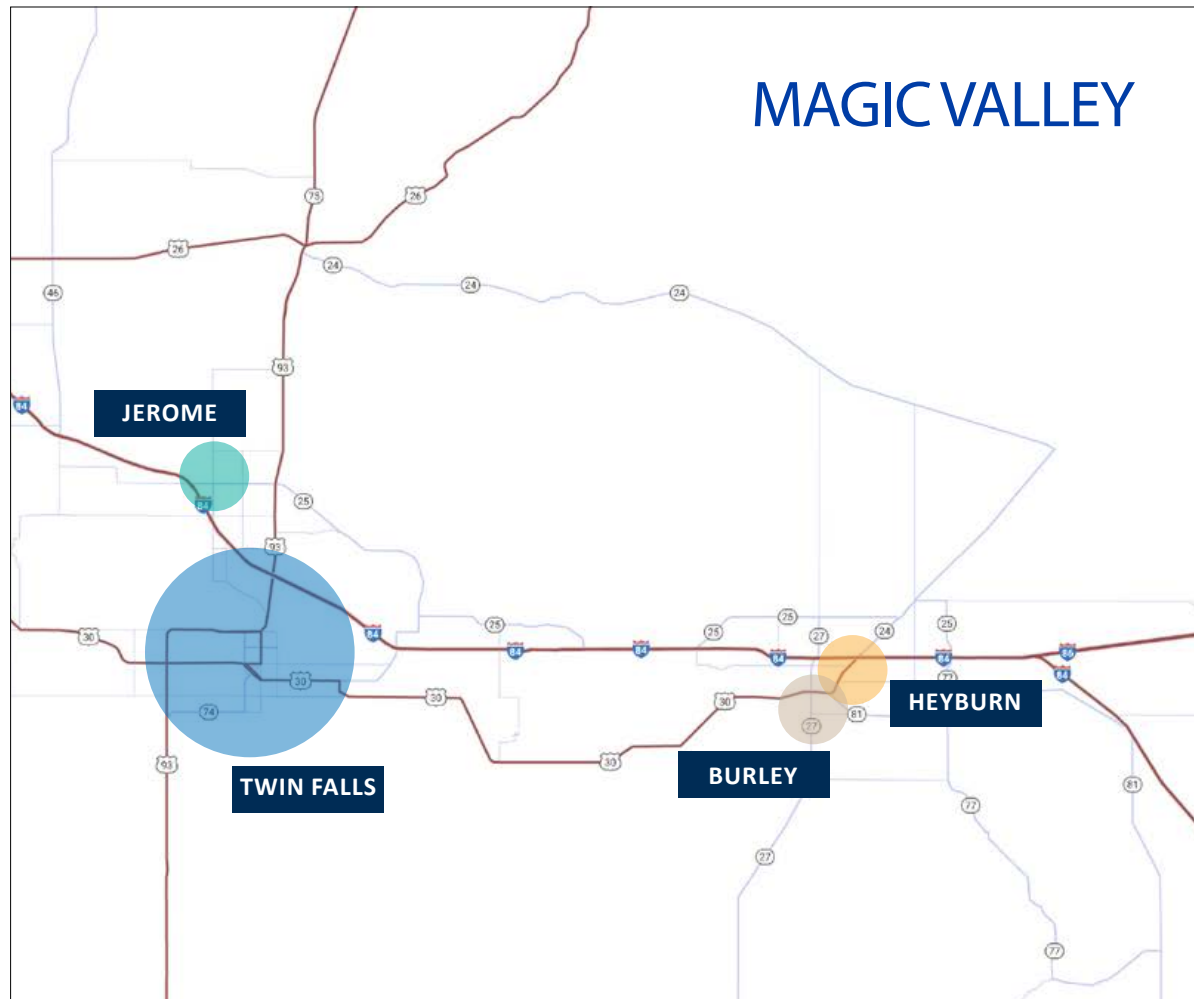
KEY DEMOGRAPHICS	4
OFFICE MARKET	6
INDUSTRIAL MARKET	8
RETAIL MARKET	10
INVESTMENT MARKET	12

To subscribe to TOK's Magic Valley Market Outlook, email us: info@tokcommercial.com
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MARKET REPORTS: Interested in more information? Our free quarterly market update offers additional coverage of market movement and analysis. Email us for details, info@tokcommercial.com



KEY FACTS

212,975

Population



Average Household Size

36.5

Median Age

\$61,828

Median Household Income

BUSINESS



8,960

Total Businesses



94,120

Total Employees

INCOME



\$61,828

Median Household Income



\$30,280

Per Capita Income



\$144,781

Median Net Worth

EDUCATION

13%

No High School Diploma



28%

High School Graduate



36%

Some College



24%

Bachelor's/Grad/Prof Degree

EMPLOYMENT



54%

White Collar



34%

Blue Collar



12%

Services

1.9%

Unemployment Rate

Households By Income

The largest group: \$50,000 - \$74,999 (23.0%)

The smallest group: \$200,000+ (4.5%)

Indicator ▲	Value	Diff	
<\$15,000	7.2%	+0.6%	
\$15,000 - \$24,999	8.6%	+0.8%	
\$25,000 - \$34,999	8.5%	0	
\$35,000 - \$49,999	12.3%	+0.3%	
\$50,000 - \$74,999	23.0%	+2.7%	
\$75,000 - \$99,999	16.0%	+0.9%	
\$100,000 - \$149,999	14.9%	-2.6%	
\$150,000 - \$199,999	4.9%	-1.6%	
\$200,000+	4.5%	-1.2%	

Bars show deviation from Idaho



OFFICE AT A GLANCE
THROUGH DECEMBER 2022

↑
ANNUAL

↑
QUARTERLY

150,000 SQ. FEET
GROSS ABSORPTION

↓
ANNUAL

↑
QUARTERLY

2.9%
MULTITENANT VACANCY

↑
ANNUAL

↑
QUARTERLY

\$17.50
AVERAGE NNN LEASE RATE (ANNUALLY)

OFFICE CONDITIONS

The Office market in the Magic Valley continued to perform well through 2022 with transactions up 4 percent from 2021. Absorption was also up slightly with gross absorption totaling 150,000 square feet. Canyon and Central submarkets in Twin Falls saw the most activity both with number of transactions and space absorbed.

This increase in absorption resulted in overall vacancy continuing to drop throughout 2022, finishing the year with 1.7 percent. Multitenant vacancy was also down from December 2021 hitting record lows in Q3 then rising to end the year at 2.9 percent. The overall drop in office vacancy in the valley led to projected months of supply also declining to just over 4 months. Downtown Twin Falls was the only submarket to see year-over-year vacancy rise. Both overall and multitenant vacancy in Downtown rose around 2 percent as tenants look for newer spaces.

New construction was down 50 percent from 2021 as construction costs and uncertainty impacted developers' decisions to build. A total of 32,000 square feet of new office space delivered in 2022. Of this, the largest was the new building at 160 Main Ave in Downtown Twin Falls providing office, retail, and multifamily space. Medical offices comprised the remaining newly constructed space with tenants including Idaho Eye & Laser and Today's Dental.

OFFICE OUTLOOK

The strong organic growth the area has seen will likely continue to drive the demand for future office space. Nearly 50 percent of transactions in 2022 were with tenants opening additional locations or expanding their space or local tenants starting new businesses. Area growth will also impact the market as new businesses continue to move into the valley.

It is expected that the slowing in construction in 2022, in addition to low office vacancy, will likely impact lease rates. The overall average for lease rates rose in 2022, a trend likely to continue as demand for office space grows with little inventory. As dedicated office space becomes more difficult to find, users may begin looking for commercial flex space that allows for more varied use. However, this situation will begin to improve considering there is over 124,000 square feet of office space currently planned or under construction.

TAKEAWAYS:

- ➔ **OVERALL VACANCY WAS DOWN OVER 50 PERCENT FROM 2021, ENDING THE YEAR AT 1.7 PERCENT.**
- ➔ **THE ORGANIC GROWTH OF LOCAL TENANTS WILL CONTINUE TO DRIVE FUTURE OFFICE ABSORPTION.**

NOTABLE ACTIVITY

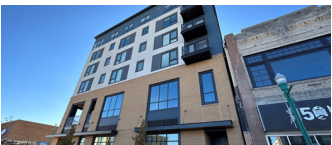
815 COLLEGE ROAD

14,000 SF - TWIN FALLS
SOLD TO ST. LUKE'S



160 MAIN AVENUE

13,000 SF - TWIN FALLS
LEASED TO KICKBACK REWARDS

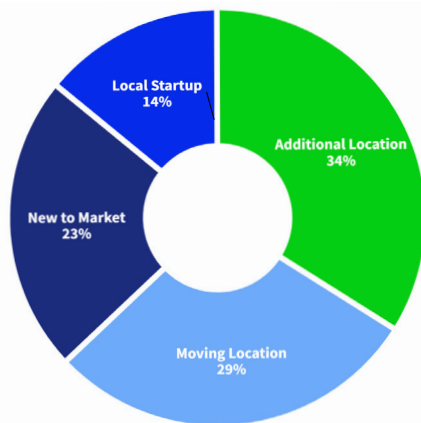


426 PARK VIEW LOOP

10,000 SF - TWIN FALLS
LEASED TO IDAHO EYE & LASER

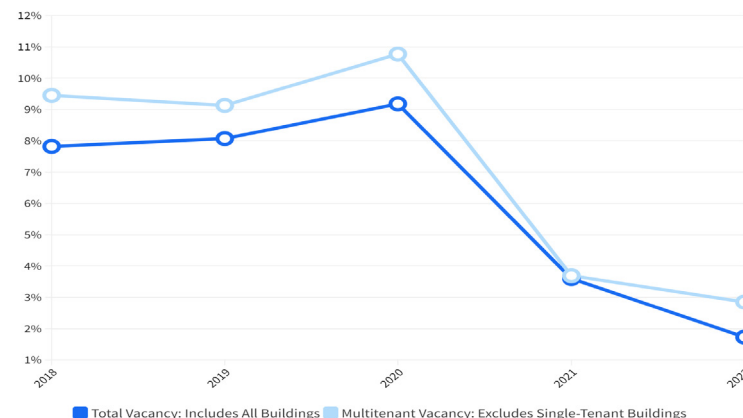


TENANT ORIGIN



OVER ONE-THIRD of TRANSACTIONS in 2022 were tenants **ADDING LOCATIONS OR EXPANDING SPACE.**

VACANCY TRENDS



OVERALL MULTITENANT vacancy **DECREASED** from 3.7% to 2.9% over the past 12 months.

TOK MAGIC VALLEY INDUSTRIAL MARKET

INDUSTRIAL AT A GLANCE
THROUGH DECEMBER 2022



ANNUAL



QUARTERLY

404,000 SQ. FEET

GROSS ABSORPTION



ANNUAL



QUARTERLY

0.9%

TOTAL VACANCY RATE



ANNUAL



QUARTERLY

\$0.88

AVERAGE NNN LEASE RATE (MONTHLY)

INDUSTRIAL CONDITIONS

Even with the high amount of absorption seen in 2021, the demand for industrial space continued to grow in the Magic Valley pushing gross absorption up 20 percent in 2022 and totaling over 400,000 square feet. The Magic Valley's well positioned location as a central hub for the state, its convenient access to major roadways and junctions, as well as its lower land prices in comparison to the Boise MSA has made it an attractive choice for many businesses.

Demand has sustained the development of industrial product. Though new construction was down in other sectors, industrial buildings continued to deliver in 2022 and was up compared to 2021 with completed projects adding up to 316,000 square feet. Of this, almost 82,000 square feet was speculative construction. Jerome saw the largest projects deliver with the new 197,000 square foot FedEx Distribution Center and the first building at Northbridge Junction measuring nearly 80,000 square feet.

Nevertheless, even as more product has come online, the market continues to be tight with overall and multitenant vacancy increasing just over half a percent from 2021 to 0.9 percent and 1.6 percent, respectively. The limited supply ultimately pushed up lease rates. Overall average asking rates are currently \$0.88 per square foot (NNN, monthly), up 40 percent over the past 12 months.

INDUSTRIAL OUTLOOK

The Industrial market is well positioned to continue its growth with over 750,000 square feet of industrial space currently planned or under construction in the valley. Notable projects being True West which is nearly complete and Northbridge Junction that looks to add two more buildings of speculative space totaling 319,000 square feet. Construction costs will remain a hurdle for builders, however, and continued supply chain issues will see project timelines increase or pushed back.

Businesses new to the market will likely continue to drive the demand for industrial space. Over 40 percent of all transactions were with tenants new to the Magic Valley in 2022. This along with organic growth will keep the market strong and vacancy low. Those conditions along with new Class A space delivering will likely push lease rates higher.

TAKEAWAYS:

→ **NEW CONSTRUCTION WAS UP FROM 2021 DELIVERING 316,000 SQUARE FEET.**

→ **HIGH DEMAND WILL CONTINUE THROUGH 2023 AS TENANTS NEW TO THE MARKET AND THRIVING LOCAL BUSINESSES DRIVE GROWTH.**

NOTABLE ACTIVITY

349 AMERICAN AVENUE

197,000 SF - JEROME
LEASED TO FEDEX



NORTHBRIDGE JUNCTION

32,700 SF - JEROME
LEASED TO COMMERCIAL CREAMERY

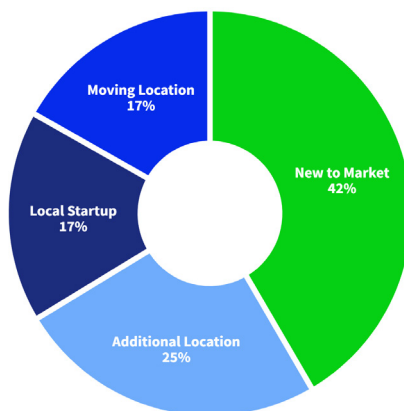


111 OVERLAND AVENUE

21,000 SF - BURLEY
LEASED TO G&G SERVICES

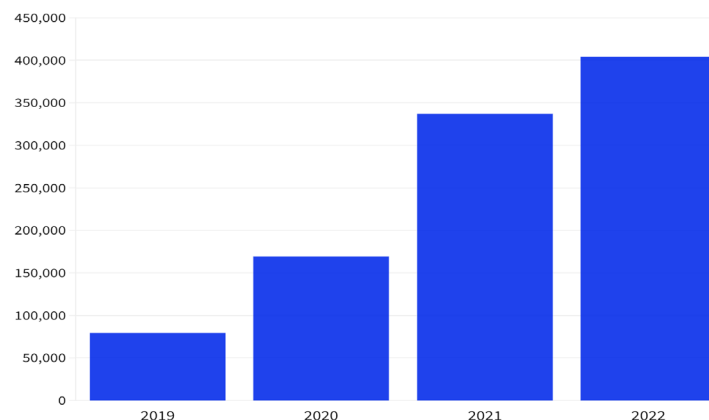


TENANT ORIGIN



Nearly 78,000 SF was absorbed by tenants **NEW TO MARKET.**

GROSS ABSORPTION



GROSS ABSORPTION was UP NEARLY 20% from 2021.

RETAIL AT A GLANCE
THROUGH DECEMBER 2022



ANNUAL



QUARTERLY

233,000 SQ. FEET

GROSS ABSORPTION



ANNUAL



QUARTERLY

3.3%

TOTAL VACANCY RATE



ANNUAL



QUARTERLY

\$16.50

CLASS A NNN LEASE RATE (ANNUALLY)

RETAIL CONDITIONS

The Retail market showed positive fundamentals in 2022 and continued on its strong recovery track since the pandemic began nearly three years ago. Overall number of deals remained flat from 2021, however gross absorption increased 6 percent. As for net absorption, all submarkets ended 2022 at positive levels.

Smaller spaces continued to make up the majority of activity with 57 percent of transactions over the past 12 months being in the 1,000 to 3,000 square foot range. However a large majority of absorption was attributed to mid box spaces leasing throughout the valley. Some of these notable deals include Old Navy and Ashley's Furniture Store leasing a combined 30,000 square feet at Canyon Park West in Twin Falls. In addition, Big Deal Outlet leased the former Bealls space (18,000 SF) in Burley.

Many local retailers opened their first store front locations in 2022 with 43 percent of deals being local startups. In addition, new to market retailers continued to show high interest in the valley, making up 28 percent of deals. With leasing activity strong, vacancy ultimately tightened to a three year low of low 3.3 percent, down from 4.5 percent. Unanchored vacancy also reached a three year low, declining from 4.5 percent to 2.8 percent over the past the 12 months.

RETAIL OUTLOOK

Demand from retailers in the Magic Valley is anticipated to remain strong in 2023. Leasing activity will continue to be driven by local startups most notably restaurant and small service related businesses. Finding quality space will remain a challenge considering construction costs limited new speculative development in 2022. This is a trend that will likely continue throughout the first half of this year, however there are a few retail developments currently in the pipeline. These projects include a 6,200 square foot strip center at 1519 Washington as well as 8,500 square feet at Sun West Village in Twin Falls.

Limited supply will ultimately keep vacancy tight and within the 3 to 5 percent range. In addition, lease rates are anticipated to stay on their rising trajectory. Overall asking lease rates ended Q4 at \$14.00 per square foot, up 4 percent from the previous year. Class A rates also rose \$0.50, averaging \$16.50 per square foot (NNN, annual).

TAKEAWAYS:

- ➔ **VARIOUS MID BOX SPACES WERE LEASED IN 2022 KEEPING ABSORPTION STRONG AND OVERALL VACANCY LOW.**
- ➔ **DEMAND WILL REMAIN HIGH AND SUPPLY LIMITED AS HIGH CONSTRUCTION COSTS LIMIT NEW RETAIL CONSTRUCTION IN THE VALLEY.**

NOTABLE ACTIVITY

CANYON PARK WEST

18,000 SF - TWIN FALLS
LEASED TO ASHLEY FURNITURE



BURLEY CROSSING

18,000 SF - BURLEY
LEASED TO BIG DEAL OUTLET

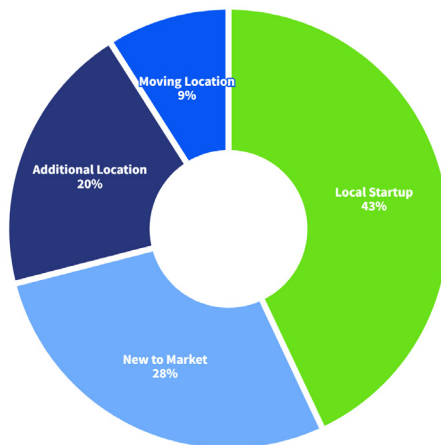


1881 POLE LINE

17,000 SF - TWIN FALLS
SOLD TO JAE FOUNDATION

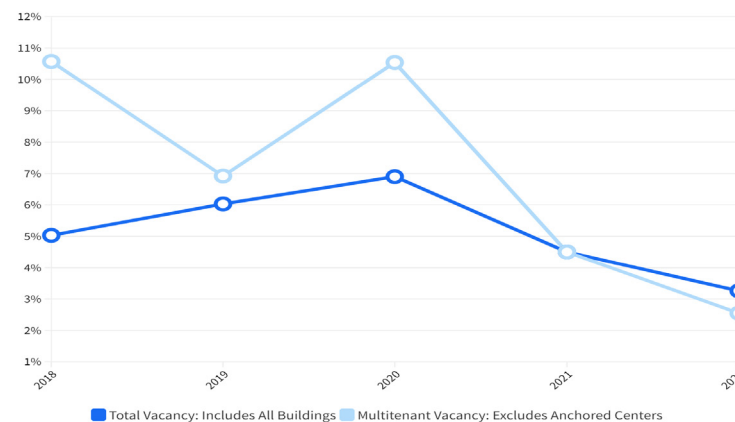


TENANT ORIGIN



RESTAURANTS made up 25% of LOCAL STARTUP deals.

VACANCY TRENDS



TOTAL VACANCY remained BELOW 4.5 PERCENT throughout 2022.

TOK MAGIC VALLEY INVESTMENT MARKET

INVESTMENT AT A GLANCE
THROUGH DECEMBER 2022



ANNUAL



QUARTERLY

6.0%

OFFICE: AVERAGE NATIONAL CAP RATE



ANNUAL



QUARTERLY

4.4%

INDUSTRIAL: AVERAGE NATIONAL CAP RATE



ANNUAL



QUARTERLY

7.3%

RETAIL: AVERAGE NATIONAL CAP RATE

INVESTMENT CONDITIONS

As economic uncertainty grew, sales activity ultimately slowed down in the latter half of 2022. This resulted in total number of transactions declining 56 percent from 2021. Transaction volume was also down 21 percent but remained higher than 2020 with over \$68 million dollars traded. Industrial product continued to be the most sought out sector by investors accounting for 40 percent of closed transactions. Office was the second strongest sector deal-wise making up 33 percent followed by retail with 20 percent.

Demand for apartment investments did not slow down in 2022 however finding willing sellers remained a challenge as high occupancy and rental rates resulted in many owners holding onto their properties. Of the product that did trade the large majority was smaller apartment complexes under 10 units.

Local capitalization rates started to flatten in 2022, staying in the range of 5.5 to 7.5 percent. Nationally, cap rates rose across all sectors, except office, over the past 12 months. The Federal Reserve increased interest rates by 0.25 percentage points at the start of 2023, taking it to a target range of 4.5 percent to 4.75 percent, the highest since October 2007. The Fed is expected to continue to raise interest rates throughout 2023 to combat high inflation. Rising interest rates will ultimately result in cap rates increasing.

INVESTMENT OUTLOOK

Investment activity is anticipated to stay slow throughout the first half as 2023 as many investors continue to wait out current economic conditions. However commercial real estate has long been considered a stable investment so well priced assets will continue to draw buyers to the Magic Valley.

Property values and rents will be harder to predict, but multifamily and industrial properties will remain most favored by investors. Lack of multifamily supply will remain a challenge for buyers however strong population growth has resulted in more apartment complexes breaking ground in recent years. Currently there are 134 units under construction with 543 more units planned in Twin Falls, Jerome, and Mini Cassia area.

TAKEAWAYS:

- INVESTMENT TRANSACTION VOLUME DECLINED FROM 2021 BUT REMAINED HIGHER THAN 2020 WITH OVER \$68 MILLION DOLLARS.
- OVERALL INVESTMENT ACTIVITY IS EXPECTED TO SLOW DOWN IN EARLY 2023 AS INTEREST RATES CONTINUE TO RISE AND FINANCIAL MARKETS REMAIN VOLATILE.

NOTABLE ACTIVITY

FEDEX DISTRIBUTION CTR.

196,500 SF - JEROME
INDUSTRIAL SOLD



788 EASTLAND DRIVE

4,800 SF - TWIN FALLS
OFFICE SOLD

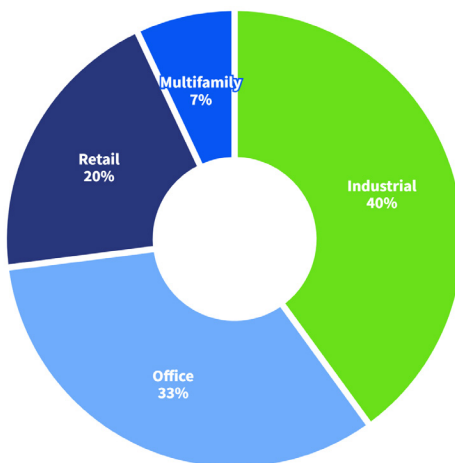


2400 OAKLEY AVENUE

8 UNITS - BURLEY
MULTIFAMILY SOLD

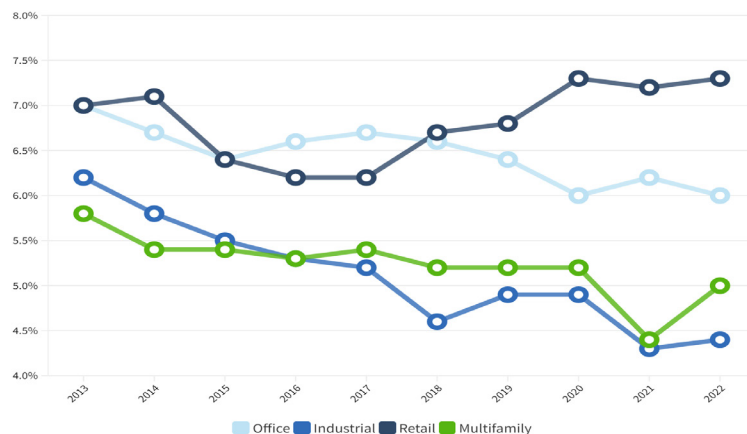


DEALS BY PROPERTY TYPE



TOTAL investment CONSIDERATION was over \$68 MILLION in 2022.

NATIONAL CAP RATES



CAP RATES ROSE across all SECTORS, except for OFFICE, from 2021 to 2022.



MARKET INSIGHT

+147 MILLION SQUARE FEET
TRACKED REAL TIME ACROSS
IDAHO MARKETS



RESULTS

24,000 SQUARE FEET
LEASED OR SOLD
PER BUSINESS DAY (2022)



REACH

AS THE LARGEST CRE FIRM IN
IDAHO, WE REPRESENT CLIENTS
IN EVERY MAJOR MARKET



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