

## Office Market Report

## Boise - ID (USA)

12 Mo Deliveries in SF	12 Mo Net Absorption in SF	Vacancy Rate	12 Mo Asking Rent Growth
194K	(182K)	6.2%	-0.1%

Recent availability spikes in previously owner-occupied space have created some headwinds in Boise's office market as of the first quarter of 2024. Aside from these moves, solid employment growth in the professional services, financial, and information sectors has contributed the most to office leasing, but space commitments have been offset by larger move-outs and speculative construction completions. Deliveries of new product total 190,000 SF over the past year, with vacancies ticking up to 6.2% as a result, indicating a 12-month change of 1.0%. Another 180,000 SF of office product is underway, set to expand metro inventory by 0.5%.

Current challenges aside, Boise's dependable population gains and expanding labor force have driven a strong economy over the past decade. While the region's office

assets have not been immune to a shift in space utilization, Boise's low cost of living and burgeoning reputation as a smaller, tertiary tech hub enhance the office market's appeal to a certain degree. For example, Paylocity, a cloud-based payroll and human capital management software company, has expanded to over 100 employees in the area.

On the capital markets side, sales activity remains lackluster, likely due to recently tightened liquidity conditions. The Federal Reserve continues its battle with inflation through monetary policy moves such as federal funds rate increases. Thus, a healthy percentage of deals lately involve owner plays or standalone investments similar to the former Citibank call center purchased by Engineered Structures Inc. Medical offices have also been a popular choice.

KEY INDICATORS

Current Quarter	RBA	Vacancy Rate	Market Asking Rent	Availability Rate	Net Absorption SF	Deliveries SF	Under Construction
4 & 5 Star	8,283,210	6.3%	\$26.48	6.3%	1,423	0	900
3 Star	14,357,703	8.4%	\$22.42	10.5%	(31,227)	0	177,576
1 & 2 Star	12,593,697	3.7%	\$17.93	4.5%	(27,316)	0	0
Market	35,234,610	6.2%	\$21.77	7.4%	(57,120)	0	178,476

Annual Trends	12 Month	Historical Average	Forecast Average	Peak	When	Trough	When
Vacancy Change (YOY)	1.0%	8.1%	6.5%	11.9%	2010 Q3	4.1%	2020 Q2
Net Absorption SF	(182K)	495,414	112,683	1,176,031	2008 Q4	(292,195)	2023 Q3
Deliveries SF	194K	492,380	151,655	1,256,458	2021 Q2	64,073	2012 Q2
Asking Rent Growth	-0.1%	1.3%	0.5%	6.7%	2022 Q1	-7.8%	2009 Q4
Sales Volume	\$36.6M	\$67.8M	N/A	\$252.8M	2018 Q3	\$10.4M	2009 Q4



Market asking rents in Boise have grown by -0.1% over the past 12 months, with all-time annual growth averaging 1.3%. This has pushed Boise's market rental rate to \$21.77/SF. Rents are projected to flatline near term, a result of a few recent trophy asset completions that are testing leasing.

Locationally, however, rent premiums are being paid for space in high-growth areas on the west side of the metro with ample access to employee talent. Even some select non-trophy assets are garnering elevated rents. In 23Q3, DirecTV leased 20,685 SF of direct space at the El Dorado Business Campus in the South Meridian Submarket. The asset had an asking rate of \$22.95/SF full service. Additionally, Citibank subleased 12,830 SF nearby, with asking rents of \$28/SF full service.

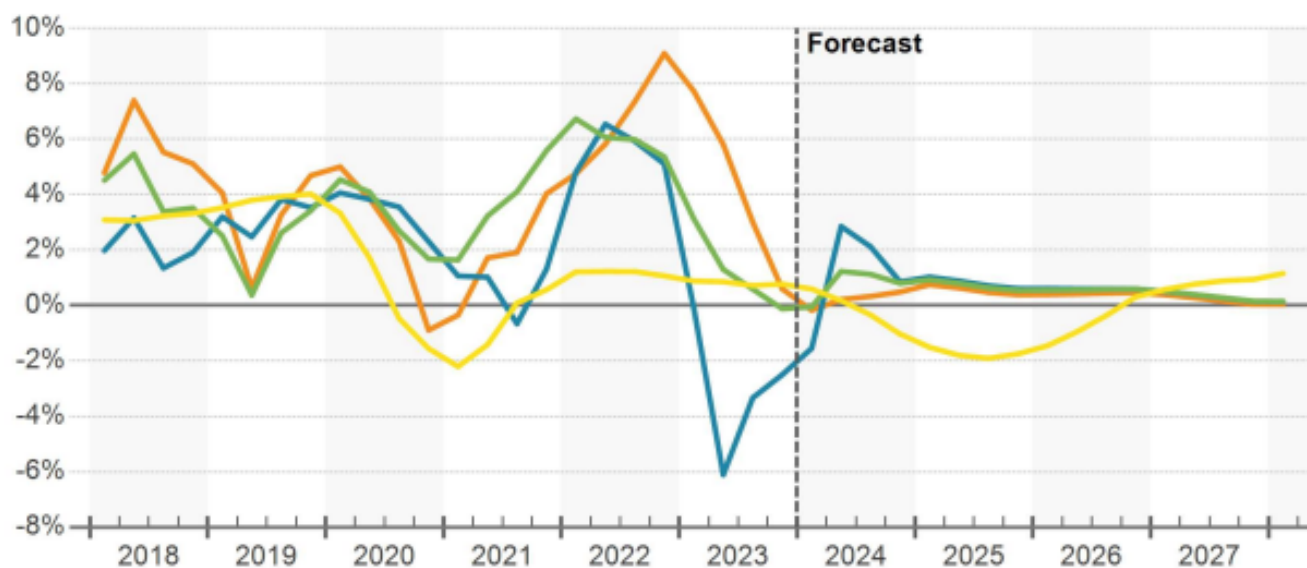
Properties rated 3 Star, as well as those in the 1 & 2 Star category, are posting market rents of \$22.42/SF and \$17.93/SF, respectively. These rates indicate changes of 0.26% and 1.39% over the past 12 months. The 4 & 5 Star properties have underperformed, given a heavier

dose of new supply. Rent growth in the trophy category over the past year amounts to -2.23%.

In turn, when comparing spreads between sublet and direct space offerings, the gap isn't nearly as pronounced as it is in other peer markets. Some larger West Coast gateway markets like Portland have experienced asking rates for sublet space to be around 30% to 40% below direct rents, given the sheer drop in demand that has curbed expansions in core submarkets. For comparison, healthier demand in Boise has the discount for sublet space trending to around 5% below direct space offerings when examining CoStar's availability-weighted rent series.

From a historical perspective, Boise's office rent growth was negative from 2007 through 2012, meaning all-time gains round to approximately 21.2%. This underscores the difficult recovery Boise endured after the Great Recession. Rents did not exceed the prerecession peak until 2019. In contrast, rent growth nationwide has grown about 43.9% all time.

## MARKET ASKING RENT GROWTH (YOY)



Quarterly leasing volume in Boise bottomed out in late 2022 and has been on a steady incline since. Activity in 23Q4 posted one of the highest volume totals since late 2021. However, trailing four-quarter net absorption has downshifted to -181,955 SF, well below the all-time average of 460,000 SF. Two partial catalysts for this are Citibank and DirecTV, which recently put their respective corporate call center complexes in Meridian and West Boise up for sale, leaving a sizable void of over 300,000 SF on the market. Each company has signed for a much smaller space in the South Meridian Submarket, and the Citibank building has since been purchased.

Downsizings of this scale are concerning for a metro area that has otherwise posted solid job growth figures. Vacancy rates are thus seeing upward pressure, currently trending to 6.2%, with annual rent growth eroding to -0.1%. That said, there are around 25 existing office buildings with at least 20,000 SF of contiguous space available for lease, and fewer than 10 that have more than 50,000 SF available. As such, sublet availabilities remain comparatively low, at a rate of 0.8%, with a slew of sublease uptakes in the latter half of 2023 continuing to push that narrative. For perspective, in Seattle and Portland, the availability rate for sublet space is nearly triple that figure.

Updated parking garage data from Boise's central core indicates there are waiting lists again for those seeking spaces, meaning residents are likely coming back downtown to take advantage of services and be closer to work. Leases in the core neighborhoods have been pushed by professional and business services offerings

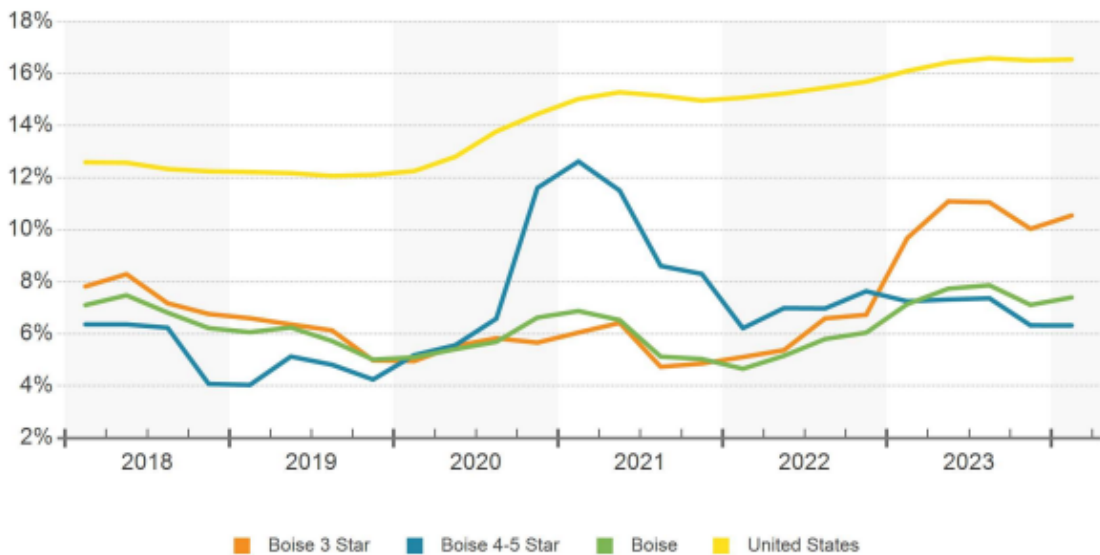
over the past year. Federal Defenders Of Idaho signed on for an additional 4,883 SF of space to expand their footprint at 702 W Idaho St. in 23Q2. In addition, Sawtooth Law signed on for another five-year term in 3,000 SF of 3 Star space at the Forest River Office Park in 23Q1.

Further away from the core, tenants have been active in West Boise and Meridian. In Meridian, a rapidly growing population and services expansions have made offices more appealing for development than they were a decade or two ago. Space signings continued in 23Q3, with Citibank and DirecTV taking on over 33,000 SF combined off Bonito Way within the El Dorado Business Campus. However, these moves were overshadowed by the larger blocks of space given back at their larger corporate call centers. In West Boise, Trivium Life Services took 8,700 SF at the Explorer Campus in 23Q1, while Bartlett Homes & Roofing LLC took on over 17,000 SF of space at Cottonwood Plaza. This is the second in a series of leases that boosted occupancy there by over 30,000 SF.

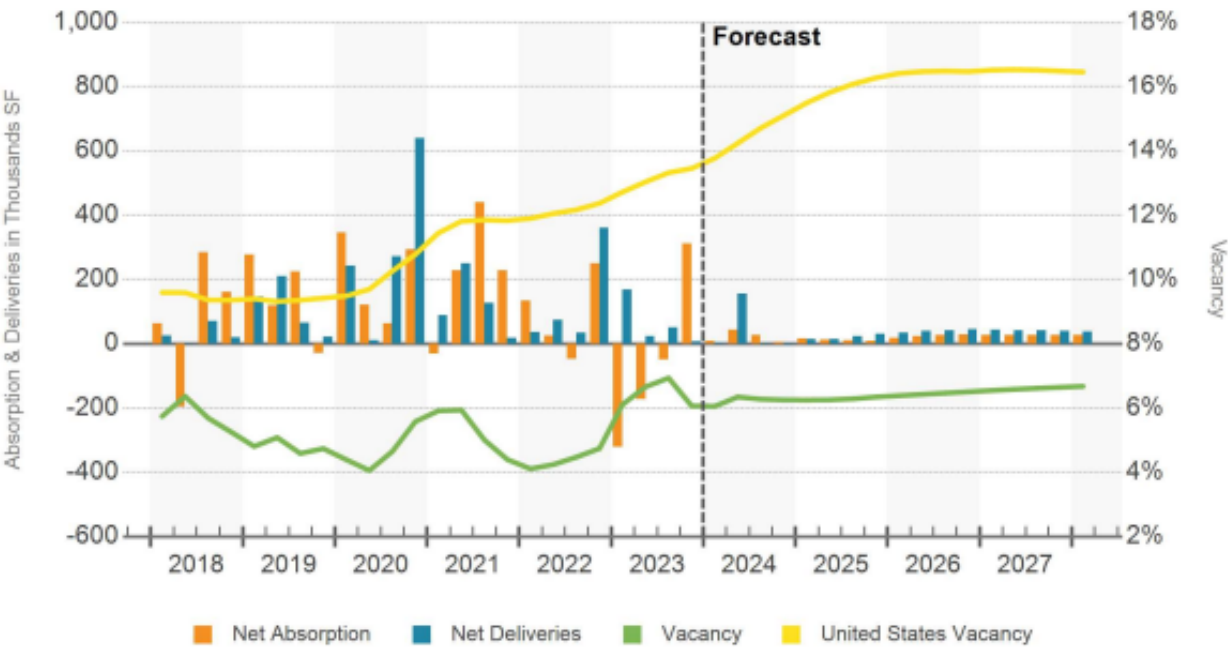
Major companies headquartered in the region that contribute to office synergy include Albertsons, Micron Technology, Clearwater Analytics, and Scentsy. Paylocity, while not headquartered in the area, has expanded its footprint and workforce in Meridian. The office-using sectors of professional and business services, financial activities, and information combine to employ about 22% of the metro's nonfarm payroll. Additionally, the 26,000 students at Boise State University provide a pipeline of talent for local employers.

Leasing

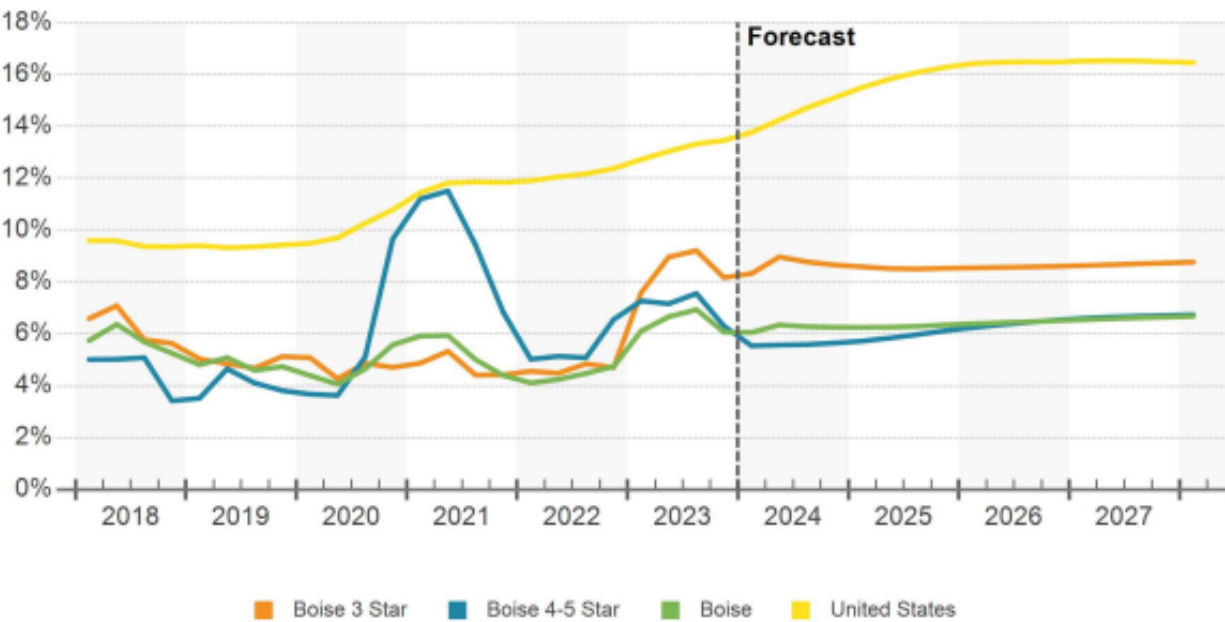
AVAILABILITY RATE



NET ABSORPTION, NET DELIVERIES & VACANCY



VACANCY RATE





Given Idaho's status as a non-disclosure state, what information is available points to reduced activity as of the first quarter of 2024. Trailing-year sales volume equates to \$32.8 million, versus the historical annual average of \$67.0 million. While the Federal Reserve's current rate hike cycle may be nearing a close, borrowing rates could still remain historically high, given the pace of hikes over the past year.

Institutional investors as a whole have shown more interest in Boise over the years, but most properties still trade largely between smaller, individual investors or owner/users. Private capital has made up around 85% of sales volume over the past three years, with 70% of this capital originating from outside of the region. Recently, medical and dental office plays and triple-net deals have been popular bets for investors seeking strong tenancy. These trades have supported cap rates below 7% and under market averages.

In 23Q3, a 4,950-SF medical office located in the West Boise Submarket sold for \$1.48 million (\$298/SF). Strong tenancy and cash flow drove this deal to a reported actual cap rate of 6.85%. A new, triple-net lease at \$22/SF over 10 years was recently signed by Boise Dentures and Implants. The practice is part of the larger Shared Practices Group, a national dental partnership. Shared Practices is quickly expanding nationwide.

Another triple-net office deal closed in 23Q2. A 5,000-SF building located at Parkcenter Pointe transacted for \$1.35 million (\$270/SF), yielding a reported 6% cap rate. The asset was occupied by Suntree Language Academy.

Owners who will be end users have also contributed to volume. Printshop McCall purchased Building 1 in the Emerald Corporate Park for \$2.5 million (\$156/SF). The 16,000-SF asset will serve as a centralized location for the growing company and its affiliated businesses.

SALES VOLUME & MARKET SALE PRICE PER SF

