



2003

MID-YEAR REAL ESTATE MARKET REVIEW

COLLIERS
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Presented by Colliers International

Boise, Idaho

INVESTMENT

Overview

Commercial Investment Real Estate demand remained strong, and supply tight, during the first half of 2003. Preliminary reports indicate an increase in the number of transactions over the previous year. Colliers tracked twenty investment transactions during the first half of 2003. Most notable was a continued decline in the average transaction value to \$1,937,750, so far this year compared with a 2002 average transaction value of \$2,458,853. Capitalization rates appeared to be stabilizing during the first half of 2003, showing an average increase to 9.61 percent from the 2002 average of 8.61 percent. Capitalization rate increases are likely being driven by the fact that few investment properties in the market are not challenged by higher than acceptable vacancies. Additionally, a reduction in long-term capital gains taxes has provided more incentive for sellers to cash-out rather than pay the high prices created by lower cap rates. Data gathered from the sale of twenty investment properties in the Boise MSA, above \$500,000 in consideration, was used to compile the following statistics.

Office Investment

Office investment is the most active sector in the Boise market in spite of the sluggish economic environment. Office investment properties continued to be challenged by increasing vacancy and low absorption. Leasing activity continues to be anemic, creating downward pressure on rents as building managers compete to fill excess available space. Historically low interest rates have additionally increased incentive for small office tenants to pursue ownership rather than lease renewals. In the first half of 2003, Colliers tracked nine office investment transactions with total consideration of \$20,525,000, representing 53 percent of the year-to-date total transaction value. Cap rates varied from a high of 10 percent to a low of 8.59 percent, with a sector average of 9.59 percent (adjustments were made for vacancies and non-standard underwriting in all property types). Property sizes ranged from 4,272 square feet to 103,342 with a total of 179,463 square feet changing hands. Prices per square foot ranged from \$86.90 to \$206.46 with a median price per square foot of

\$130.95 and an average price per square foot for the sector of \$111.07.

Office Outlook – Stable to Negative

Positives – New construction should continue to be restricted as interest rates increase and lenders continue to restrict funds for new product. Increasing interest rates and competitive rents will reduce the incentive for tenants to pursue less flexible ownership opportunities. Vacancy rates should begin to stabilize at current levels for the near future.

Negatives – Continued anemic job growth and high vacancy rates will continue to erode rents as competition for tenants remains fierce. Declining rents will decrease the sales value per square foot. High rollover cost will continue to penalize returns for the investor who fails to compete for tenants with true market rents. Suburban migration and development will cause continued downward pressure on rents in urban markets.

Retail Investment

Retail investment sales during the first half of 2003 totaled six transactions, with \$10,092,000 in consideration. Cap rates ranged from 9.37 percent to 12.84 percent, with a sector average rate of 10.03 percent. Prices per square foot ranged from \$77.89 to \$253.91 per square foot, with the average being \$125.05 per square foot and a median price per square foot of \$139.15. Sector transactions continued to focus on newer centers located at prominent or developing locations and net-leased single tenant buildings.

Retail Outlook – Stable

Positives – National and local retailers continue to be cautious about expansion plans. Construction lenders are limiting the number of new projects. Higher cap rates and realistic sellers will attract investors from other property types.

Negatives – Unanchored centers continue to be carefully scrutinized by tenants, lenders and prospective investors. Declining rental rates in unanchored centers will decrease sale values.

National Cap Rate Comparison

Type	Boise 2001 Cap Rates	Boise 2002 Cap Rates	National Average Cap Rates 2002	Boise Mid-Year 2003 Cap Rates
Office	9.18%	8.27%	9.49%	9.59%
Retail	8.55%	9.32%	9.89%	10.03%
Industrial	9.31%	9.16%	8.95%	-----
Multi-Family	9.30%	8.47%	8.51%	8.42%

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2003 Mid-Year Boise Market Summary

Count	Type	SF	Agv Sq Ft	Total Price	Average Price	Average Price/SF	Average Cap Rate
9	Office	184,791	20,532	\$ 20,525,000	\$ 2,280,556	\$ 111.07	9.59%
6	Retail	80,703	13,451	\$ 10,092,000	\$ 1,682,000	\$ 125.05	10.03%
2	Industrial	44,350	22,175	\$ 2,840,000	\$ 1,420,000	\$ 64.04	----
3	Multi-Family	92,976	30,992	\$ 5,278,000	\$ 1,759,333	\$ 56.77	8.42%
20	Total	402,820	20,141	\$ 38,735,000	\$ 1,936,750	\$ 96.16	9.61%

Industrial Investment

Industrial investment activity in the Boise MSA slowed dramatically in the first half of 2003, with only two transactions tracked with a total square feet of 44,350 and total consideration of \$2,840,000. Transactions represented include a single tenant warehouse sale-leaseback and a multi-tenant industrial flex building. Insufficient transaction data was available to enable reporting of cap rates. Prices per square foot averaged \$64.04.

Industrial Outlook – Stable

Positives – Limited industrial land availability will support current rental rates and restrict new development. Warehouse distribution is traditionally the last item to be cut in business right-sizing, and the first space to come online during a recovery. The limited number of buildings on the market will keep cap rates lower than other markets. Proposed airport expansion may spawn new development in Southeast Boise.

Negatives – A prolonged economic downturn with reduced consumer demand for goods may hinder warehouse expansion, and will slow rental increases, even in a generally tight market.

Multi-Family Investment

Even with historically low interest rates, the first half of 2003 showed a continued decline in the number of multi-family units traded. During the first half of this year, Colliers tracked the sale of 118 units with a total consideration of \$5,278,000. Cap rates ranged from 7.64 percent to 8.97 percent with an average of 8.42 percent. Prices per unit ranged from \$42,968 to \$45,833 with an average per unit price of \$44,729. Square foot prices ranged from \$53.30 to \$58.30 with an average of \$56.77. The continued decrease in sales can be best described as an impasse between sellers' expectation of low cap rates based on projected full occupancy, buyers' unwillingness to purchase an

asset with a vacancy in excess of 10 percent without an appropriate price adjustment, and lenders' reluctance to provide financing based on anything other than the current trailing cash flows of the project.

Multi-Family Outlook – Challenged

Positives – Increasing interest rates will reduce competition with new home purchases. Though slow, Treasure Valley job growth and continued population growth will outpace the national average. Lender skepticism will delay many proposed new units.

Negatives – Slow job growth combined with historically low home mortgage rates will hamper absorption and rental increases. Recent reports indicate vacancy is currently around 15 percent market-wide.

Conclusion

The local economy is exhibiting signs of stabilization toward the middle of 2003. Boise MSA employment appears to have stabilized during the 2nd quarter, and interest rates remain at historically low levels. Speculative development continues to be held in check by prudent lenders. Reductions in transaction volume and increases in cap rates during the first half of 2003 appear to be driven by the reluctance of sellers to meet increasing investor return demands. Recent reductions in capital gains tax rates and growth trends in the equities markets have opened up other options for investors that have not been there during the last two years. Going forward, expect to see more sellers choose to pay capital gains on their transaction and move some of their equity into more liquid investments until there is a more distinct economic recovery under way. Buyers should benefit from reduced competition for properties and improved capitalization rates. Additional pressure on capitalization rates can be expected if we begin to see increases in interest rates during the second half of the year.

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