

FIGURES | BOISE OFFICE | Q1 2023

Boise’s office market demonstrates resilience in the face of economic challenges and rising vacancy rates



Note: Arrows indicate change from previous quarter.

HIGHLIGHTS

- The average direct asking rent in Q1 2023 increased by 2.3% quarter-over-quarter, reaching \$23.82 per sq. ft—demonstrating a continued trend of rising asking rents in the Boise metro.
- The South Meridian and Meridian submarkets continue to command top-tier rental rates, with the South Meridian submarket demanding rents that are 9% above the metro average.
- Rising office availabilities continue to challenge market dynamics for landlords but present more opportunities for tenants searching for space.
- Q1 2023 saw the availability rate increase by 70 basis points quarter-over-quarter and 480 basis points year-over-year. The South Meridian submarket had the highest availability rate at 32.5%, while Airport, Caldwell, and Nampa submarkets had minimal availability.
- Although the Boise metro continues to face economic headwinds, 149,652 sq. ft. of construction is currently underway in the South Meridian submarket. In addition, the Sundance Company delivered Veranda Plaza, a 73,734 sq. ft. office in the South Meridian submarket, in Q1 2023.

Figure 1: Office Market Indicators



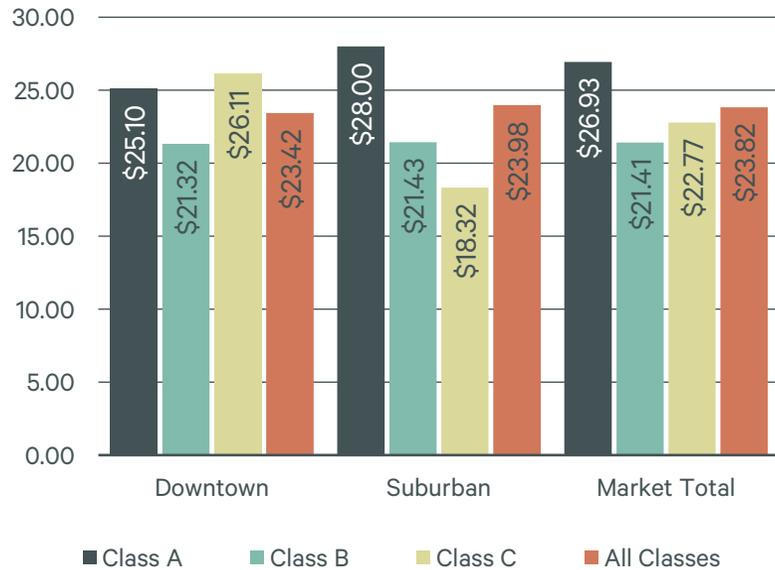
Source: Idaho Department of Labor, Mar 2023; US Census, Jul 2022; CBRE Research, Mar 2023

Market Overview

Since Q1 2022, availability added another 734,703 sq. ft.. This, combined with global office usage trends, dented Boise's office fundamentals. Rising office availabilities continue to challenge market dynamics for landlords, but present more opportunities for tenants searching for space.

Boise's robust economy, fueled by a growing population and expanding labor force, has thrived over the past decade. While the region's office assets have not been immune to shifts in space utilization, the area's low cost of living and solid economic fundamentals enhance the office market's appeal.

FIGURE 2: Average Direct Asking Lease Rates (\$/SF/Yr FSG)



Source: CBRE Research, Q1 2023

FIGURE 3: Market Statistics – Boise Office

	Net Rentable Area (SF)	Total Available (%)	Total Vacancy (%)	Direct Ask. Rent (\$/SF/Yr FSG)	Sublease Available (SF)	Under Construct. (SF)
Airport	22,002	-	-	-	-	-
Bench	1,550,870	4.8	4.9	21.17	-	-
Caldwell	205,314	-	-	-	-	-
Downtown	4,097,768	13.7	12.0	23.42	98,549	-
Eagle	235,909	1.2	0.1	-	2,718	-
Meridian	1,973,424	5.8	4.1	24.93	2,460	-
Nampa	417,925	0.2	0.2	19.00	-	-
North Boise	246,729	16.0	16.0	17.35	-	-
South Meridian	1,359,050	32.5	23.2	25.96	19,741	149,652
Southeast	853,183	6.9	6.9	23.33	-	-
Southwest	569,281	7.8	7.6	19.95	2,748	-
West	2,975,121	5.3	4.9	20.15	99,684	-
BOISE MARKET	14,506,576	10.3	8.6	23.82	225,900	149,652

Source: CBRE Research, Q1 2023

Market Performance

Despite overall market softening, the average direct asking rent increased by 2.3% quarter-over-quarter—reaching \$23.82 per sq. ft in Q1 2023. This positive trajectory reflects a consistent uptick of asking rents in the Boise metro, with rents having escalated by \$4.04 since Q1 2022. Despite recent economic headwinds, the demand for office space remains strong—demonstrated by notable interest from both local and national tenants.

Ball Ventures Ahlquist, a local developer, consistently achieves high pre-leasing rates for their newly developed Class A properties located in the highly sought-after South Meridian and Meridian submarkets. These submarkets are known for commanding top-tier rental rates, with the former demanding rents that are 9% above the metro average. These high rates are driven by an abundance of newly constructed, highly-amenitized Class A offerings.

Availability & Vacancy

In Q1 2023, the vacancy rate rose to 8.6%—an increase of 107 basis points quarter-over-quarter and 334 basis points year-over-year. The rise in vacancy was primarily due to a decrease in market activity and the inclusion of larger spaces in the Downtown and South Meridian submarkets, such as the Shoreline Tech Center and the Front 5 Building. Moreover, the availability rate increased by 75 basis points quarter-over-quarter and 476 basis points year-over-year. Still, Boise continues to outperform comparable markets, and several submarkets recorded limited vacancy and availability in Q1 2023

Development Pipeline

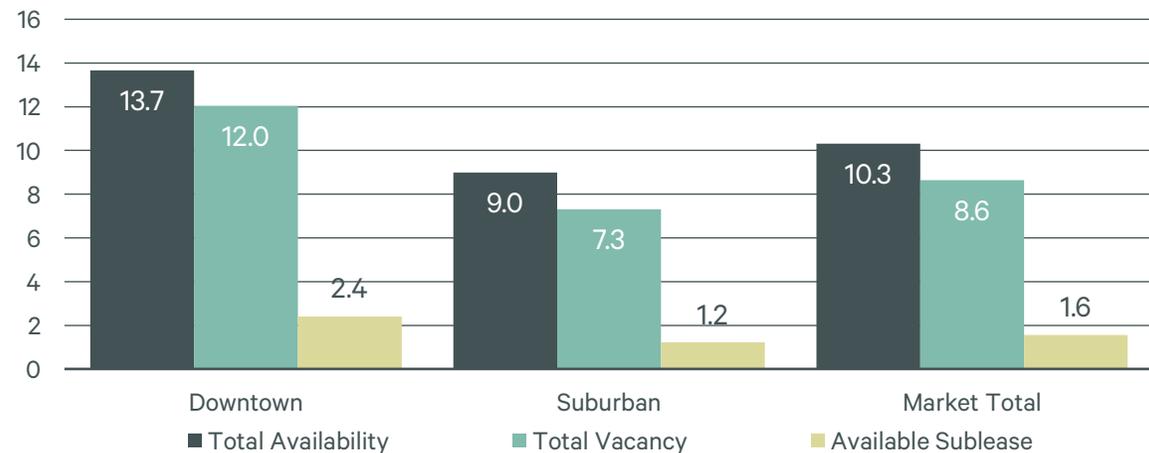
Although the Boise metro continues to face economic headwinds, 149,652 sq. ft. of construction is currently underway in the South Meridian submarket. In addition, the Sundance Company delivered Veranda Plaza, a 73,734 sq. ft. office in the South Meridian submarket, in Q1 2023. The ongoing construction is expected to contribute to higher vacancies in the short term, influenced by demand headwinds. Overall, the metropolitan area is experiencing a slowdown in growth due to factors such as expected value decline, stricter financial conditions, and a sluggish economy.

Figure 4: Average Asking Lease Rates (\$/SF/Yr FSG) and Vacancy (%) by Submarket



Source: CBRE Research, Q1 2023

Figure 5: Total Availability, Vacancy, and Sublease (%)



Source: CBRE Research, Q1 2023

Local Economic Overview

Idaho's economy remains strong, with an unemployment rate of 2.6%—lower than the national average of 3.6%. However, during Q1 2023, the state experienced a decline in commercial real estate investment volume due to interest rate hikes implemented by the Federal Reserve to curb inflation. This decline has contributed to an environment of uncertainty and amplified challenges associated with financing growth, causing occupants to exercise caution amid economic volatility and an emerging credit crunch. Despite these challenges, Boise displays positive indicators. Job growth in the region has increased by 2.7% in the past year, with a notable 17.1% rise in information technology job growth. Moreover, the Consumer Price Index for the Mountain States region experienced a modest decline in February 2023, indicating a slight drop in the prices of consumer goods and services.

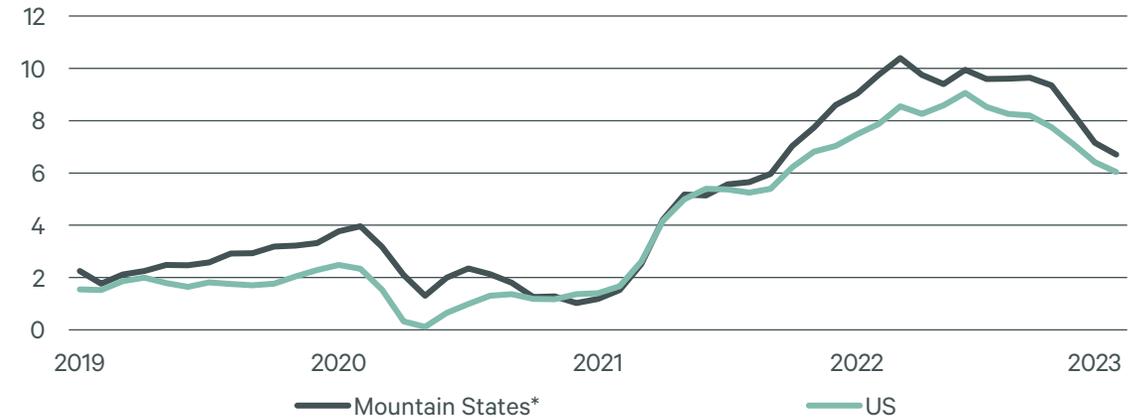
National Economic Outlook

Downstream consequences of the Fed's tightening program are surfacing and signaling slower growth ahead. Specifically, trouble in the banking sector will likely weigh on even the strongest feature of the economy—the consumer—as banks limit lending to increase their own liquidity. This will erode demand for big-ticket items, such as housing and autos, but could also impede spending on services, which has been a key driver of job growth in recent months.

In addition, technology and corporate functions are under pressure, as hiring has outpaced revenue growth in recent years. Inflation and cost of capital are causing companies to postpone expansion plans, and business investment is stalling. Like households, companies will feel the effects of constrained credit flows.

This risk-off environment points to a moderate recession this year. The impact on commercial real estate will be two-pronged—a weaker economy will slow NOI growth and tighter bank lending will limit investment activity. These conditions will likely accelerate and crystalize value loss in the office sector, but losses elsewhere will be less severe due to stronger fundamentals. The silver lining is that a faster slowdown in the economy will reduce inflation pressure later this year and allow the Fed to ease monetary policy, providing greater clarity to the real estate sectors.

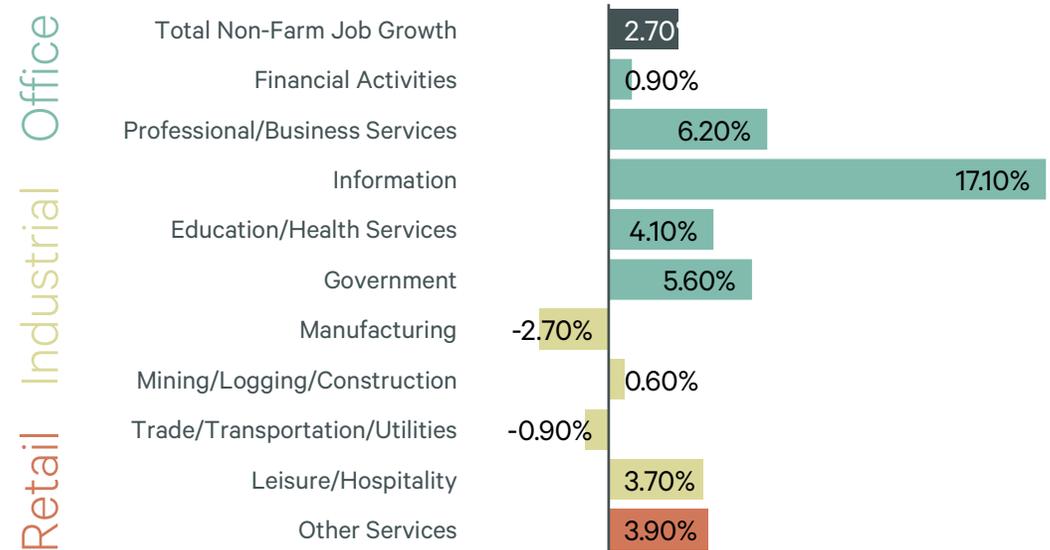
FIGURE 6: 12-month Change in Consumer Price Index for Mountain States and U.S. (%)



Source: Bureau of Labor Statistics, March 2023

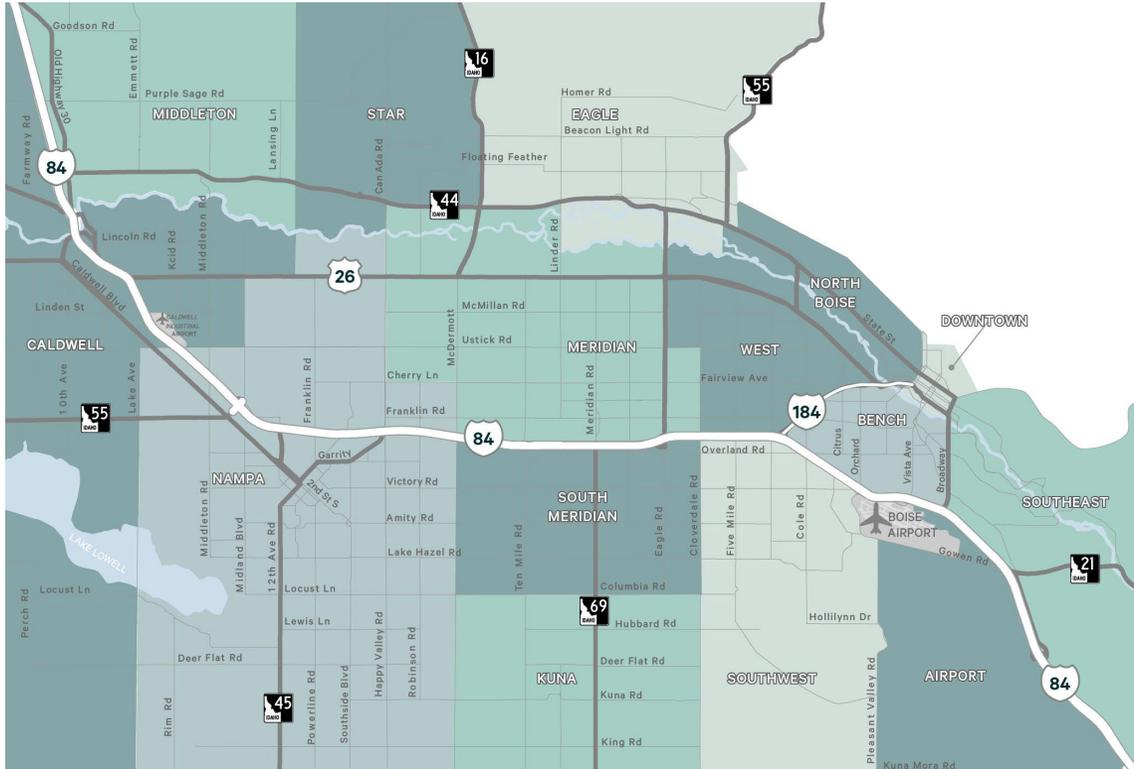
*Mountain States includes AZ, CO, ID, NV, NM, UT, WY

FIGURE 7: Boise City-Nampa, ID Non-Farm Job Growth YOY by Industry (%)



Source: Bureau of Labor Statistics, March 2023

Market Area Overview



CBRE Offices

Boise

877 West Main Street, Suite 600
Boise, ID 83702

Survey Criteria

Includes all existing office buildings 20,000 sq. ft. and greater in size, excluding owner-user and medical office, in Ada and Canyon counties. Buildings that have begun construction are evidenced by site excavation or foundation work.

Methodology

Absorption is calculated at the time of occupancy, which allows for product to be vacant but no longer available. Lease rates are calculated using weighted average of asking lease rates for existing product with availability. Sublease space can be vacant or occupied. Total vacancy includes both direct and sublease. Lease activity is the sum of the square footage of leases signed during a designated time period.

Contacts

Matthew Smith

Field Research Analyst
+1 801 930 6135
matthew.smith3@cbre.com

Sierra Hoffer

Field Research Manager
+1 801 869 8022
sierra.hoffer@cbre.com

© Copyright 2023 All rights reserved. Information contained herein, including projections, has been obtained from sources believed to be reliable, but has not been verified for accuracy or completeness. CBRE, Inc. makes no guarantee, warranty or representation about it. Any reliance on such information is solely at your own risk. This information is exclusively for use by CBRE clients and professionals and may not be reproduced without the prior written permission of CBRE's Global Chief Economist.