Property Management — Changing With The Times

The changes that commercial real estate is experiencing due to the current economic downturn are causing commercial property managers to re-think best practices for landlords and tenants. The job of the property manager is to maximize the landlord’s net operating income while simultaneously making sure a property is well cared for and tenants remain satisfied.

In Central Oregon we have seen vacancy rates increase and rents decrease as business owners downsize to survive the current recession. The industrial vacancy rate is 17%, the office vacancy rate is 20% and the vacancy rate for retail is 13%. Rental rates are down to a level last seen 20 years ago. Yet few building expenses have come down due to the recession. Here in Deschutes County, (due to a 1997 voter measure), property taxes continue to climb at 3% per year. Some vendors and contractors are giving small discounts to landlords but the savings do not mirror the dramatic drop in rental rates. To make matters worse, although interest rates are low, landlords are finding banks reluctant to refinance given today's strict underwriting criteria.

Property management has to evolve along with these changes in the commercial real estate market. It is no longer a matter of just putting up a “For Lease” sign, collecting rents, hiring a janitor and paying the bills. There are core functions that require property managers to be knowledgeable in a wide range of topics, including but not limited to:

1. Maximize Occupancy & Cash Flow: A landlord’s business is to operate a building at a profit all the while keeping tenants happy. A skilled property manager will employ creative methods for retaining existing tenants while attracting new ones. When qualifying potential tenants, the property manager runs a credit report and checks on the past history of each potential tenant. A tenant that stops paying rent or leaves in the middle of the night is more expensive than having no tenant at all. Even in these tough economic times there are still many tenants, operating profitable businesses, that need a place to rent. The key to creative tenant incentives is for landlords to be able to return to higher lease rates once the economy recovers and the tenant's business improves. The landlord and tenant are running businesses that are “co-dependent” with the landlord also having specific needs to stay in the business of owning commercial property.

2. Financial and Asset Analysis: Commercial property valuations have been declining for the past few years and that has put a new emphasis on the financial skills of the property manager. Landlords depend on their property manager to have a clear understanding of their property accounting, income and expense analysis, budgeting, taxation, financing considerations, capitalization and valuation, and optimal hold/sell analyses to maximize returns.

3. Communication: It is vitally important for a property manager to keep in regular contact with landlords and tenants. Without proper communication, the landlord may not know if a tenant is struggling or considering moving out. Landlords expect their property managers to know more about their properties than they do. The property manager caters to
Bend Office Market

Compass surveyed 197 buildings for the second quarter office survey. The buildings in the sample totaled over 2.39 million square feet. The city wide office vacancy rate increased from 19.1% to 20.0% in the third quarter of 2009. This occurred despite the market recording a small amount of positive absorption. The vacancy rate can go up despite the positive absorption due to buildings being added or subtracted from the survey or corrections being made to the last quarter’s data. The survey results show that there is now about 478,000 square feet of available space for lease.

Compass surveyed 50 downtown office buildings totaling 506,000 square feet for this quarter’s survey. The downtown office vacancy rate decreased from 17.0% to 15.0%. GS Marketing, a local internet marketing and website optimization company, signed a lease for approximately 14,000 square feet in the Franklin Crossing building.

The Hwy. 97/3rd Street corridor recorded over 19,000 square feet of negative net absorption in the third quarter. During the quarter, the 25,000 square foot building at 2650 NE Courtney Drive, formerly occupied by Clear Choice and then ODS, was put on the market. This played a large part in the vacancy rate for this submarket climbing from 24.1% to 29.0%.

The Westside submarket recorded 1,384 square feet of positive net absorption. This is the second quarter in a row that the Westside submarket experienced positive net absorption and a lower vacancy rate. The vacancy rate dropped to 17.4% from 17.6%. The Cascades Building, Columbia River Bank Building, and the Brooks Building all reported new leases during the quarter.

Net Absorption by Submarket — 3rd Quarter 2009

<table>
<thead>
<tr>
<th>MARKET AREA</th>
<th>NO. OF BLDGS.</th>
<th>TOTAL SF.</th>
<th>VAC %</th>
<th>3RD QTR. ABSORPTION</th>
<th>ABSORPTION YTD</th>
<th>TOTAL 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Downtown</td>
<td>50</td>
<td>506,249</td>
<td>15.0%</td>
<td>18,935</td>
<td>(8,994)</td>
<td>8,885</td>
</tr>
<tr>
<td>Westside</td>
<td>94</td>
<td>1,256,239</td>
<td>17.4%</td>
<td>1,384</td>
<td>(8,451)</td>
<td>(27,996)</td>
</tr>
<tr>
<td>BEND TOTAL</td>
<td>197</td>
<td>2,393,858</td>
<td>20.0%</td>
<td>1,263</td>
<td>(60,408)</td>
<td>(35,613)</td>
</tr>
</tbody>
</table>

Office Buildings over 3,000 sq. ft.

Bend Retail Market

Compass surveyed 249 retail buildings totaling 4,338,992 square feet for the third quarter retail survey. The city wide retail vacancy rate remained essentially unchanged at 13.1%, from the second quarter of 2009, putting an end to a string of 5 straight quarters of vacancy increases. Five out of the seven retail market areas surveyed experienced either flat or positive absorption for the quarter resulting in the first positive absorption quarter for the total market in 5 quarters.

Nationally, according to Reis Inc., a New York based research firm, open air shopping centers are averaging 10.3% vacancy while enclosed malls are averaging 8.6%.

Is this the end of the retail slide? Have we seen the worst? Maybe not, but we’re close, at least in Bend. Look for the first quarter of 2010 for that distinction.

The south Hwy. 97 market area was hurt by the addition of 18,000 square feet of vacancy from the former Benjamin’s Furniture building. Prospective national tenants are still circling the former Gotschalles space to the south and the former Linens N Things space to the east. Dick’s Sporting Goods has opened in the former Joe’s space on the north end. At Compass, we have seen activity levels from prospective tenants rise over the last quarter and that has translated into increased leasing activity. Activity levels will typically drop off through the upcoming holidays.

Even with occupancy levels flattening, we do not see that as a sign of return to strength any time soon. As long as we have weak job growth (or no job growth), retailers will continue to struggle and the supply of stores will continue to thin.

Net Absorption by Submarket — 3rd Quarter 2009

<table>
<thead>
<tr>
<th>MARKET AREA</th>
<th>NO. OF BLDGS.</th>
<th>TOTAL SF.</th>
<th>VAC %</th>
<th>3RD QTR. ABSORPTION</th>
<th>ABSORPTION YTD</th>
<th>TOTAL 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>South 97</td>
<td>19</td>
<td>810,850</td>
<td>26.7%</td>
<td>(20,791)</td>
<td>(74,696)</td>
<td>60,314</td>
</tr>
<tr>
<td>Central 97</td>
<td>41</td>
<td>673,797</td>
<td>13.9%</td>
<td>11,079</td>
<td>(19,400)</td>
<td>(43,489)</td>
</tr>
<tr>
<td>North 97</td>
<td>27</td>
<td>1,144,032</td>
<td>5.9%</td>
<td>7,163</td>
<td>2,058</td>
<td>(9,454)</td>
</tr>
<tr>
<td>Eastside</td>
<td>29</td>
<td>582,805</td>
<td>16.0%</td>
<td>5,614</td>
<td>12,227</td>
<td>(71,071)</td>
</tr>
<tr>
<td>Westside</td>
<td>53</td>
<td>497,521</td>
<td>9.5%</td>
<td>10,992</td>
<td>11,433</td>
<td>4,258</td>
</tr>
<tr>
<td>Old Mill Shops</td>
<td>16</td>
<td>221,909</td>
<td>2.8%</td>
<td>0</td>
<td>(1,087)</td>
<td>1,558</td>
</tr>
<tr>
<td>Bend Total</td>
<td>249</td>
<td>4,338,992</td>
<td>13.1%</td>
<td>12,540</td>
<td>(69,252)</td>
<td>(68,600)</td>
</tr>
</tbody>
</table>
Compass surveyed 284 buildings for the third quarter industrial survey, totaling in the sample totaled over 3.8 million square feet. The city wide industrial vacancy rate decreased from 17.4% to 17.1% in the third quarter of 2009. There is now about 651,000 square feet of available space for lease.

The Southeast submarket recorded 7,500 square feet of negative net absorption in the third quarter. The vacancy rate changes little as a result and now stands at 15.2%.

The Northeast submarket recorded 18,473 square feet of positive net absorption in the third quarter. The vacancy rate dropped from 18.8% to 17.7% as a result. This is the lowest that it has been since the third quarter of 2008.

The Central submarket recorded 30,500 square feet of negative net absorption. Nearly all of the new vacancy is found in two buildings on 1st Street. The vacancy rate took a dramatic turn for the worse going from 18.8% to 29.1%.

The Westside submarket recorded 22,859 square feet of positive net absorption. Over 23,000 square feet in the former Bright Wood facility on Century Drive was leased for indoor tennis courts. The vacancy rate decreased from 20.5% to 9.1% as a result. This is the lowest vacancy rate since the 4th quarter of 2008.

For the fourth quarter in a row, the vacancy rate decreased. It now stands at 29.1%, down slightly from the previous quarter. The Redmond market experienced positive net absorption for the third straight quarter. The amount of square footage reported leased exceeded that vacated during the last 90 days by 10,300 square feet. Over 14,000 square feet was reported leased in the C-More Building on Veterans Way between the airport and Highway 97. There is now 404,000 square feet of available space for lease.

The Compass Commercial survey included 75 buildings totaling in excess of 1.39 million square feet.

<table>
<thead>
<tr>
<th>MARKET AREA</th>
<th>NO. OF BLDGS.</th>
<th>TOTAL SQ. FT.</th>
<th>VAC %</th>
<th>3RD QTR.</th>
<th>3RD QTR. ABSORPTION</th>
<th>TOTAL 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Southeast</td>
<td>128</td>
<td>1,556,929</td>
<td>15.2%</td>
<td>(7,525)</td>
<td>(37,297)</td>
<td>(48,187)</td>
</tr>
<tr>
<td>Northeast</td>
<td>113</td>
<td>1,760,167</td>
<td>17.7%</td>
<td>18,473</td>
<td>(17,297)</td>
<td>93,207</td>
</tr>
<tr>
<td>Central</td>
<td>33</td>
<td>292,769</td>
<td>29.1%</td>
<td>22,859</td>
<td>4,887</td>
<td>2,840</td>
</tr>
<tr>
<td>Westside</td>
<td>10</td>
<td>201,440</td>
<td>9.1%</td>
<td>22,859</td>
<td>4,887</td>
<td>2,000</td>
</tr>
<tr>
<td>BEND TOTAL</td>
<td>284</td>
<td>3,811,305</td>
<td>17.1%</td>
<td>3,307</td>
<td>(85,613)</td>
<td>49,860</td>
</tr>
</tbody>
</table>

**红木工业市场**

红木工程市场

 Compass 工程市场考察了 284 建筑物的第三季度工业房地产市场的状况，调查样本包括超过 380 万平方英尺的工业土地。城市范围内的工业空置率下降至 17.4% 至 17.1%，在第三季度。

东南区在第三季度录得 7,500 平方英尺的负净吸收量。该区域的空置率几乎没有变化，现为 15.2%。

东北区在第三季度录得 18,473 平方英尺的正净吸收量。在前第一大道的 Bright Wood 设施的 Century Drive 被租用为室内网球场地。该区域的空置率从 20.5% 下降至 9.1%。这是自第四季度以来的最低空置率。

第四季度，空置率持续下降，现为 29.1%，相比前一季度略有下降。

红木市场第四季度实现净吸纳，季度吸纳量超过去90天内的空置量10,300平方英尺。在前者 C-More Building 18,473 平方英尺的正吸纳量被报告。该建筑位于机场和97号公路之间。

Redmond Industrial Market

The Compass Commercial survey included 75 buildings totaling in excess of 1.39 million square feet.

For the fourth quarter in a row, the vacancy rate decreased. It now stands at 29.1%, down slightly from the previous quarter. The Redmond market experienced positive net absorption for the third straight quarter. The amount of square footage reported leased exceeded that vacated during the last 90 days by 10,300 square feet. Over 14,000 square feet was reported leased in the C-More Building on Veterans Way between the airport and Highway 97. There is now 404,000 square feet of available space for lease.

The Compass Commercial survey included 75 buildings totaling in excess of 1.39 million square feet. The city wide industrial vacancy rate decreased from 17.4% to 17.1% in the third quarter of 2009. There is now about 651,000 square feet of available space for lease.

The Southeast submarket recorded 7,500 square feet of negative net absorption in the third quarter. The vacancy rate changes little as a result and now stands at 15.2%.

The Northeast submarket recorded 18,473 square feet of positive net absorption in the third quarter. The vacancy rate dropped from 18.8% to 17.7% as a result. This is the lowest that it has been since the third quarter of 2008.

The Central submarket recorded 30,500 square feet of negative net absorption. Nearly all of the new vacancy is found in two buildings on 1st Street. The vacancy rate took a dramatic turn for the worse going from 18.8% to 29.1%.

The Westside submarket recorded 22,859 square feet of positive net absorption. Over 23,000 square feet in the former Bright Wood facility on Century Drive was leased for indoor tennis courts. The vacancy rate decreased from 20.5% to 9.1% as a result. This is the lowest vacancy rate since the 4th quarter of 2008.

For the fourth quarter in a row, the vacancy rate decreased. It now stands at 29.1%, down slightly from the previous quarter. The Redmond market experienced positive net absorption for the third straight quarter. The amount of square footage reported leased exceeded that vacated during the last 90 days by 10,300 square feet. Over 14,000 square feet was reported leased in the C-More Building on Veterans Way between the airport and Highway 97. There is now 404,000 square feet of available space for lease.

工业区

 Compass 工程市场考察了 284 建筑物的第三季度工业房地产市场的状况，调查样本包括超过 380 万平方英尺的工业土地。城市范围内的工业空置率下降至 17.4% 至 17.1%，在第三季度。

东南区在第三季度录得 7,500 平方英尺的负净吸收量。该区域的空置率几乎没有变化，现为 15.2%。

东北区在第三季度录得 18,473 平方英尺的正净吸收量。在前第一大道的 Bright Wood 设施的 Century Drive 被租用为室内网球场地。该区域的空置率从 20.5% 下降至 9.1%。这是自第四季度以来的最低空置率。

第四季度，空置率持续下降，现为 29.1%，相比前一季度略有下降。

红木市场第四季度实现净吸纳，季度吸纳量超过去90天内的空置量10,300平方英尺。在前者 C-More Building 18,473 平方英尺的正吸纳量被报告。该建筑位于机场和97号公路之间。
Compass closed 71 deals in the 3rd quarter with a consideration value in excess of $16,000,000.

Below are the top eight transactions for the month. Sales prices are a matter of public record.

1. Industrial Building Sale
   84 Lumber / City of Redmond
   243 E. Antler, Redmond
   Bruce Kemp, CCIM and Ken Streeter,
   CCIM represented the Buyer

2. Office Building Sale
   Cushion LLC / K2 Ventures, LLC
   1310 NE Cushion, Bend
   Bruce Kemp, CCIM and Cheryl Gardner
   represented the Seller / Darren Powderly,
   CCIM represented the Buyer

3. Industrial Building Sale
   Austin Investments, LLC / Boston Harbor, LLC
   63046 NE Layton Ave., Bend
   Tara Donaca, CCIM represented the Buyer / Bruce Kemp, CCIM and Adam Hooper,
   CCIM represented the Seller

4. Retail Building Sale
   EGGy for the USA / Holt West, LLC
   842 NW Brooks St., Bend
   Tara Donaca, CCIM represented the Buyer / Erich Schultz, SIOR and Russell Hunter
   represented the Seller

5. Industrial Building Sale
   Edge Development / Marcie & Assigns
   20810 NW Sockeye Pl., Bend
   Bruce Kemp, CCIM represented the Seller

6. Restaurant Building Sale
   Kendall Industries, LLC / Country Nook Cafe, Inc
   325 NW 5th St., Redmond
   Ron Ross, CCIM represented both Buyer and Seller

7. Industrial Land Sale
   Edge Development Group LLC / Western Beverage, LLC
   Basalt Business Park, Bend
   Howard Friedman, CCIM and Erich Schultz, SIOR represented the Buyer

8. Office Lease
   Keystone Partners LLC / GS Search Marketing, Inc.
   550 NW Franklin, Bend
   Darren Powderly, CCIM and Tara Donaca, CCIM represented the Lessee

Property Management — Changing With The Times

Continued from page 1

4. Legal Compliance: Property managers need to adhere to any specific legal requirements arising from ownership. Key legal issues include landlord-tenant law, lease negotiation, evictions, abandonment, collections, insurance, building codes and zoning ordinances. Landlords expect fulfillment of all legal requirements — federal, state or local — for managing and operating their property.

5. Environmental Sustainability and Operating Costs: Utilities have become a large portion of a building’s expenses. Tenants are favoring green buildings and landlords are being asked for their environmental practices. There are some incentives for landlords to change their lighting, retrofit their elevators, change their HVAC, and insulate buildings, etc. There are examples of older buildings undergoing a total lighting remodel with energy credits covering up to 65% of the expense. We are also finding that more and more buildings are now being monitored to track and assess energy management and water consumption. The federal government has established the Energy Star Portfolio Manager program for property managers or landlords to track the energy use of their building and compare it with other like buildings.

6. Technology: The real estate management industry is quickly evolving in terms of emerging technologies that provide a competitive advantage for one building over another.

Today’s successful property managers have a firm understanding of these core requirements. They will be able to counsel building owners about flexible strategies for responding to the current difficult market. And they will do their best to work with tenants who are also challenged. They have evolved from rent collector to advisor, fiscal watchdog, and LEED analysts.

If you would like to discuss the management of your commercial property please contact Herb Arathoon, CPM or Cheryl Gardner, Principal Broker at (541) 330-0025.

Top Deals of Q3, 2009