

COMPASS POINTS

Commercial Real Estate Market Report

BEND & REDMOND, OR | Q3 2016



BEND BOOMTOWN REDUX? And are we headed toward another big bubble?

By Howard Friedman, CCIM

Take a look around Bend. Everywhere you go, housing developments are sprouting up. Commercial projects are coming out of the ground for the first time in years. A new four-year university has opened its doors for the first time in Oregon since 1974. Traffic is undeniably heavier. And tourism is at an all-time high, according to Visit Bend, on pace for a third record year in a row.

So the big question on everyone's mind, and one we are asked frequently is "Is this a repeat of the frenzy of the mid 2000's, and should we be wary of another downturn?" Our broken crystal ball notwithstanding, there are several factors that differentiate the situation from the last time we were plunged into a deep recession.

First of all, the banking and mortgage industries seem to have improved their priorities and policies this time around, due in no small part to regulations enacted after the previous economic crash.

A more diverse trade and industry base should also help to stabilize any

fluctuations in the regional economy. Whereas Bend's history went from mainly a lumber town to a tourism and real estate based marketplace, we have seen the last decade bring in a myriad of software and high tech companies, and the OSU-Cascades campus' opening will certainly help.

But perhaps the leading indicator of stability may be in the number of new commercial projects on the drawing board and popping up throughout the region. Bend Research, one of Bend's premier employers (recently purchased by Capsugel) has expanded and is in the process of further growth. 10 Barrel Brewing Company, recently purchased by international powerhouse Anheuser Busch, is building on to its facility off of 18th Street. Hydroflask is doubling the size of its original facility with a new headquarters in NorthWest Crossing. Deschutes Brewery continues its expansion after completing its 57,000 sq. ft. warehouse. And St. Charles is underway

with a \$22 million dollar expansion and renovation of its east Bend facility.

Several notable retail expansions are also in the works. In addition to the ongoing redevelopment of the Box Factory in the Old Mill District, Killian Pacific, a regional development firm based in Vancouver, WA, recently acquired the Neff Place retail project, which is currently leased to Jackson's Corner, Café Yumm! and Sports Clips. This project includes land for a second phase and the potential to add another 7,000 sq. ft. of retail or medical office space in the near future.

Finally, with no less than five new hotels just built or on the drawing board in Bend, expect the region to continue to draw tourists year-round to our little corner of the world. So hold on to your hats while strong development remains in the region, and let's all hope for smart and sustainable expansion to allow us to continue to enjoy our lifestyle in the place we call home.

Extended article available on our Blog

Bend OFFICE Market

Compass Commercial surveyed 205 buildings for the third quarter office report. The buildings in the sample totaled nearly 2.5 million square feet. Positive net absorption of 34,961 sq. ft. was recorded during the quarter. The vacancy rate fell from 6.4% to 5.1% as a result. There is now just over 126,000 sq. ft. available for lease, down from 160,000 sq. ft. in Q2. We are in a very healthy time in the office market once again, with several new projects coming out of the ground as a result, and a sigh of relief can be heard from landlords who survived the recession, when the peak vacancy rate in the fourth quarter of 2010 was 22.1%. In fact, this represents the lowest office vacancy rate since Compass' inception in 1996.

The downtown submarket represented the



ABSORPTION



VACANCY

only uptick in vacancy and recorded 1,185 sq. ft. of negative net absorption during the third quarter and the vacancy rate now stands at 4.8%, up from 4.6% in Q2. Five buildings recorded positive absorption and two buildings saw negative absorption, although the largest vacancy of 4,793 sq. ft. recorded in the Pioneer Park building negated the smaller

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BEND OFFICE Net Absorption

BLDGS. OVER 3,000 SQ. FT.

Market Area	No. Bldgs.	Total Sq. Ft.	Vac. % 3rd Qtr.	3rd Qtr. Absorption	Absorption YTD	Total 2015
Downtown	49	490,121	4.8%	(1,185)	23,455	(15,693)
Hwy 97/3rd St.	55	668,425	6.9%	25,722	28,633	23,273
West side	101	1,336,159	4.2%	10,424	11,340	78,765
TOTAL	205	2,494,705	5.1%	34,961	63,428	86,345



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Bend OFFICE Market | CONTINUED

gains in the submarket. There is currently 23,717 sq. ft. of office space available downtown.

The Highway 97/3rd St. corridor recorded a healthy 25,722 sq. ft. of positive absorption in Q3. Four buildings reported positive change and four were negative during the quarter, lowering the vacancy rate from 10.7% to 6.9%. The north end saw the greatest gains with both Empire Corporate Park and the Deschutes Business Center recording 9,500 and 14,419 sq. ft. of positive absorption, respectively.

The west side submarket also recorded positive absorption of 10,424 sq. ft. in the quarter. Nine buildings reported positive gains and two lost ground, lowering the vacancy rate from 4.9% to 4.2%. Vision Plaza and Osprey Point each recorded the largest signed leases of around 2,500 sq. ft. There is now just under 57,000 sq. ft. of office space available on the west side, the largest office submarket in Bend, with over 1,336,000 sq. ft. of total office space.

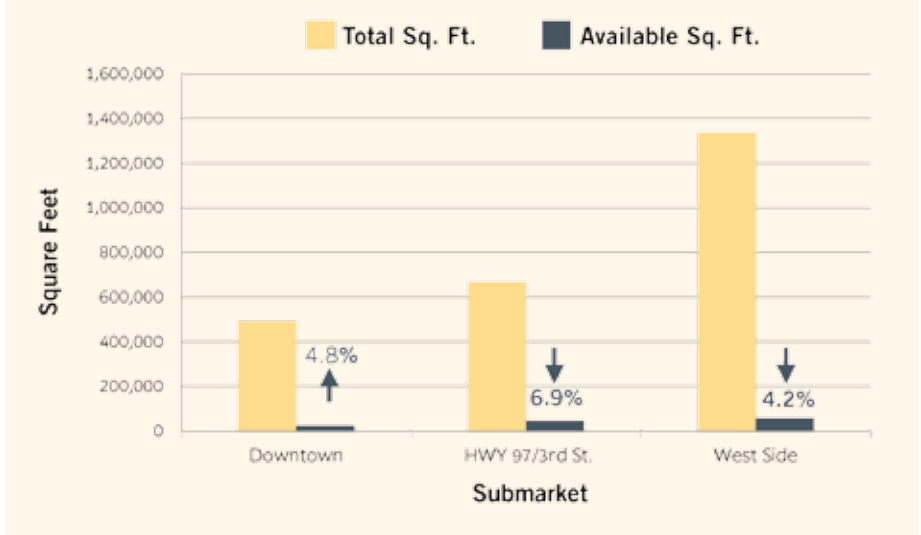
Bend RETAIL Market

Compass Commercial surveyed 253 retail buildings totaling nearly 4,495,000 square feet for the third quarter. The citywide vacancy rate fell once again, although ever so slightly, from 4.49% to 4.45% at the end of Q3, the result of 1,778 sq. ft. of positive absorption.

Three out of the seven retail submarkets in Bend recorded positive net absorption, two were negative, and two remained unchanged. The north 97 submarket led the retail survey results, recording 7,727 sq. ft. of positive net absorption, while the central 97 area was the biggest loser, with 7,718 sq. ft. of negative absorption noted. The downtown submarket remained at 100% occupancy with 65 retail buildings completely full. The west side submarket once again had the highest vacancy at 10.2%, mostly due to the 43,000 sq. ft. still vacant at the former Ray's Food Place building. The east side submarket gained 3,223 sq. ft. while the south 97 submarket recorded a loss of 1,854 sq. ft. The Old Mill District also remained unchanged at 4.6% vacancy, with 10,581 sq. ft. still available in the former Orvis building. The Shoe Inn and Lululemon Athletica opened for business in the former Coldwater Creek building during the quarter.

Citywide, there were seven new retail leases noted and three vacancies that took place in the quarter. Year to date, 30,457 sq. ft. of retail space has been absorbed in Bend, with a total of just over 200,000 sq. ft. available for lease.

BEND OFFICE Vacancy

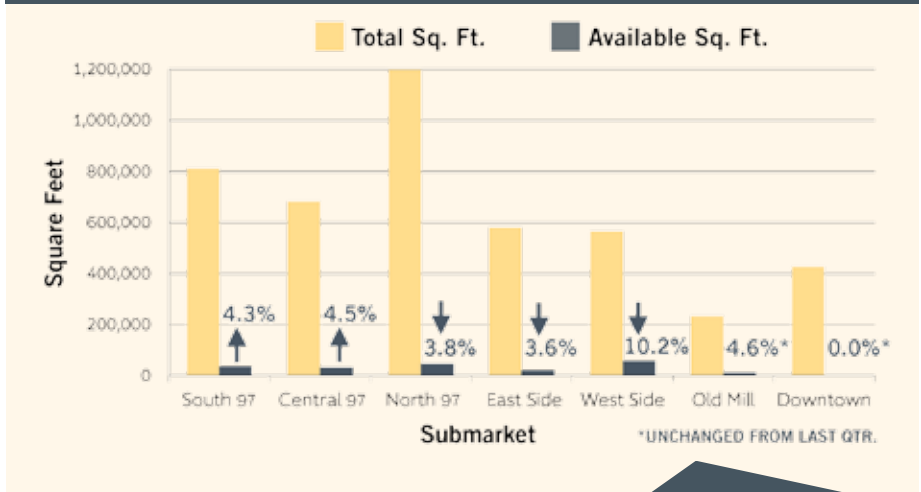


BEND RETAIL Net Absorption

BLDGS. OVER 3,000 SQ. FT.

Market Area	No. Bldgs.	Total Sq. Ft.	Vac. % 3rd Qtr.	3rd Qtr. Absorption	Absorption YTD	Total 2015
South 97	19	810,744	4.3%	(1,854)	2,425	15,143
Central 97	41	682,500	4.5%	(7,718)	(14,981)	29,503
North 97	28	1,199,319	3.8%	7,727	15,975	10,001
East Side	28	578,336	3.6%	3,223	7,650	(4,321)
West Side	55	564,594	10.2%	400	2,505	12,170
Old Mill District	17	232,475	4.6%	0	3,837	(303)
Downtown	65	426,617	0.0%	0	13,046	2,080
TOTAL	253	4,494,585	4.5%	1,778	30,457	64,273

BEND RETAIL Vacancy



INDUSTRIAL Market

BEND

Compass Commercial surveyed 304 buildings for the third quarter industrial report. The buildings in the sample totaled just over 4.2 million square feet. The industrial market rebounded a bit in the quarter, after a disastrous Q2, when over 140,000 sq. ft. of negative net absorption was recorded, by gaining 49,013 sq. ft. of positive net absorption in Q3. The citywide industrial vacancy rate decreased as a result from 6.7% to 5.5%. There is currently 233,000 sq. ft. of industrial space available for lease. As a reminder, the vacancy rate was 20.0% in the third quarter of 2010 when there was 794,000 sq. ft. available, indicating that the industrial market is in good shape.

Two of the four submarkets recorded positive net absorption, and two remained unchanged.

The northeast submarket recorded the highest positive absorption in Q3, reversing its status as the largest loser in Q2. More than 32,250 sq. ft. was gained, due in part to the announcement of a 17,467 sq. ft. lease in the Murray Road Industrial Park, the former Fuqua Homes site, recently redeveloped into a 115,000 sq. ft. industrial center. There is now just 52,000 square feet available to lease in that building. The vacancy rate dropped in the northeast from 10.6% to 9.0% at the end of Q3. Five buildings reported positive net absorption while just one recorded negative.

The southeast submarket also reversed its negative status and turned nearly 124,000 sq. ft. of negative absorption in Q2 into 16,756 sq. ft. of positive absorption in Q3. Four buildings experienced positive and one reported negative net absorption in the quarter, with the largest gain of 9,743 sq. ft. in the 1305 SE Armour Road building, completely filling the 24,000 sq. ft. structure. The vacancy rate decreased as a result from 3.3% to 2.3% at the end of Q3.

The central and west side submarkets remained unchanged in the quarter, with a 0% and 5.6% vacancy rate, respectively, in those two areas.

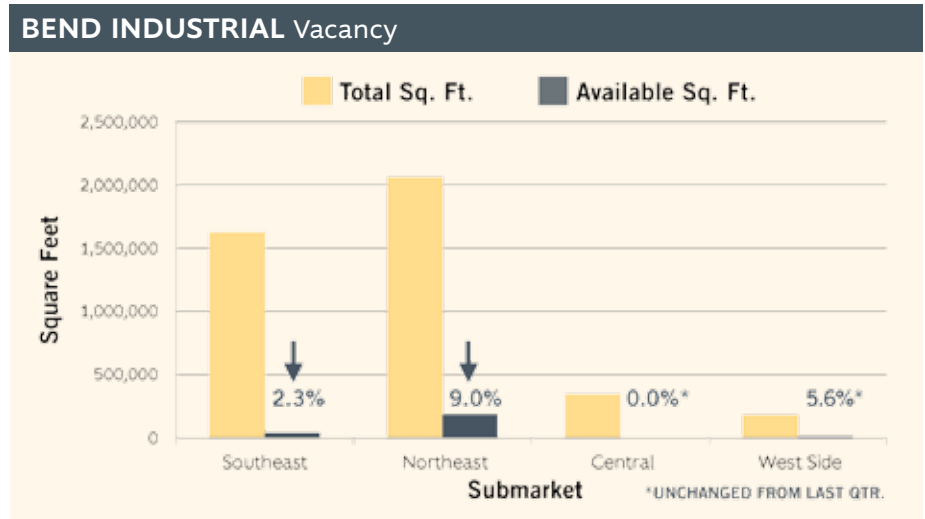
REDMOND

It's been nine quarters since Redmond lost any ground in industrial occupancy, but Q3 broke that string, although in a very small way. The 1.5 million square foot industrial market recorded 3,393 sq. ft. of negative net absorption in Q3, although still resulting in a total of 30,938 sq. ft. of positive absorption for the year, and the vacancy rate rose just a tick from 4.58% to 4.59% at the end of the quarter. There is now just 69,935 sq. ft. of industrial space on the market



ABSORPTION VACANCY

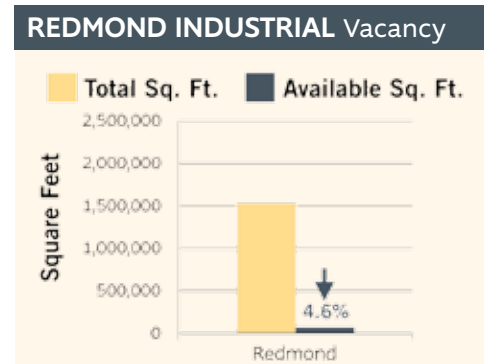
BEND INDUSTRIAL Net Absorption						BLDGS. OVER 3,000 SQ. FT.
Market Area	No. Bldgs.	Total Sq. Ft.	Vac. % 3rd Qtr.	3rd Qtr. Absorption	Absorption YTD	Total 2015
Southeast	136	1,626,391	2.3%	16,756	24,866	(1,108)
Northeast	124	2,061,766	9.0%	32,257	(14,982)	96,910
Central	35	341,397	0.0%	0	1,340	6,596
West Side	9	178,144	5.6%	0	0	(9,904)
TOTAL	304	4,207,698	5.5%	49,013	11,224	92,494



ABSORPTION VACANCY

REDMOND INDUSTRIAL Net Absorption						BLDGS. OVER 3,000 SQ. FT.
Market Area	No. Bldgs.	Total Sq. Ft.	Vac. % 3rd Qtr.	3rd Qtr. Absorption	Absorption YTD	Total 2015
Redmond	78	1,523,715	4.6%	(3,392)	30,938	87,650

for lease, down from a high of over 434,000 sq. ft. available in the second quarter of 2011, when the vacancy rate stood at 29.9%. Three buildings recorded positive absorption and four lost ground. The largest leases signed were at a building on Veterans Way of 10,000 sq. ft. and at 253 SE Franklin which saw a gain of 10,500 sq. ft. The biggest losers were the Ferguson Building on Timber Ave., which saw a net vacancy of over 12,000 sq. ft. and the Redmond Mill Site, the recipient of 13,200 sq. ft. of negative absorption.



Notable TRANSACTIONS

Compass Commercial Real Estate Services negotiated the following notable transactions in the third quarter of 2016. 101 transactions (23 sales and 78 leases) were closed totaling \$38.9 million in consideration. For more details about our monthly transactions, please visit www.compasscommercial.com/Transactions.

SALES

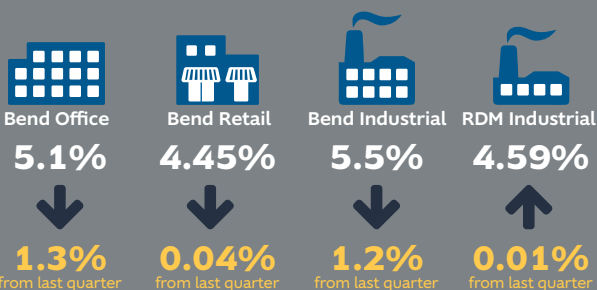
TYPE	PROPERTY	BUILDING/LOT SIZE	PRICE	COMPASS COMMERCIAL REPRESENTED
Industrial	1155 & 1315 N. Main St., Prineville	550,000 SF / 82 acres	\$6,275,000	Erich Schultz, Joel Thomas & Jay Lyons / Seller & Buyer
Office / Medical	2115 NE Wyatt Ct., Bend	15,278 SF / 1.11 acres	\$5,100,000	Dan Kemp & Peter May / Seller & Buyer
Office	1025 Willamette St., Eugene	50,935 SF / 0.29 acre	\$3,450,000	Graham Dent / Buyer
Retail	3835 & 3853 SW 21st Pl., Redmond	37,897 SF / 0.87 acre	\$3,275,000	Russell Huntamer, Peter May, Erich Schultz & Jay Lyons / Seller
Multifamily	25 & 35 SW McKinley Ave. & 40 SW Cleveland Ave., Bend	15-units / 0.86 acre	\$2,090,000	Erich Schultz, Dan Kemp & Jay Lyons / Seller & Buyer
Commercial Land	1011 NW Brooks St., Bend	1.01 acres	\$2,065,000	Erich Schultz, Jay Lyons & Graham Dent / Seller & Buyer
Multifamily	465 NE Olney Ave., Bend	27,878 SF / 0.64 acre	\$1,539,828	Graham Dent, Pat Kesgard & Kerri Standerwick / Seller
Investment	18135 Cottonwood Rd., Sunriver	29,135 SF / 10.17 acres	\$1,500,000	Jay Lyons, Erich Schultz & Peter May / Seller

LEASES

TYPE	PROPERTY	SF LEASED	LESSEE	COMPASS COMMERCIAL REPRESENTED
Industrial	62955 Boyd Acres Rd., Bend	28,800 SF	Motorcoach Sales & Service of OR, LLC	Pat Kesgard & Kerri Standerwick / Landlord & Tenant
Retail	2680 NE HWY 20, Bend	3,000 SF	Hot Spring Spas	Russell Huntamer & Peter May / Landlord & Tenant
Retail	61334 S. HWY 97, Bend	4,484 SF	Cascade Mattress Co., an OR Corp.	Robert Raimondi / Tenant
Office	400 SW Bluff Dr., Bend	1,388 SF	Pacific Resource Brokers	Erich Schultz & Jay Lyons / Landlord

Q3 DATA SNAPSHOT [CLICK TO VIEW INFOGRAPHIC]

VACANCY RATES



COMPASS POINTS

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