



## CHANGE IS IN THE AIR ON BEND'S WEST SIDE

By Howard Friedman, CCIM

Last quarter we wrote about the Bend UGB expansion and how the different land-use zones fit into the big picture. One of those zones, IL (Light Industrial), is undergoing a big change on Bend's west side, which will have significant impacts on values *and* use, both for residential and commercial applications.

But first a quick background of the west side IL (Light Industrial) zone. Originally intended for light manufacturing, R&D and other related high-end industrial uses, developers were allowed to use the inexpensive land to build Class A office buildings in the 1990s, such as the Brooks and Scanlon buildings on the corner of Columbia St. and Simpson Ave., and the 6-building Mill Point Business Campus, built in 2000, (where Compass Commercial's offices are located). However, once the supply of industrial land became tight in the early 2000s, city officials realized the error and put a stop to allowing more office buildings to be built in the area. The boundaries of the subject IL zone

are roughly from 14th Street (Century Dr.) east to the Deschutes Brewery property, and from Colorado Ave. north to Commerce Ave.

Fast forward to the approved UGB expansion of 2,380 acres city-wide this past December, and along with that decision, the new Bend Comprehensive Plan that allows owners of properties within the subject IL zone to "upzone" to a new designation called Mixed-Use Urban (MU), (or Mixed-Use Neighborhood (MN) for those properties currently zoned residential within the Galveston Ave./Century Dr. area). These new designations greatly expand the allowed uses within that area, by including residential and retail within the MU zone, permitting taller height allowances and greater infill opportunities, while providing greater connectivity and more supportive pedestrian-friendly options.

Some of these zone changes supported by the Bend Development Code are currently underway. A recent IL property on Columbia St. and Cyber Dr. was changed

to MU with the assistance of Liz Fancher, a private land-use lawyer and principal of Liz Fancher, Attorney in Bend. Fancher says the process went relatively smoothly, with the City of Bend supporting the change. "Now is a good time to do it," she said. "The City will not always require a traffic report as there is a 'demonstration of adequacies of public facilities,'" one of the requirements of a zone change. "The City has greatly simplified the application, and there is a short burden of proof" with a timeline of 3 - 6 months to complete the change, depending on any resubmittals needed.

Current land owners could find themselves with a windfall in the near future. A recent lot within the MU district sold for \$30.00 per square foot, whereas typical IL land throughout Bend is valued at \$10.00 - \$13.00 per square foot, and a 2.32 acre lot in the area is currently listed at \$42.00 per square foot.

*Change is indeed underway on Bend's west side.*

## Bend OFFICE Market

Compass Commercial surveyed 205 buildings for the second quarter 2017 office report. The buildings in the sample totaled just over 2.5 million square feet. Negative net absorption of 1,406 sq. ft. was recorded during the quarter. The vacancy rate rose slightly, from 3.67% to 3.73% as a result. We now have 93,468 sq. ft. available for lease, up from 92,062 sq. ft. in Q1 2017. Even with this slight uptick, it still represents the second lowest office vacancy rate since Compass' brokers began tracking vacancies in 1996.

Two submarkets recorded negative net absorption in Q2 and one was positive. Downtown recorded 5,354 sq. ft. of negative occupancy, raising the vacancy rate from 4.0% in

Q1 to 5.1% in Q2 2017. Three buildings recorded positive absorption and six buildings saw negative absorption in the

submarket, with no significant leases or losses over 3,200 sq. ft. noted. There is currently 24,627 sq. ft. of office space



ABSORPTION VACANCY

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BEND OFFICE Net Absorption				BLDGs. OVER 3,000 SQ. FT.		
Market Area	No. Bldgs.	Total Sq. Ft.	Vac. % 2nd Qtr.	2nd Qtr. Absorption	Total 2017 Absorption	Total 2016
Downtown	48	483,259	5.1%	(5,354)	(4,979)	24,027
Hwy 97/3rd St.	55	676,837	5.3%	(3,141)	1,314	37,115
West Side	102	1,346,467	2.4%	7,089	21,365	13,908
<b>TOTAL</b>	<b>205</b>	<b>2,506,563</b>	<b>3.7%</b>	<b>(1,406)</b>	<b>17,700</b>	<b>75,050</b>



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Bend OFFICE Market | CONTINUED

available in the downtown area.

The Highway 97/3rd St. corridor recorded 3,141 sq. ft. of negative absorption in the second quarter. Five buildings reported positive change and four were negative during the quarter, raising the vacancy rate from 4.86% to 5.32%. The largest vacancy occurred at the Afatatti Building on Division St., which recorded a loss of 4,230 sq. ft. A total of 36,016 sq. ft. is now available for lease in that submarket.

The west side submarket recorded the only positive absorption in the second quarter of 7,089 sq. ft., lowering the vacancy rate from 2.96% to 2.44%. Seven buildings reported positive gains and three lost occupancy. Colorado Terrace, the Mill View Building and Vision Plaza all signed leases in the 2,500 sq. ft. range. The largest vacancy was just 1,638 sq. ft. at Summit Square Building B in NorthWest Crossing. Currently there is 32,825 sq. ft. of office space available on the west side, out of 1,346,467 sq. ft. total in the submarket. This is once again the lowest amount of available space in more than 10 years, since Q4 2006, and down from a peak of over 293,000 sq. ft. in Q4 2012, when the vacancy rate stood at 22.3%.

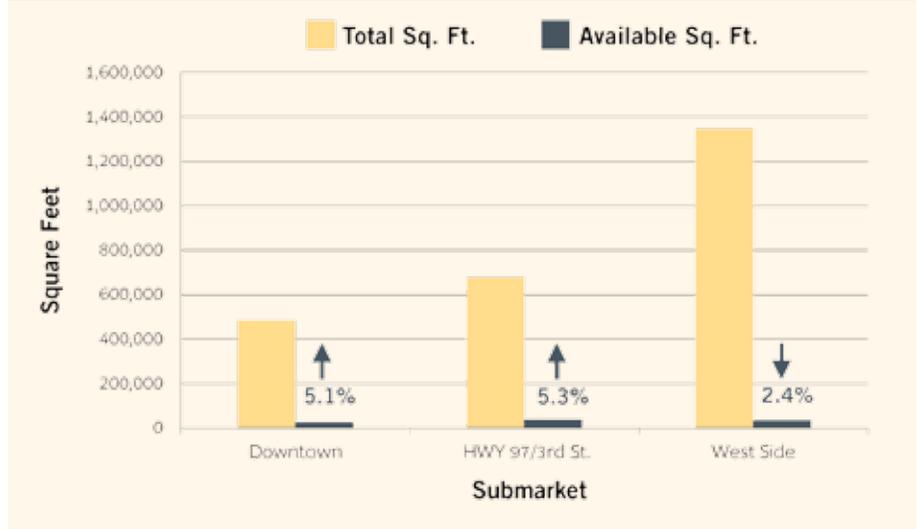
Bend RETAIL Market

Compass Commercial surveyed 253 retail buildings totaling nearly 4,450,000 square feet for the second quarter of 2017. The citywide vacancy rate fell once again, from 3.21% to 3.15% at the end of Q2 due to a total of 2,711 sq. ft. of positive absorption.

Six out of the seven retail submarkets in Bend recorded positive net absorption, and one was negative. The central 97 submarket saw the greatest gain, recording 9,623 sq. ft. of positive absorption. That submarket still has the highest vacancy rate at 6.0%, but it fell from 7.3% in the previous quarter. The largest lease was to the Bend Area Rug Connection which leased 7,829 sq. ft. in the former Teen Challenge Thrift Store space on 2nd St. The Old Mill District had the second greatest gain with 3,884 sq. ft. of positive absorption recorded, by way of another lease in the 10,581 sq. ft. former Orvis building to Orange Theory Fitness, lowering the vacancy rate from 3.0% to 1.4%. The south Hwy 97 submarket finished at 2.9% vacancy, down from 3.4% with

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BEND OFFICE Vacancy



▲ ABSORPTION ▼ VACANCY

BEND RETAIL Net Absorption

BLDGS. OVER 3,000 SQ. FT.

Market Area	No. Bldgs.	Total Sq. Ft.	Vac. % 2nd Qtr.	2nd Qtr. Absorption	Total 2017 Absorption	Total 2016
South 97	19	810,744	2.9%	3,510	12,926	900
Central 97	42	676,700	6.0%	9,623	(17,805)	(6,510)
North 97	28	1,199,319	3.1%	489	8,728	14,605
East Side	28	578,336	1.1%	3,300	3,300	18,898
West Side	54	519,224	5.6%	(20,209)	(21,414)	6,155
Old Mill District	17	232,475	1.4%	3,884	7,442	3,837
Downtown	65	426,617	0.0%	2,114	0	13,046
<b>TOTAL</b>	<b>253</b>	<b>4,443,415</b>	<b>3.2%</b>	<b>2,711</b>	<b>(6,823)</b>	<b>50,931</b>

BEND RETAIL Vacancy



# INDUSTRIAL Market

## BEND

Compass Commercial surveyed 305 buildings for the second quarter industrial report. The buildings in the sample totaled more than 4.2 million square feet. The industrial market gained another 51,700 sq. ft. of positive net absorption in Q2, however, due to an addition of 70,000 sq. ft. building in the northeast submarket, the results show an increased vacancy rate, from Q1's 4.63% to 4.99% in Q2. Without the addition of the new structure, the absorption would have been a net negative 18,300 sq. ft. There is now 212,740 sq. ft. of industrial space available for lease in Bend, compared to Q1's 194,440. Two of the four submarkets recorded positive net absorption, one was negative and one remained unchanged.

The southeast submarket recorded the only negative absorption in Q2, recording 29,431 sq. ft. of net losses. The vacancy rate is now 2.1%, compared with Q1's 0.3% with 33,972 sq. ft. available out of a total of 1.62 million sq. ft. Just one building recorded positive results, while five were negative. The largest losses were 14,180 sq. ft. at 921 SE Armour Rd. and 9,600 sq. ft. at 110 SE 9th St.

The northeast submarket gained 77,998 sq. ft., mostly due to the addition of 10 Barrel Brewing's 70,000 sq. ft. addition to their facility on 18th Street, which houses their east side pub and expanded brewing facility. In that submarket three buildings were positive and four were negative, resulting in a vacancy rate of 8.4%, down from 9.1% in Q1. Two other large leases were signed on Mercury Place and the Empire Corporate Park, with 14,000 sq. ft. and 8,676 sq. ft. leased, respectively.

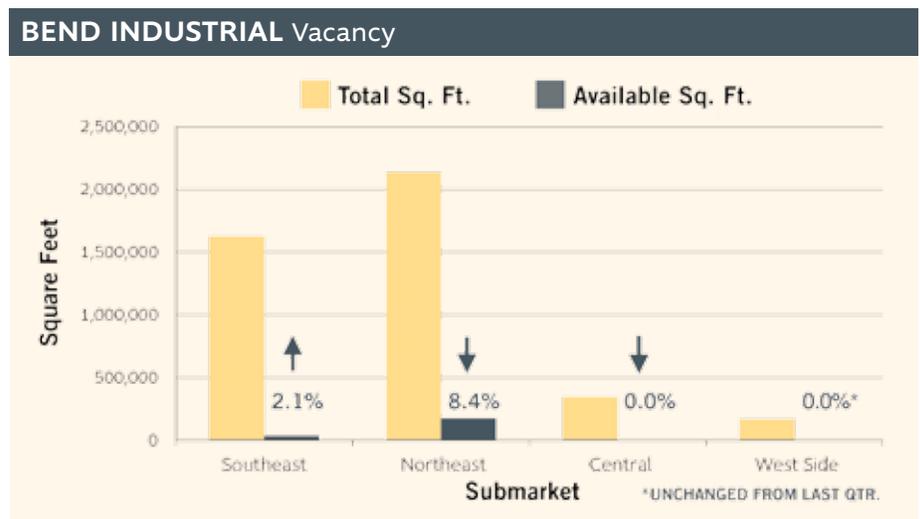
## REDMOND



### BEND INDUSTRIAL Net Absorption

BLDGS. OVER 3,000 SQ. FT.

Market Area	No. Bldgs.	Total Sq. Ft.	Vac. % 2nd Qtr.	2nd Qtr. Absorption	Total 2017 Absorption	Total 2016
Southeast	136	1,623,511	2.1%	(29,431)	(13,202)	49,943
Northeast	125	2,131,766	8.4%	77,998	75,047	(13,317)
Central	35	342,037	0.0%	3,133	0	1,340
West Side	9	168,240	0.0%	0	0	0
<b>TOTAL</b>	<b>305</b>	<b>4,265,554</b>	<b>5.0%</b>	<b>51,700</b>	<b>61,845</b>	<b>37,966</b>



The central submarket absorbed the 3,133 sq. ft. of space it lost in Q1, bringing the vacancy rate back to 0.0%, with Tentsile, a hanging tent manufacturer, and a new fly fishing retail store taking the remainder of the 18,294 sq. ft.

complex known as the Old Iron Works, at 50 SE Scott St.

For the eighth quarter in a row, there was no industrial space available on the west side.

### REDMOND INDUSTRIAL Net Absorption

BLDGS. OVER 3,000 SQ. FT.

Market Area	No. Bldgs.	Total Sq. Ft.	Vac. % 2nd Qtr.	2nd Qtr. Absorption	Total 2017 Absorption	Total 2016
Redmond	78	1,521,715	3.2%	(5,066)	8,134	44,238

For the first time since the second quarter of 2014, the vacancy rate rose in Redmond's 1.52 million square foot, 78 building industrial market. We recorded 5,066 sq. ft. of negative net absorption in Q2, resulting in a rise in the vacancy rate from 2.9% to 3.2% at the end of the quarter, still considered extremely healthy. There is now 48,501 sq. ft. of industrial space on the market for lease. One building

recorded positive absorption and three were negative, with the largest vacancy of 9,000 sq. ft. occurring at the Dimeo Industrial Plaza on Veteran's Way and the largest lease of 12,164 sq. ft. signed at 334 SE Timber Ave., which Franz Bakery will use as a distribution center with a small retail presence.

Bend **RETAIL** Market | CONTINUED FROM PAGE 2

3,510 sq. ft. of positive absorption recorded. Bend Factory Stores led the way with a 3,150 sq. ft. lease. The east side, north 97 and downtown submarkets also were positive, but the west side slogged down the overall retail results with three large

vacancies at the Box Factory totaling 17,218 sq. ft. The aforementioned Bend Area Rug Connection, Cross Fit and the Longboard Store all relocated out of the 77,500 sq. ft. historic complex during the second quarter.

There is currently 140,157 sq. ft. available for lease city-wide. This quarter's 3.15% is once again the lowest rate we have recorded since we began tracking retail vacancies in 2008.

## Notable TRANSACTIONS

Compass Commercial Real Estate Services negotiated the following notable transactions in the second quarter of 2017. 107 transactions (29 sales and 78 leases) were closed totaling \$44.8 million in consideration. For more details about our monthly transactions, please visit [Compasscommercial.com/Transactions](http://Compasscommercial.com/Transactions).

### SALES

TYPE	PROPERTY	BUILDING/LOT SIZE	PRICE	COMPASS COMMERCIAL REPRESENTED
Office	150 NW Pacific Park Ln., Bend	20,736 SF / 1.25acres	\$6,029,353	John Keba, Erich Schultz, Jay Lyons & Grant Schultz / Both   Krista Polvi & Howard Friedman / Seller   Peter May & Ron Ross / Buyer
Industrial	63270 Lyman Pl., Bend	28,492 SF / 1.57 acres	\$2,850,000	Dan Kemp / Both
Retail	750 NW Lava Rd., Bend	8,268 SF / 0.32 acres	\$2,525,000	Howard Friedman / Seller
Industrial	63040 Lower Meadow Dr., Bend	14,436 SF / 1 acre	\$2,105,685	Bruce Churchill / Seller   Graham Dent / Buyer
Retail	19855 4th St., Bend	9,611 SF / 0.38 acre	\$2,060,000	Jay Lyons, Erich Schultz, Darren Powderly & Grant Schultz / Seller
Industrial	345 Cyber Dr., Bend	10,000 SF / 0.74 acre	\$2,000,000	Peter May, Russell Huntamer & Darren Powderly / Seller

### LEASES

TYPE	PROPERTY	SF LEASED	LESSEE	COMPASS COMMERCIAL REPRESENTED
Office	15 NW Oregon Ave., Bend	12,035 SF	AmeriTitle	Jay Lyons / Tenant   Erich Schultz & Grant Schultz / Landlord
Retail	320 SW Century Dr., Bend	2,500 SF	Century Park, LLC	Jay Lyons & Erich Schultz / Landlord
Retail	63040 N Highway 97, Bend	19,404 SF	Mattress Factory	Joel Thomas & Russell Huntamer / Tenant
Industrial	20495 Murray Rd., Bend	12,529 SF	Free Spirit Recreation	Peter May & Dan Kemp / Tenant   Dan Kemp & Bruce Churchill / Landlord
Office	20310 Empire Ave., Bend	8,676 SF	Bend Research Inc.	Ron Ross, Jay Lyons, Erich Schultz & Grant Schultz / Landlord