



WAGNER MALL | 108,818 SF SHOPPING CENTER | SOLD JUNE 2019

## A PRIMER ON RESTAURANT BUYING

By Howard Friedman, CCIM

The restaurant business has typically had the reputation of being one of the hardest industries to survive in. Studies have shown that one in five restaurants last less than five years and of those that do, most do not make it ten years. Why is this and what can be done to prevent it?

First of all, many 'good cooks' who are complimented by their peers and urged to open a restaurant would behoove themselves to first work in a restaurant setting for a number of years to familiarize themselves with the type of work they will be getting into. The food and beverage business is stressful, owners must work long hours to ensure success, and profit margins are typically quite slim, unless the owner is working at one of the higher paying positions to limit the expense of an employee, such as the chef, manager or host.

Another determining component in succeeding in the business is being well-capitalized to begin with. Depending on whether a person is buying someone

else's business, or starting one from scratch, the cost of equipping a restaurant can run in the hundreds of thousands of dollars with furniture, fixtures, kitchen equipment, tenant improvements, inventory and more often costing much more than anticipated. And unless one is buying a successful and profitable business, it could take one to two years before showing a profit, so owners need to have operating capital to weather the startup period. Add in the cost of any borrowed money and there are even more expenses to recoup before realizing a positive return.

So what can one expect when shopping to buy a food operation? There are three major categories to the value of a business. Goodwill, often referred to as 'blue sky', is the portion of the business that are the past profits multiplied by an industry factor (typically 2-3 times) to ascertain the value, assets, also known as furniture, fixtures and equipment (FF&E) and inventory sold at the time of sale. Any or all of the three factors can be used to obtain the value. For example,

if a restaurant has not been profitable, the goodwill factor is typically minimized, although an exceptional location, good lease, or other circumstances may be used to determine some of the blue sky in the asking price. An asset sale will usually just include the value of the FF&E and inventory (if applicable), and even if a profitable restaurant is being purchased, but the buyer wants to change the concept to their own idea, they may not want to purchase the inventory if they will not be using it.

At Compass Commercial, we have several partners who specialize in restaurant and business sales, including Howard Friedman, CCIM, Peter May, CCIM, MBA, and Russell Huntamer, CCIM. We have numerous listings and can assist buyers and sellers through the process.

*Howard Friedman, CCIM is a partner and the managing principal broker at Compass Commercial. He joined the firm in 1999 after 25 years in the restaurant business as a chef and owner of several successful restaurant ventures.*

## Bend OFFICE Market

Compass Commercial surveyed 207 buildings for the second quarter 2019 office report. The buildings in the sample totaled just under 2.6 million square feet. Negative net absorption of 2,396 sq. ft. was recorded during the quarter. Despite the negative absorption, the vacancy rate moved down to 2.98% from 3.03% in Q1, due to an additional building added to the survey. There is now 77,257 sq. ft. available for lease, down from 77,902 sq. ft. in Q1.

One submarket recorded positive net absorption and two were negative. Downtown gained 1,672 sq. ft. of net leasing, lowering the vacancy rate from 2.28% in Q1 to just 1.31% in Q2 of 2019. This represents the lowest downtown office vacancy

rate we have ever recorded, dating back to when we began in Q4 of 1993, over 25 years ago! Two buildings recorded

positive change, and there are now just two buildings with office space available for lease downtown. There is currently



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Market Area	No. Bldgs.	Total Sq. Ft.	Vac. % 2nd Qtr.	2nd Qtr. Absorption	Total 2019 Absorption	Total 2018
Downtown	49	490,261	1.3%	1,672	1,672	12,098
Hwy 97/3rd St.	56	688,917	2.8%	(1,342)	(6,988)	4,970
West Side	102	1,412,092	3.7%	(2,726)	15,390	(6,481)
<b>TOTAL</b>	<b>207</b>	<b>2,591,270</b>	<b>3.0%</b>	<b>(2,396)</b>	<b>10,074</b>	<b>10,587</b>



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Bend OFFICE Market | CONTINUED

6,443 sq. ft. of available office space in the downtown area.

The Highway 97/3rd St. corridor and the west side submarket both recorded negative net absorption in Q2. In the 97 corridor, two buildings added occupancy and five added vacancy, for a net loss of 1,342 sq. ft. The vacancy rate rose modestly from 2.58% to 2.77%, still a healthy vacancy rate.

The west side submarket recorded negative net absorption of 2,726 sq. ft., raising the vacancy rate from 3.52% to 3.66%. Five buildings reported positive net absorption and seven were negative. Currently there is 51,719 sq. ft. available on the west side, down from 48,993 sq. ft. in Q1.

Bend RETAIL Market

Compass Commercial surveyed 255 retail buildings totaling 4,492,794 square feet for the second quarter of 2019. The citywide vacancy rate rose significantly, from 2.84% at the end of Q1 2019 to 5.39% at the end of Q2. However, the majority of the vacancy was the direct result of the Shopko on Bend's north end vacating its 106,216 sq. ft. store in April, due to bankruptcy of the company. In fact, removing that data point, the overall city wide vacancy rate would be just 3.0%, with only a 9,084 sq. ft. negative net number, rather than the 115,300 sq. ft. loss officially reported. The good news is that there are some tenants negotiating on that space, and hopefully it will be backfilled quickly.

Four out of the seven retail submarkets in Bend recorded negative net absorption, one was positive, and two remained the same in the quarter.

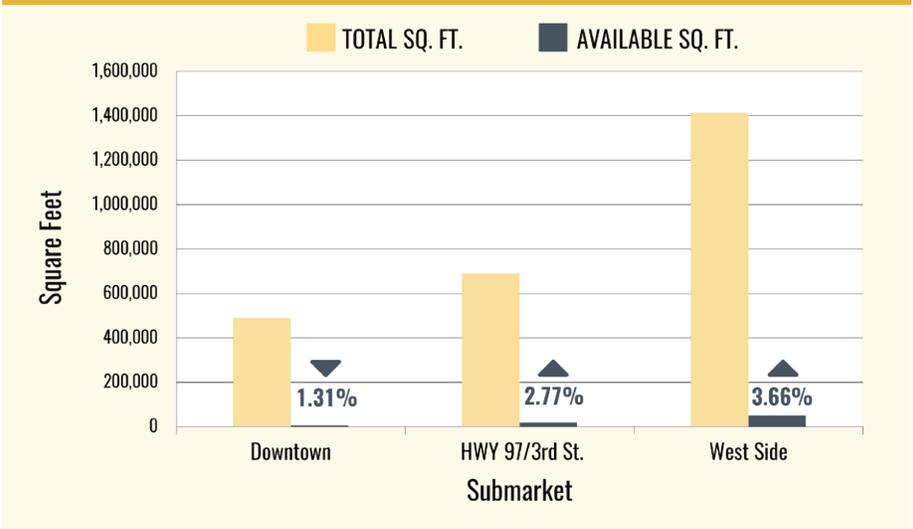
The south 97 submarket recorded 4,430 sq. ft. of negative net absorption. Three buildings lost occupancy in Q2. The south 97 submarket finished at 6.21% vacancy, up from the previous quarter's 5.67%.

The central 97 submarket also lost ground, recording 6,108 sq. ft. of net negative absorption, with two spaces going vacant. The largest vacancy occurred at the Military Surplus store on Railroad St., where a 4,485 sq. ft. vacancy took place. The vacancy rate moved from 3.1% to 4.0% as a result.

The north 97 submarket was the area taking the biggest hit with the vacancy of the aforementioned Shopko store. A net total of

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Bend Office Vacancy

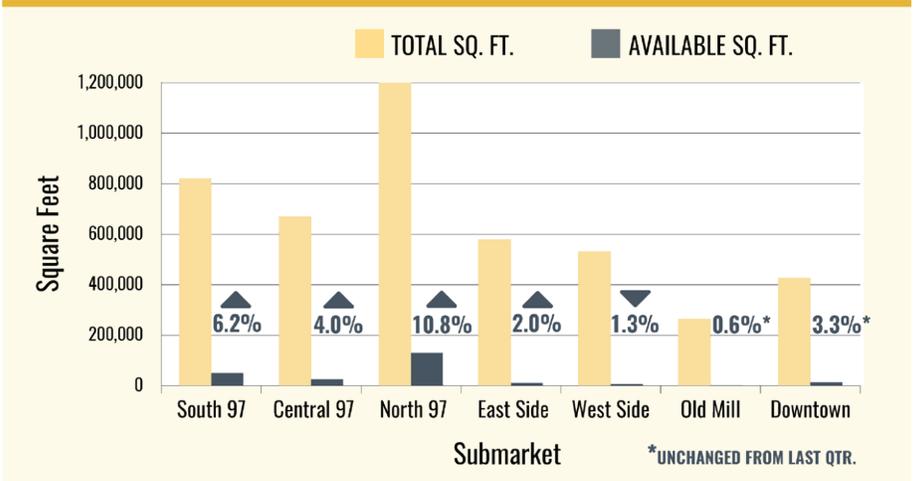


Bend Retail Net Absorption

BLDGS. OVER 3,000 SF

Market Area	No. Bldgs.	Total Sq. Ft.	Vac. % 2nd Qtr.	2nd Qtr. Absorption	Total 2019 Absorption	Total 2018
South 97	20	820,696	6.2%	(4,430)	(8,727)	(2,061)
Central 97	41	669,172	4.0%	(6,108)	(11,302)	2,518
North 97	28	1,200,712	10.8%	(104,180)	(106,107)	23,284
East Side	28	578,336	2.0%	(5,540)	(6,850)	961
West Side	54	530,993	1.3%	4,958	6,174	23,679
Old Mill District	19	265,502	0.6%	0	1,272	2,348
Downtown	65	427,383	3.3%	0	7,200	(16,394)
<b>TOTAL</b>	<b>255</b>	<b>4,492,794</b>	<b>5.4%</b>	<b>(115,300)</b>	<b>(118,340)</b>	<b>34,335</b>

Bend Retail Vacancy



\*UNCHANGED FROM LAST QTR.

# INDUSTRIAL Market

## BEND

Compass Commercial surveyed 313 buildings for the second quarter 2019 industrial report, totaling 4,392,452 square feet. The industrial market gained 30,018 sq. ft. of net absorption in Q2, and although the vacancy rate rose from 2.37% in Q1 to 2.71% presently, the change was due to two buildings being added to the survey. There is now 119,105 sq. ft. of industrial space available in Bend, compared to 103,104 sq. ft. in Q1. Two of the four submarkets recorded negative net absorption, and two were positive.

The southeast submarket recorded 16,513 sq. ft. of negative absorption, and the vacancy rate is now 4.86%, up from 3.86% in Q1. Five buildings recorded negative results with two gainers. The largest vacancy was in the former Two Old Hippies building on American Lp., where 11,536 sq. ft. became available. There is now 80,731 sq. ft. available in the southeast submarket.

In the northeast submarket, 9,559 sq. ft. of net positive absorption was recorded. Two buildings reported positive absorption and one was negative. The biggest gain was at the Cronin Building, where 10,000 sq. ft. was leased. The vacancy rate now stands at 1.29%, compared to 1.74% in Q1 with 27,623 sq. ft. available.

The central submarket lost 5,751 sq. ft. of absorption with two buildings recording negative change and none recording positive absorption. The vacancy rate is now 3.08% up from 0.0% in Q1.

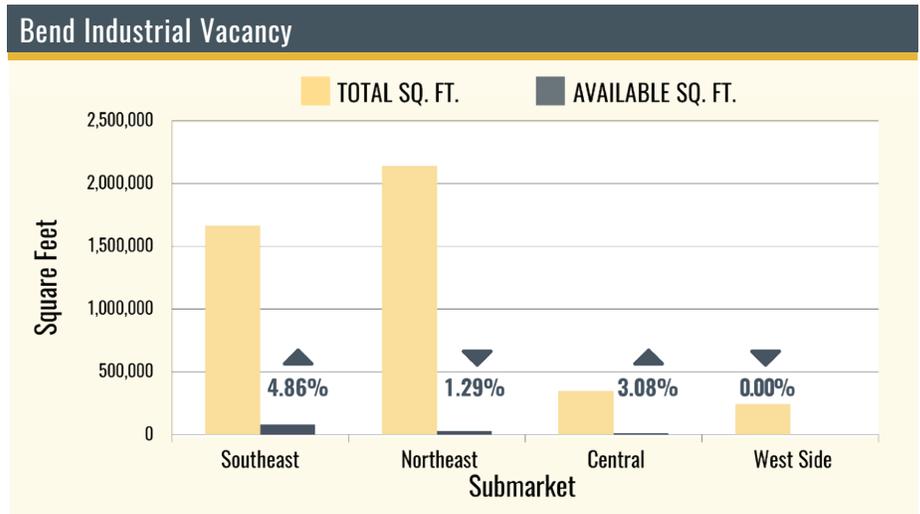
The west side submarket is now 100% occupied with 42,723 sq. ft. leased in Q2, most notably from a lease to Sicamore Semi in the former Microsemi R&D facility on Columbia St., adding 41,020 sq. ft. to the survey and a lease at District 2 West in NorthWest Crossing, where 1,703 sq. ft. was leased, filling that project as well. The previous vacancy rate was at 0.85% in Q1.

## REDMOND

There was dramatic negative absorption in the Redmond Industrial market in the second quarter, with the vacancy rate rising from 1.4% to 4.6%, due to 42,356 sq. ft. of negative net leasing and the addition of new buildings to the market. Redmond's industrial sector now has 1,637,179 sq. ft. of total leasable space, not including owner occupied buildings and buildings under 3,000 sq. ft., with 76,026 sq. ft. available for lease in the 86 building industrial market. This is the highest vacancy rate in Redmond since the first quarter of 2016 when the vacancy rate was 4.8% and diving down from a high of 31.4%

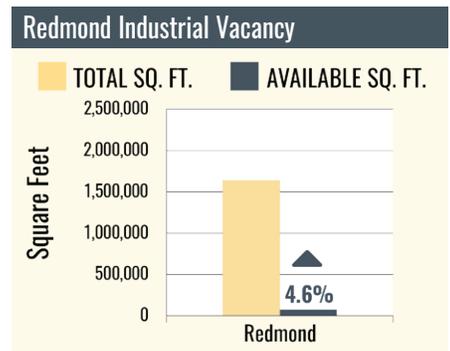


Bend Industrial Net Absorption					BLDGS. OVER 3,000 SF	
Market Area	No. Bldgs.	Total Sq. Ft.	Vac. % 2nd Qtr.	2nd Qtr. Absorption	Total 2019 Absorption	Total 2018
Southeast	141	1,662,263	4.86%	(16,513)	(38,816)	15,339
Northeast	126	2,139,766	1.29%	9,559	(3,065)	97,236
Central	36	349,037	3.08%	(5,751)	1,609	(7,360)
West Side	10	241,386	0.00%	42,723	51,690	0
<b>TOTAL</b>	<b>313</b>	<b>4,392,452</b>	<b>2.7%</b>	<b>30,018</b>	<b>11,418</b>	<b>105,215</b>



Redmond Industrial Net Absorption					BLDGS. OVER 3,000 SF	
Market Area	No. Bldgs.	Total Sq. Ft.	Vac. % 2nd Qtr.	2nd Qtr. Absorption	Total 2019 Absorption	Total 2018
Redmond	86	1,637,179	4.6%	(42,356)	(35,355)	30,808

at the height of the recession. Just one building recorded positive absorption and nine were negative in Q2. This is not bad news for Redmond, as the previous quarter we reported that there was just a four month supply of space available at the then present rate of leasing, and four new buildings have come on the market in the last quarter, easing tenants squeeze for suitable space and potentially tempering rising lease rates.



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

104,180 sq. ft. was lost, with one lease and the one loss recorded. The vacancy rate now stands at 10.84% in the submarket with 130,216 sq. ft. available.

In the east side submarket, 5,540 net sq. ft. went vacant, raising the vacancy rate to 2.0%, up from 1.0%. Two new vacancies were recorded in the quarter with no new leases signed. There is now 11,542 sq. ft. available in the east side submarket.

The west side submarket gained 4,958 sq. ft. of positive absorption in the quarter. The vacancy rate now stands at 1.3%, down from 2.3% in Q1. Two restaurant spaces were backfilled on the west side. 2,000 sq. ft. was leased at the Safeway (Century Park) complex in the former Ajii space, details forthcoming, and 2,958 sq. ft. was filled by Monkless Belgian Ales in the former Craft Kitchen space at 803 SW Industrial Way. On the west side, just

6,900 sq. ft. is now available.

The Old Mill District and Downtown submarkets recorded no activity in Q2, and the vacancy rates stand firm at 0.6% and 3.3% respectively. There is 1,650 sq. ft. available in the Old Mill and 14,238 sq. ft. for lease downtown.

There is now 242,098 sq. ft. for lease city-wide, up from 126,798 sq. ft. in Q1.

**Notable TRANSACTIONS**

Compass Commercial Real Estate Services negotiated the following notable transactions in the second quarter of 2019. 81 transactions (20 sales and 61 leases) were closed totaling \$55.8 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
Retail	Wagner Mall / 1800 NE 3rd St., Bend	108,818SF / 9.35 acres	Not Disclosed	Russell Huntamer & Tom Standish / Buyer   Pat Kesgard, John Keba, Holley Jensen & Kristie Schmitt / Seller
Retail	Pinebrook Plaza / 61155 Hwy 97, Bend	59,509 SF / 5.76 acres	Not Disclosed	Russell Huntamer & Tom Standish / Buyer   Pat Kesgard, John Keba, Holley Jensen & Kristie Schmitt / Seller
Hotel	Jot's Resort / 94360 Wedderburn Loop, Gold Beach	5,934 SF / 7.33 acres	\$4,175,000	Dan Kemp & Peter May / Seller
Industrial	Cronin Building / 63051 NE Corporate Pl., Bend	25,000 SF / 1.88 acres	Not Disclosed	Dan Kemp & Adam Bledsoe / Seller
Industrial	687 SE Glenwood Drive, Bend	26,746 SF / 5.01 acres	\$2,950,000	Ron Ross & Terry O'Neil / Buyer

**LEASES**

TYPE	PROPERTY	SF LEASED	LESSEE	COMPASS COMMERCIAL REPRESENTED
Industrial	303 SW Columbia St., Bend	41,020 SF	Silicon Power	Joel Thomas & Ron Ross / Landlord
Office	395 Bluff Dr., Bend	9,734 SF	Software/Tech Company	Bruce Churchill & Adam Bledsoe / Landlord & Tenant
Office	2855 NW Crossing Dr., Bend	5,320 SF	Sage School of Massage	Russell Huntamer, Joel Thomas & Tom Standish / Landlord
Industrial	20739 High Desert Ct., Bend	13,000 SF	Cyber Security Company	Jay Lyons & Grant Schultz / Tenant   Dan Kemp & Terry O'Neil / Landlord
Retail	803 SW Industrial Way, Bend	2,958 SF	Monkless Belgian Ales	Russell Huntamer & Tom Standish / Landlord