

COMPASS POINTS

Commercial Real Estate Market Report

CENTRAL OREGON | Q3 2019



SUMMIT SQUARE NORTH | 10,432 SF OFFICE BUILDING | SOLD AUGUST 2019

A LOOK INTO OUR ECONOMIC FUTURE

By Howard Friedman, CCIM

Compass Commercial's team of brokers, property managers and staff recently attended a webinar from ITR Economics, a leading economics consultancy firm, that gave some excellent insights into what businesses should look out for in the coming few years. According to ITR, some changes are in store for our national and regional future, but not as drastic as the crash of 2008 that sent the U.S. into a deep recession. ITR bases their data on mathematical and trending information and uses leading indicators to predict with uncanny accuracy the future of macroeconomics. They successfully predicted the 2009 recession two years before it occurred, one of the few organizations that saw it coming. Alan and Brian Beaulieu, founders of ITR, have graded the local business community several times over the past years as keynote speakers at various economic summits. ITR is predicting the last quarter of 2019 will slow down in most sectors, and that trend will continue until the second half of 2020 when things begin to stabilize a bit. Mild growth is expected in

2021, with a slight recession predicted in 2022 due to the backside of the business cycle (declining indicators). Retail nationally will slow, although in our region that seems to be on the rise with a number of new projects underway, and commercial construction in the private sector is forecasted to ease, although public commercial construction (such as schools, hospitals and government buildings) will continue to rise. The ITR leading indicator suggests that U.S. industrial production will fall through at least the first quarter of 2020, although locally we look to continue to see modest growth, which typically follows construction trends, so for the next few years expect a slight expansion of industrial growth in the local economy. As you will see in the following pages, both the Bend and Redmond vacancies surveyed reported continued declines.

Residential construction is down 6.9% nationally from the same time one year ago and ITR predicts residential construction spending will fall into the middle of next year. And U.S. housing

starts are down 2.1% from the same 12 months last year but are showing signs of recovery. Locally, however, a recent study by the personal finance website WalletHub compared 515 cities of varying population sizes in 17 key measures of both growth and decline over a period of seven years and reported that Bend is the third fastest growing city in the nation. Population growth, college-educated population growth and unemployment rate decreases were all factors contributing to the results.

Although the national economic picture appears to be predicting modest to slow growth for the next few years, our region appears to continue to hum along, with some warning signs on the horizon. ITR suggests that businesses should budget for a slowdown and do their best to retain key employees in this low unemployment environment.

Howard Friedman, CCIM is a partner and the managing principal broker for Compass Commercial.

Bend OFFICE Market

Compass Commercial surveyed 208 buildings for the third quarter 2019 office report. The buildings in the sample totaled just over 2.6 million square feet. Negative net absorption of 23,431 sq. ft. was recorded during the quarter moving the vacancy rate up to 3.9% from 2.98% in Q2. There is now 102,360 sq. ft. available for lease, up from 77,257 sq. ft. in Q2.

All three submarkets recorded negative net absorption in the period. Downtown lost 13,680 sq. ft. of net leasing, raising the vacancy rate from 1.31% in Q2 to 4.45% in Q3. Six buildings recorded negative results and none were positive in the quarter, and there are now seven buildings with office space available for lease downtown. There

is currently 21,795 sq. ft. of available office space in the downtown area, compared to just 6,443 sq. ft. in Q2.

The Highway 97/3rd St. corridor and the west side submarket also both recorded negative net absorption in Q3. In the

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BEND OFFICE NET ABSORPTION						BLDGS. OVER 3,000 SF	
Market Area	No. Bldgs.	Total Sq. Ft.	Vac. % 3rd Qtr.	3rd Qtr. Absorption	Total 2019 Absorption	Total 2018	
Downtown	49	490,261	4.4%	(13,680)	(13,680)	12,098	
Hwy 97/3rd St.	56	688,917	3.5%	(5,216)	(12,204)	4,970	
West Side	103	1,426,592	3.9%	(4,535)	10,855	(6,481)	
TOTAL	208	2,605,770	3.9%	(23,431)	(15,029)	10,587	

10 BARREL BREWING HEADQUARTERS | NNN LEASED INVESTMENT



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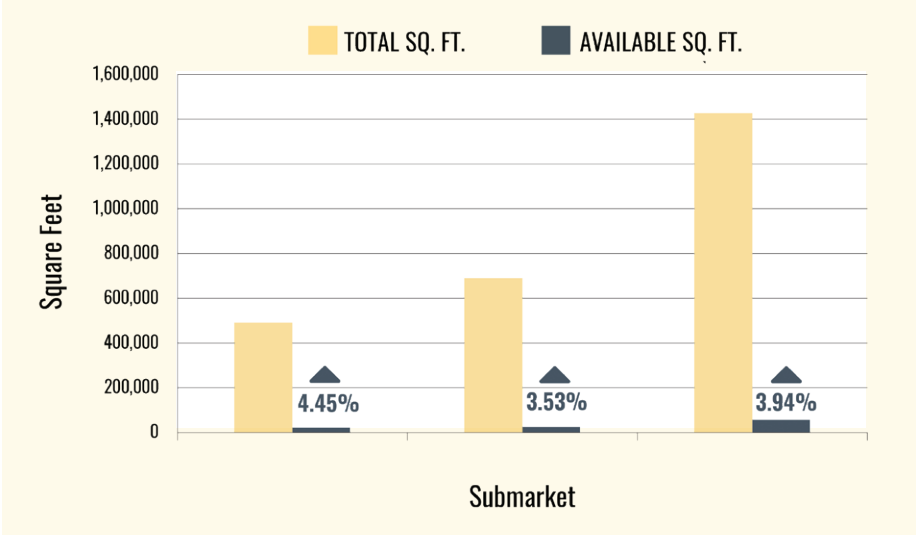


Bend OFFICE Market | CONTINUED

Highway 97/3rd St. corridor, five buildings added occupancy and four added vacancy, for a net loss of 5,216 sq. ft. The vacancy rate rose from 2.77% to 3.53% due to the change.

The west side submarket recorded negative net absorption of 4,535 sq. ft., raising the vacancy rate from 3.66% to 3.94%. Three buildings reported positive net absorption and four were negative. Currently there is 56,254 sq. ft. available on the west side, up from 51,719 sq. ft. in Q2.

BEND OFFICE VACANCY



Bend RETAIL Market

Compass Commercial surveyed 256 retail buildings totaling 4,503,899 square feet for the third quarter of 2019. The citywide vacancy rate fell dramatically, from 5.39% at the end of Q2 2019 to 3.30% at the end of Q3. This was primarily due to a significant lease signed during the quarter in the north 97 submarket, as you will read below.

Three out of the seven retail submarkets in Bend recorded positive net absorption, while four lost occupancy during the quarter.

The south 97 submarket recorded 6,240 sq. ft. of positive net absorption in Q3. Two buildings gained occupancy in Q3 and the south 97 submarket finished at 5.45% vacancy, down from the previous quarter's 6.21%.

The central 97 submarket lost ground, recording 5,200 sq. ft. of net negative absorption, due to the Boot Barn on N Hwy 97 vacating their space. As a result, the vacancy rate moved from 4.0% to 4.7% in Q3.

As mentioned, the north 97 submarket was the area's biggest gainer, as WinCo discount grocer backfilled the former Shopko store and leased the 106,216 sq. ft. building. One more small lease was recorded in the quarter for a total gain of 106,275 sq. ft. of positive net absorption in Q3. The vacancy rate now stands at just 1.99%, plunging from 10.84% in Q2. There is now 23,941 sq. ft. available in the north 97 submarket.

In the east side submarket, 1,261 net sq. ft. went vacant, raising the vacancy rate slightly from 2.0%

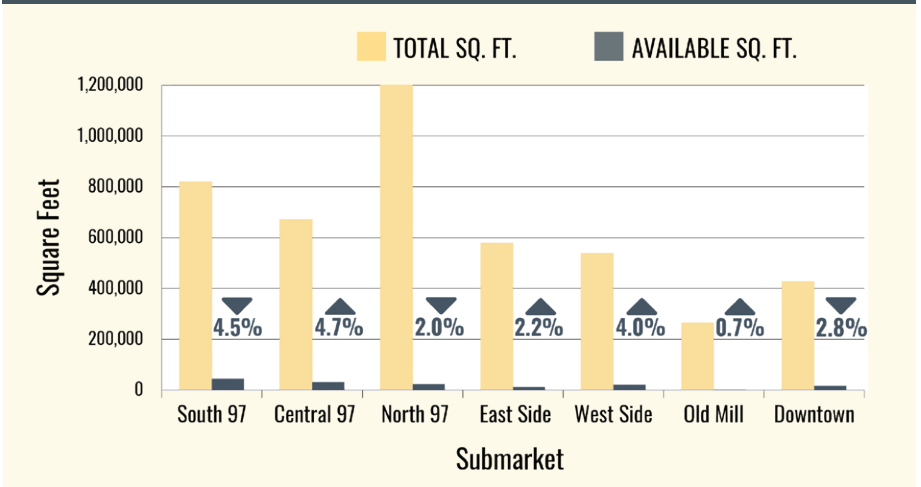


BEND RETAIL NET ABSORPTION

BLDGS. OVER 3,000 SF

Market Area	No. Bldgs.	Total Sq. Ft.	Vac. % 3rd Qtr.	3rd Qtr. Absorption	Total 2019 Absorption	Total 2018
South 97	20	820,696	5.4%	6,240	(2,487)	(2,061)
Central 97	42	672,211	4.7%	(5,200)	(16,502)	2,518
North 97	28	1,200,712	2.0%	106,275	168	23,284
East Side	28	578,336	2.2%	(1,261)	(8,111)	961
West Side	54	539,059	4.0%	(14,869)	(8,695)	23,679
Old Mill District	19	265,502	0.7%	(203)	1,069	2,348
Downtown	65	427,383	2.8%	2,307	9,507	(16,394)
TOTAL	256	4,503,899	3.3%	93,289	(25,051)	34,335

BEND RETAIL VACANCY



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INDUSTRIAL Market

BEND

Compass Commercial surveyed 314 buildings for the third quarter 2019 industrial report, totaling 4,427,296 square feet. The industrial market gained 34,051 sq. ft. of positive absorption in Q3, and the vacancy rate fell from 2.71% in Q2 to just 1.58%. There is now 70,054 sq. ft. of industrial space for lease in Bend, compared to 119,105 sq. ft. in Q2. This represents just a six-month supply of available leasable space at the current rate of activity. Two of the four submarkets recorded negative net absorption, and two were positive.

The southeast submarket recorded 30,808 sq. ft. of positive net absorption, and the vacancy rate is now 3.0%, down from 4.86% in Q2. There was a flurry of activity in Q3, with six buildings adding occupancy and three adding vacancies to the mix. The former Two Old Hippies building of 11,536 sq. ft. on American Loop was quickly back-filled, and the 9,850 sq. ft. suite in the back of the Mt. View Heating complex was also leased. There is now 49,923 sq. ft. available in the 1.66 million sq. ft. southeast submarket.

In the northeast submarket, 277 sq. ft. of net negative absorption was recorded. Two buildings reported positive absorption and three were negative. The biggest gainer was a 13,000 sq. ft. building on High Desert Ct. that signed a lease with a cyber security company. The vacancy rate now stands at just 0.84% in the northeast, compared to 1.29% in the previous quarter with 17,900 sq. ft. available in the largest industrial submarket in Bend of 2,132,516 sq. ft.

The central submarket gained 5,751 sq. ft. of absorption with two buildings recording positive net absorption and no new vacancies. The vacancy rate returned to 0.0% in Q3 in the 342,000 sq. ft., 35-building submarket.

The west side submarket lost 2,231 sq. ft. of negative net absorption in Q3, with one vacancy in the District 2 building in NorthWest Crossing. There are 12 industrial buildings in that submarket, with 290,467 square feet of leasable space. The vacancy rate rose from 0.0% to .77% in the west side area.

REDMOND

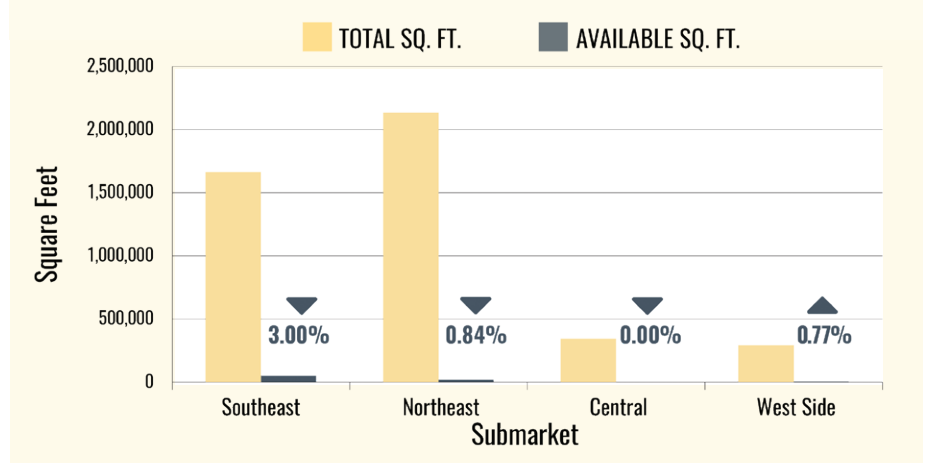
The Redmond industrial market gained back some of the losses incurred in the second quarter, with 14,500 square feet of positive net absorption recorded in the third quarter of 2019. The previous quarter recorded a 42,356 sq. ft. loss, so this turned things around for Q3. The vacancy rate fell as a result, from 4.6% to 3.8%. Redmond's industrial sector now has



BEND INDUSTRIAL NET ABSORPTION BLDGS. OVER 3,000 SF

Market Area	No. Bldgs.	Total Sq. Ft.	Vac. % 3rd Qtr.	3rd Qtr. Absorption	Total 2019 Absorption	Total 2018
Southeast	141	1,662,276	3.00%	30,808	(8,008)	15,339
Northeast	126	2,132,516	0.84%	(277)	6,658	97,236
Central	35	342,037	0.00%	5,751	7,360	(7,360)
West Side	12	290,467	0.77%	(2,231)	49,459	0
TOTAL	314	4,427,296	1.6%	34,051	55,469	105,215

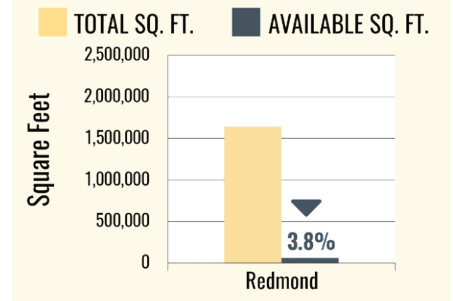
BEND INDUSTRIAL VACANCY



REDMOND INDUSTRIAL NET ABSORPTION BLDGS. OVER 3,000 SF

Market Area	No. Bldgs.	Total Sq. Ft.	Vac. % 3rd Qtr.	3rd Qtr. Absorption	Total 2019 Absorption	Total 2018
Redmond	86	1,637,179	3.8%	14,500	(20,855)	30,808

REDMOND INDUSTRIAL VACANCY



1,637,179 sq. ft. of total leasable space, not including owner occupied buildings and buildings under 3,000 sq. ft., with 61,526 sq. ft. available for lease in the 86-building industrial market. Four buildings recorded positive absorption and two were negative in Q3.

Bend RETAIL Market | CONTINUED FROM PAGE 2

in Q2, to 2.21%. One new vacancy and one new lease were recorded in the quarter. There is now 12,803 sq. ft. available in the east side submarket.

The west side submarket also lost ground with 14,869 sq. ft. of net negative absorption recorded in the quarter. The vacancy rate now stands at 4.04%, up from 1.3% in Q2. Four new vacancies were surveyed on the west side, with

Century Center, Westside Yard, the Box Factory and Century Park all noting losses. On the west side, 21,769 sq. ft. is now available.

The Old Mill District recorded a net loss of 203 sq. ft. with one lease and one vacancy noted in Q3. The vacancy rate now stands at 0.7%, up from 0.62% in Q2, with just 1,853 sq. ft. available for lease.

The downtown submarket recorded positive net absorption of 2,307 sq. ft. in Q3, and the vacancy rate declined from 3.33% to 2.8%. Currently there is 11,931 sq. ft. available in the downtown area. Just one building noted a new vacancy, at Franklin Crossing.

There is now 148,809 sq. ft. available for lease city-wide, down from 242,098 sq. ft. in Q2.

Notable TRANSACTIONS

Compass Commercial Real Estate Services negotiated the following notable transactions in the third quarter of 2019. Our firm closed 69 deals consisting of 19 sales and 50 leases totaling \$27.9 million in consideration. For more details about our monthly transactions, please visit Compasscommercial.com/Transactions.

SALES

TYPE	PROPERTY	BUILDING/LOT SIZE	PRICE	COMPASS COMMERCIAL REPRESENTED
Office	Summit Square North / 2855 NW Crossing Dr., Bend	10,432 SF / 0.52 acre	\$3,450,000	Joel Thomas, Russell Huntamer & Tom Standish / Seller
Industrial	62910 Peerless Court, Bend (Closed Sept. 2019)	17,250 SF / 1.62 acres	\$3,000,000	Dan Kemp, Jay Lyons & Grant Schultz / Buyer
Industrial	62910 Peerless Court, Bend (Closed July 2019)	17,250 SF / 1.62 acres	\$2,569,000	Terry O'Neil / Seller
Office	1000 SW Indian Ave., Redmond	11,244 SF / 0.89 acres	\$2,400,000	Terry O'Neil / Buyer
Land	Sockeye Place, Bend	8.81 Acres	\$2,342,003	Bruce Churchill / Buyer Pat Kesgard & Kristie Schmitt / Seller

LEASES

TYPE	PROPERTY	SF LEASED	LESSEE	COMPASS COMMERCIAL REPRESENTED
Retail	Box Factory / 550 NW Arizona Ave., Bend	2,309 SF	The Savy Agency	Jay Lyons, Russell Huntamer, Grant Schultz & Tom Standish / Landlord
Office	Crane Shed Commons / 721 SW Industrial Way, Bend	3,558 SF	BLRB Architects	Jay Lyons & Grant Schultz / Landlord & Tenant
Industrial	62980 Boyd Acres Rd., Bend	6,000 SF	Broken Top Candle Company	Herb Arathoon / Landlord
Office	745 NW Mt. Washington Dr., Bend	1,815 SF	Tutoring Club of Bend	Herb Arathoon / Landlord
Retail	63700 Clausen Dr, Bend	2,698 SF	AutoProBuys, LLC	Dan Kemp & Adam Bledsoe / Landlord & Tenant