COMPASS POINTS
Q1 2022

FOR SALE: Colorado Terrace | Fully Leased Office Investment Opportunity | 5.25% Cap Rate | $6,420,000

STATE OF THE OFFICE MARKET POST PANDEMIC

Some of the most frequently asked questions we get are about the state of the office market post-pandemic. Have companies returned to the office? Has demand for office space fundamentally changed? What does the future hold for office space in Bend?

The Bend office market, like others around the country, froze in early 2020 as the pandemic took hold. As the months dragged on, I became increasingly pessimistic about the office market. Having lived through several downturns and witnessing first-hand how badly the office sector can be affected, I was jaded.

In the first quarter of 2020, the office vacancy rate stood at 4.11%, but along with the number of COVID cases, it would steadily increase to a rate of 7.14% by Q3 2021. However, the mass exodus from the office market as many predicted just didn't happen, at least in Bend. While leasing activity slowed, forcing landlords to be more patient, lease rates remained steady and very few landlords incurred significant vacancies. In many ways, the impacts of the pandemic and the response to follow benefited the Bend office market.

As companies pivoted to a remote workforce, it allowed employees from outside the area to relocate anywhere. As the pandemic drew on and many remote workers were unable or unwilling to continue to work from home, they began actively seeking small office space, creating a lot of demand for space under 1,000 SF. Even today, small office spaces in Bend are hard to find and come at a premium. Some larger companies saw the market uncertainty as an opportunity to 'trade-up' into higher quality space and negotiate more favorable lease terms. Landlords who recognized the demand for smaller, more efficient spaces and demised larger spaces to accommodate this demand benefitted from their proactive approach.

Historically, the downtown Bend office market has outperformed all other submarkets in terms of vacancy. That has changed post-pandemic. Downtown's amenity base was hit especially hard by the pandemic, and as a result, tenants shied away from downtown. To make matters worse, the largest occupier of space downtown, G5, vacated 31,000 SF during the pandemic. At the peak of the pandemic, the downtown vacancy rate rose to 12.35%. Today, that rate sits at 7.73% as the G5 vacancy slowly gets re-leased. Conversely, the West Side submarket snapped back quickly, and it remains the most desirable office market with a current vacancy rate of 5.71%. Companies want to be near their homes, schools and the outdoor activities they enjoy in Bend. This has always been the case but was amplified by the pandemic.

Bend's office inventory has only increased by 248,000 SF in the last five years. Since Q3 2021, the office market in Bend has absorbed more than 40,000 SF cutting the vacancy rate to just 5.74%, well on its way to pre-pandemic levels. Limited land supply and construction costs have contributed to keeping inventory in check with demand.

Companies in Central Oregon have been returning to the office steadily over the last three months. Office space is again in high demand, and due to the lack of new speculative construction, the office market is poised to continue to improve.

Written by partner and broker Graham Dent

CENTRAL OREGON

Commercial Real Estate Market Report

COMPASS COMMERCIAL
REAL ESTATE SERVICES

BEND OFFICE

5.74% VACANCY

15,110 SF ABSORPTION

Compass Commercial surveyed 222 office buildings totaling 2.75 million square feet for the first quarter office report of 2022. The market experienced 15,110 SF of absorption in Q1 2022 with a decline in vacancy rate from 6.52% in Q4 2021 to 5.74% in Q1. The vacancy rate has now declined for two consecutive quarters. There is now 157,968 SF of office space available in the market.

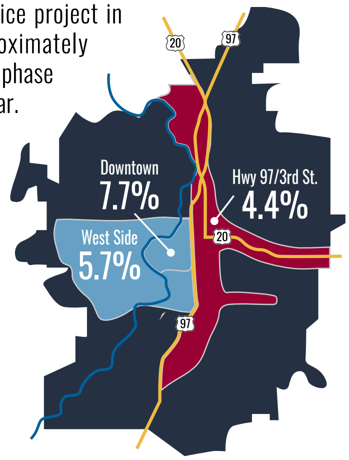
LEASING: As of the 1st of the year, the office market seems to have turned a corner with renewed interest and activity in the marketplace. The West Side submarket showed the most improvement this quarter with 23,447 SF of net positive absorption. The Downtown submarket also improved with 9,824 SF of positive absorption. The Highway 97/3rd Street submarket was the outlier with 18,161 SF of negative absorption this quarter. That said, 17,682 SF of that negative absorption figure is attributable to Moonlight BPO vacating 2491 NE Twin Knolls Avenue.

RENTS: Average asking rates on office space remain steady. The high end of the market currently ranges from $2.00 to $2.85/SF/Mo. NNN. More affordable spaces can be found in the $1.40 to $2.00/SF/Mo. NNN range depending on size, quality and location. The most affordable options are typically found within the Highway 97/3rd Street submarket.

CONSTRUCTION: Brooks Resources and Taylor Development continue to move closer towards breaking ground on Shevlin Crossing, a two-building Class A office project in NorthWest Crossing totaling approximately 45,054 SF. Construction of the first phase is scheduled to begin in Q2 of this year. There are no speculative office developments currently under construction.

SALES: There was one notable sale this quarter. An owner/user purchased the 6,778 SF office building located at 686 NW York Drive in NorthWest Crossing. The building sold for $2,450,000 or approximately $361/SF.

Written by partner and broker Jay Lyons, SIOR, CCIM



OFFICE VACANCY RATES *(Change since last quarter)*
Increased | Decreased | No Change

BEND OFFICE NET ABSORPTION

BLDGS. OVER 3,000 SF

MARKET AREA	NO. BLDGS.	TOTAL SF	VAC. RATE	1ST QTR. ABSORP. SF	TOTAL YTD ABSORP. SF
Downtown	51	494,522	7.73%	9,824	9,824
Hwy 97/3rd St.	54	677,717	4.35%	(18,161)	(18,161)
West Side	117	1,550,127	5.71%	23,447	23,447
TOTAL	222	2,752,366	5.74%	15,110	15,110

BEND RETAIL

3.51% VACANCY

12,043 SF ABSORPTION

Compass Commercial surveyed over 4.58 million square feet of retail space across 261 buildings. During the quarter, 12,043 SF of positive absorption was recorded, resulting in the citywide vacancy rate dropping from 3.78% in Q4 2021 to 3.51% in Q1 2022. There is now 160,938 SF of available retail space for lease.

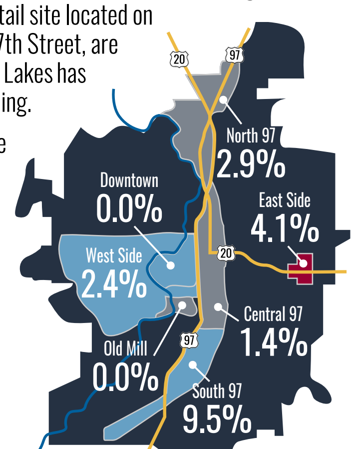
LEASING: Retail leasing remained strong for Q1. The Downtown and West Side submarkets experienced the most activity this quarter. Downtown, the 6,434 SF restaurant space in the O'Kane Building was leased to Bamboo Sushi. On the Westside, Viaggio Wine Merchant, Velvet Goldmine Salon and Prime IV leased a combined total of 5,435 SF at Westside Yard, and StarCycle leased 2,446 SF at the Grove in NorthWest Crossing. The South 97 submarket recorded 4,914 SF of positive absorption, of which, the entirety of this absorption was due to Taj Palace and Wall Street Bar and Grill leasing the former Red Dragon Restaurant.

RENTS: Asking rental rates for Bend retail space range between $1.15 and $3.75/SF/Mo. NNN* with the highest rates associated with drive-thru sites and new construction.

CONSTRUCTION: Pioneer Marketplace, the former south Sonic, Petrosa and the Costco relocation site in the North Triangle all remain in the permitting and pre-leasing phase. 1,500 SF of Pioneer Marketplace and all of the former Sonic site has been pre-leased. Building A & B and the drive-thru building at Reed South, an approximately 30,000 SF retail site located on the corner of Reed Market Road and 27th Street, are nearing shell completion, and Cascades Lakes has commenced construction on their building.

SALES: Notable sales during the quarter include the Auto Network Building at 20420 Robal Lane, which sold for $10,285,000 at 5.25% cap rate; the Aspen Dental/America's Best at Bend River Village located at 3211 N Highway 97 sold for $5,380,000 or $762/SF at 4.93% cap rate; and the former Pilot Butte Burgers building at 917 NE Greenwood Avenue sold for $1,200,000 or $543/SF.

Written by partner and broker Russell Huntamer, CCIM



RETAIL VACANCY RATES *(Change since last quarter)*
Increased | Decreased | No Change

BEND RETAIL NET ABSORPTION

BLDGS. OVER 3,000 SF

MARKET AREA	NO. BLDGS.	TOTAL SF	VAC. RATE	1ST QTR. ABSORP. SF	TOTAL YTD ABSORP. SF
South 97	21	814,421	9.54%	4,914	4,914
Central 97	44	677,348	1.44%	0	0
North 97	28	1,254,463	2.92%	0	0
East Side	28	578,336	4.05%	(7,910)	(7,910)
West Side	55	557,075	2.41%	7,881	7,881
Old Mill District	19	265,502	0.00%	0	0
Downtown	66	434,383	0.00%	7,158	7,158
TOTAL	261	4,581,558	3.51%	12,043	12,043

BEND INDUSTRIAL

0.33% VACANCY | **52,898 SF** ABSORPTION

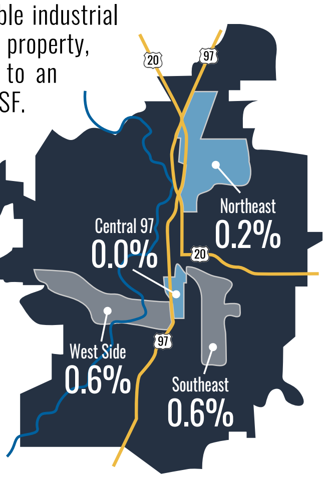
Compass Commercial surveyed 320 industrial buildings in Bend, totaling 4.61 million square feet, for the first quarter Bend industrial report of 2022. At the end of Q1 2022, the vacancy rate stood at 0.33%, down from 1.48% in Q4 2021 due to nearly 53,000 SF of net positive absorption during the quarter. In the nearly 29 years of collecting market data, this is the first time the vacancy rate has dipped below 1%.

LEASING: As evidenced by the amount of absorption recorded during the quarter, demand for industrial space remains extremely high. New leasing activity during the quarter was limited only by the lack of supply. Tenants are opting to renew in-place rather than negotiate new leases at today's rental rates. The Central submarket experienced the most leasing activity where 36,748 SF of space was leased at the High Desert Industrial Park, decreasing the vacancy rate in that submarket to 0%!

RENTS: Average asking rates for Bend industrial space are between $0.95 and $1.25/SF/Mo. NNN*. The high end of these rates are generally for new construction, while second and third generation spaces are consistently achieving $1.00/SF/Mo., slightly higher for spaces 2,500 SF and below.

CONSTRUCTION: There are no speculative industrial development projects underway. The construction occurring in the market is limited to owner/user development projects. Although rental rates are at an all-time high, so too are land prices and construction costs making speculative development a challenge.

SALES: There were a handful of notable industrial building sales during the quarter. One property, located at 20495 Murray Road, sold to an investor for $19,500,000 or $169/SF. Another investor purchased a property located at 20685 Carmen Loop for $2,300,000 or $230/SF. An owner/user purchased a building at 2350 NE 2nd Street for $2,400,000 or $193/SF. Functional, well-located industrial properties are commanding the highest prices in the market. Investors and owner/users will pay more for properties with excess land for storage or additional development.



BEND IND. VACANCY RATES *(Change since last quarter)*
Increased | Decreased | No Change

Written by partner and broker Graham Dent

BEND INDUSTRIAL NET ABSORPTION — BLDGS. OVER 3,000 SF

MARKET AREA	NO. BLDGS.	TOTAL SF	VAC. RATE	1ST QTR. ABSORP. SF	TOTAL YTD ABSORP. SF
Southeast	143	1,685,983	0.58%	0	0
Northeast	127	2,151,516	0.17%	16,150	16,150
Central	38	469,915	0.00%	36,748	36,748
West Side	12	303,103	0.56%	0	0
TOTAL	320	4,610,520	0.33%	52,898	52,898

RDM INDUSTRIAL

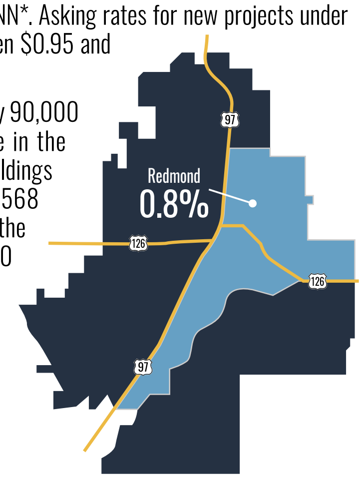
0.83% VACANCY | **19,333 SF** ABSORPTION

88 buildings totaling 1.66 million square feet were surveyed in the first quarter of 2022. In this quarter, the Redmond industrial market recorded positive net absorption of 19,333 SF. At the end of Q4 2021, 33,224 SF of industrial space was available in Redmond, and there is now only 13,891 SF of vacant space in Q1 2022. The majority of this absorption was recorded at 375 NE 11th Street. The vacancy rate decreased as a result from 2.00 % in Q4 to 0.83% in Q1.

LEASING: Activity in the Redmond industrial market continues to increase. Demand is still growing, as is reflected in the limited amount of vacancy.

RENTS: Average asking lease rates in the Redmond industrial market are between $0.85 and $1.10/SF/Mo. NNN*. Asking rates for new projects under construction will probably be between $0.95 and $1.25/SF/Mo. NNN.

CONSTRUCTION: There is currently 90,000 to 100,000 SF of industrial space in the pipeline for 2022. Two industrial buildings at 2505 SE 1st Street totaling 58,568 SF are projected to be complete in the Spring of 2022. Another 40,000 SF industrial building located at 2502 SE 1st Street is slated to break ground at the end of 2022. According to the City of Redmond, there are several additional industrial buildings going through the permitting process.



RDM IND. VACANCY RATES *(Change since last quarter)*
Increased | Decreased | No Change

Written by partner and broker Pat Kesgard, CCIM

REDMOND INDUSTRIAL NET ABSORPTION — BLDGS. OVER 3,000 SF

MARKET AREA	NO. BLDGS.	TOTAL SF	VAC. RATE	1ST QTR. ABSORP. SF	TOTAL YTD ABSORP. SF
Redmond	88	1,663,927	0.83%	19,333	19,333

Positive Absorption = Space Leased | Negative Absorption = Space Vacated
*Data sourced from CoStar

MULTIFAMILY REPORT | THE WINDS OF CHANGE

For the last ten years, multifamily housing providers have enjoyed a Goldilocks environment. In a word, "***perfect***."

- ***Rapidly rising rent rates***: In Central Oregon, rents rose an average of 5% annually or 70% cumulatively over the last ten years. Inflation was less than 2% for a cumulative rise of 27%.
- ***Modest new deliveries*** to the market with rapid absorption. Near-zero vacancy rates.
- ***Stable operating costs.***
- ***Low interest rates and cap rate compression:*** Statewide multifamily properties have been trading at around 4.5% cap rates and, in some cases, even lower.

THE WINDS OF CHANGE ARE BLOWING

Inflation is here, and interest rates are skyrocketing. Rates are up 100 basis points in the last month and 200 basis points since the beginning of the year. Buyers can no longer make acquisitions, and lenders can no longer underwrite at 4.5% cap rates. Cap rates must go up, putting pressure on property values.

Inflation is already impacting operating costs. Property owners are experiencing sticker shock with insurance renewals, maintenance and material costs are through the roof, and utility costs are increasing.

In Bend and Redmond, new deliveries to the market are exploding with thousands of new units under construction or in the pipeline. The vacancy rate has ticked up to 6.6%, reflecting new inventory in lease-up mode. That is the highest metro area vacancy rate in the state. Existing units are not yet feeling this vacancy. It remains to be seen whether the region's robust growth, including job growth, can absorb all the new supply. The good news is the housing shortage will certainly be eased by the multifamily construction boom. It is unlikely that housing costs will come down in this inflationary environment, but the growth rate of housing costs may flatten or plateau due to increased supply.

IS THE GOLDILOCKS ERA OVER?

Probably for a time, but multifamily ownership will remain one of the top income-producing and wealth-building investment options for investors across the board. Housing is essential, and demand remains healthy. Central Oregon is booming. The macroeconomy is entering a slowing stage with strong headwinds, but a recession is not imminent. Owners will need to sharpen their pencils and pay attention to the management and operation of their properties, be sure rents are keeping pace and closely monitor operating costs.

Those making buying and selling decisions will need to weigh these changing trends. The Compass Commercial Multifamily Team is here to help. We specialize in the buying and selling of Central Oregon multifamily properties.

Written by broker Ron Ross, CCIM

RECENTLY CLOSED MULTIFAMILY LISTINGS

Sign up for our Multifamily New Listing Alerts by going to
CompassCommercial.com/MFnews

8-Unit Apartment Complex | $1,462,500
Lake Place Apartments, Bend

Duplex | $830,000
2630 NW Fawn Run Lane, Bend

Four-Plex | $825,000
118 SE Cleveland Avenue, Bend

NEW LISTING ALERT

FOR LEASE: BRAND NEW RETAIL SPACE

Between Downtown and The Old Mill District
576-2,653 SF | $2.75-3.00/SF/Mo. NNN

Want to know when new listings like this hit the market?

Sign up for New Listing Alerts at CompassCommercial.com/Signup

616 NW Colorado Avenue, Bend

NOTABLE TRANSACTIONS

Compass Commercial Real Estate Services negotiated the following notable transactions in the first quarter of 2022. For more details about our monthly transactions, please visit CompassCommercial.com/Transactions.

109 TRANSACTIONS | **26** SALES | **75** LEASES | **$66.9M** CONSIDERATION

SALE TRANSACTIONS

TYPE	PROPERTY	BLDG/LOT SIZE	PRICE	COMPASS COMMERCIAL REPRESENTED
Industrial	20495 Murray Rd., Bend	115,094 SF 5.68 AC	$19,500,000	SELLER: Dan Kemp
Land	1900 SW Umatilla Ave., Redmond	395,089 SF 9.07 AC	$5,500,000	SELLER: Dan Kemp & Kristie Schmitt
Industrial	3525 SW Empire Dr., Prineville	5.15 AC	$4,300,000	SELLER: Bruce Churchill
Office	686 NW York Dr., Bend	6,778 SF 0.56 AC	$2.450,000	SELLER: Graham Dent & Russell Huntamer
Industrial	920 SE 9th St., Bend	7,200 SF 1.19 AC	$1,841,500	SELLER: Pat Kesgard & Kristie Schmitt

LEASE TRANSACTIONS

TYPE	PROPERTY	SF LEASED	LESSEE	COMPASS COMMERCIAL REPRESENTED
Medical	2450 NE Mary Rose Pl., Bend	7,935 SF	Attigo Infusion of Oregon, LLC	LANDLORD: Pat Kesgard, Kristie Schmitt & Luke Ross
Retail	1500 NE Cushing Dr., Bend	4,000 SF	Sunriver Brewing Company, LLC	LANDLORD: Russell Huntamer, Jay Lyons & Grant Schultz TENANT: Russell Huntamer, Peter May, Jay Lyons, & Grant Schultz
Industrial	63047 Layton Ave., Bend	12,500 SF	Seran BioScience, Inc	LANDLORD: Graham Dent, Jay Lyons & Grant Schultz
Office	775 SW Bonnett Way, Bend	8,010 SF	SOLV, Inc	LANDLORD: Peter May, Jay Lyons & Grant Schultz TENANT: Jay Lyons & Grant Schultz
Industrial	375 NE 11th St., Bend	18,450 SF	All Season RV and Marine	LANDLORD: Dan Kemp & Luke Ross

COMPASS POINTS

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