



FOR LEASE: 695 NW York Dr., Bend | NorthWest Crossing Class A Medical/Office Suite | 2,712 SF | \$2.75-2.95/SF/Mo. NNN

EVOLUTION OF THE COMMERCIAL CONSTRUCTION PROCESS

Central Oregon has experienced unprecedented growth across the construction spectrum in the last few years. Construction companies, architects and engineers have backlogs, in some cases amounting to years. Material prices and availability are following the same trend, and production and delivery wait times are increasing. Skilled workers are increasingly more difficult to find and retain. As we attempt to meet expectations and deliver projects, the competition for dependable workers is aggressive, wages are rising, the expectations of benefits are increasing, and the lingering effects of the COVID pandemic remain.

While most of the construction industry was considered essential through the pandemic, the process of the day-to-day work effort changed. Production fell as companies tried to sort through the ways to protect their workers, comply with the ever-changing regulations and still get the work done. Two years later, people are still working from home, and staffing has not recovered. We had never faced something like this, and the protocols were not in place.

COMMERCIAL CONSTRUCTION PROCESS

Client expectations can be slow to change. A client negotiates a lease, pays a deposit, and wants to know when they can move in. If the client is involved with a construction company early on, they develop layouts of the improvements, know the costs and have some expectations of the time frame. Land use approvals, permit processing and the material supply chain all contribute to the project delivery time frame.

There was a time in the not-too-distant past when the commercial construction permitting process was fairly predictable. As cities grow, regulations and requirements follow. The process in Central Oregon is no different. What

was once a review followed by a permit in under 30 days can now take four to six months.

Most local jurisdictions use an electronic process where all plans, permit forms and reports are submitted and processed electronically. In some ways, this is better. The process is easier to track. On the other hand, while all that transparency is formal, it does not always follow the plan. Communication is handled over email rather than face-to-face, making this simple process one that now requires days, not hours.

As agencies become more formalized, so does the way growth is managed. System Development Charges (SDCs) are well-known in the development world. They address the immediate infrastructure impacts of development on streets and the water, sewer and park systems. SDCs account and collect for those impacts at the time of permitting. A drive-thru restaurant has a greater impact on the street system than a finance office, while a brewery affects the water and sewer systems at much higher levels than a drive-thru. The cost effects of SDCs must be accounted for as part of the project cost.

MEETING EXPECTATIONS

We are collectively thankful for the situations of today and the challenges of meeting expectations. Our communication skills expanded by providing clients with up-to-date progress reports to temper waiting times. Project scheduling improved out of a necessity to manage a diminished pool of workers. Accountability is necessary and expected. Moving forward, construction companies and personnel must anticipate client's needs and act on them to be successful.

*Written by CCCS partner
Steve Hendley*

CENTRAL OREGON

Commercial Real
Estate Market Report



BEND OFFICE

4.29%
VACANCY

39,873 SF
ABSORPTION

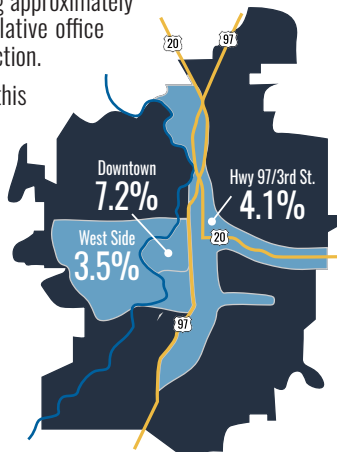
Compass Commercial surveyed 222 office buildings totaling 2.75 million square feet for the second quarter office report of 2022. The market experienced 39,876 SF of positive absorption in Q2 2022 with a decline in vacancy rate from 5.74% in Q1 2022 to 4.29% in Q2. The vacancy rate has now declined for three consecutive quarters. There is now 118,115 SF of office space available in the market.

LEASING: The office market continues to pick up steam as evidenced by the declining vacancy rate. All three submarkets experienced positive absorption this quarter, with the Westside submarket leading the way with 35,465 SF of positive absorption. The Downtown and Highway 97/3rd Street submarkets experienced more modest absorption with 2,860 SF and 1,548 SF respectively.

RENTS: Lease rates remain unchanged from Q1 with the high end of the market ranging from \$2.00 to \$2.85/SF/Mo. NNN and more affordable spaces ranging from \$1.40 to \$2.00/SF/Mo. NNN. Where a space falls within the appropriate range is dependent on size, quality and location. The Class A office product within the Westside submarket typically demands the highest rents while more affordable options are typically found within the Highway 97/3rd Street submarket. Lease rates in the Downtown submarket can vary significantly depending on quality of construction.

CONSTRUCTION: Brooks Resources and Taylor Development recently broke ground on the first phase of Shevlin Crossing, a two-building Class A office project in NorthWest Crossing, totaling approximately 45,054 SF. There are no other speculative office developments currently under construction.

SALES: There were two notable sales this quarter. An owner/user purchased the 2,984 SF office building located at 1012 SW Emkay Drive within the Westside submarket. The building sold for \$1,425,000 or approximately \$478/SF. An existing tenant purchased the 12,094 SF office building located at 409 NE Greenwood Avenue within the Highway 97/3rd Street submarket. The building sold for \$3,000,000 or approximately \$248/SF.



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

Written by partner and broker
Jay Lyons, SIOR, CCIM



BEND RETAIL

3.63%
VACANCY

-7,034 SF
ABSORPTION

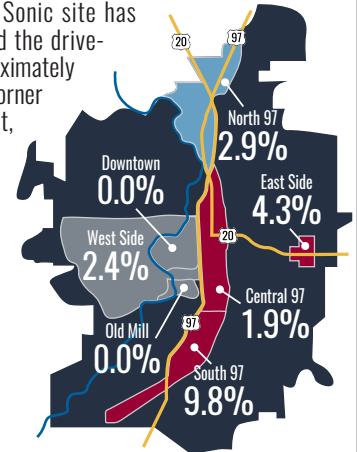
Compass Commercial surveyed over 4.58 million square feet of retail space across 261 buildings. During the quarter, 7,034 SF of negative absorption was recorded, resulting in the citywide vacancy rate to increase slightly from 3.51% in Q1 2022 to 3.63% in Q2 2022. There is now 166,473 SF of available retail space for lease.

LEASING: Retail leasing shows a sign of slowing in Q2 with a slight increase in vacancy. However, we are still seeing strong activity with a number of spaces becoming vacant and leasing up immediately. Bend Shoe Company and Nothing Bundt Cakes both leased recently vacated spaces for a total of 6,567 SF at the Forum. The East Side, West Side and Central 97 submarkets experienced the most activity this quarter. The East Side submarket saw an increase in vacancy with the closing of the Sew Many Quilts location. The Central 97 submarket had three small new vacancies and a new lease to Rife Mattress Express at 2221 NE 3rd Street. The West Side submarket recorded 3,031 SF of positive absorption, of which the entirety of this absorption was due to the new high-end restaurant Hook and Plow leasing new space in Westside Yard.

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 Sonic in southern Bend, Petrosa and the new development 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 Boot Barn building at 2221 NE 3rd Street, which sold for \$4,700,000 or \$128.76/SF at an 8.02% cap rate. 35 NW Bond sold for \$1,900,000 or \$324.23/SF, and 933 NW Wall Street sold for \$5,050,000 which is \$331.47/SF.



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

Written by partner and broker
Peter May, CCIM

BEND OFFICE NET ABSORPTION

BLDGS. OVER 3,000 SF

MARKET AREA	NO. BLDGS.	TOTAL SF	VAC. RATE	2ND QTR. ABSORP. SF	TOTAL YTD ABSORP. SF
Downtown	51	494,522	7.16%	2,860	12,684
Hwy 97/3rd St.	54	677,717	4.12%	1,548	(16,613)
West Side	117	1,580,127	3.47%	35,465	58,912
TOTAL	222	2,752,366	4.29%	39,873	54,983

BEND RETAIL NET ABSORPTION

BLDGS. OVER 3,000 SF

MARKET AREA	NO. BLDGS.	TOTAL SF	VAC. RATE	2ND QTR. ABSORP. SF	TOTAL YTD ABSORP. SF
South 97	21	814,421	9.76%	(1,800)	3,114
Central 97	44	677,348	1.92%	(3,246)	(3,246)
North 97	28	1,254,493	2.86%	723	723
East Side	28	578,336	4.26%	(5,742)	(6,901)
West Side	55	557,075	2.41%	3,031	7,881
Old Mill District	19	265,502	0.00%	0	0
Downtown	66	434,383	0.00%	0	7,158
TOTAL	261	4,581,558	3.63%	(7,034)	8,729



BEND INDUSTRIAL

0.34%
VACANCY

-478 SF
ABSORPTION

Compass Commercial surveyed 320 industrial buildings in Bend totaling 4.61 million square feet for the second quarter Bend industrial report of 2022. At the end of Q2 2022, the overall vacancy rate stood at 0.34%, virtually unchanged from the 0.33% recorded in Q1 2022.

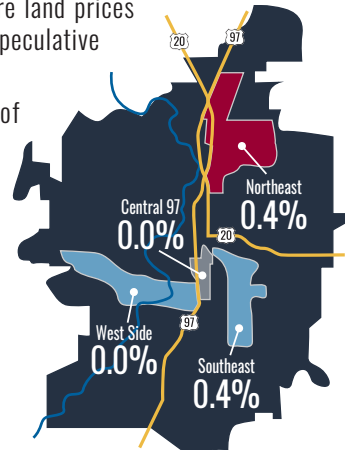
LEASING: Demand for industrial space, particularly smaller spaces less than 10,000 SF, remained extremely high during the quarter. Leasing activity was again limited only by the severe shortage in supply. Tenants are electing to renew in-place, even at very high rates, rather than risk having to identify a new location. Most tenants are having to become more efficient in the space they occupy and in many cases taking down contiguous expansion space before it ever hits the market.

RENTS: Average asking rates for Bend industrial space are between \$1.00 and \$1.20/SF/Mo. NNN*. Due to the high demand for industrial space in town, Landlords are consistently achieving rates above \$1.00 /SF/Mo. on new leases. Generally, smaller spaces under 2,500 SF will command rates on the higher end of this range.

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 couple of notable industrial building sales during the quarter. One property located at 20739 High Desert Court sold to an investor for \$2,840,000 or \$218/SF which represented a 4.5% cap rate. Another investment sale occurred at 20576 NE Painters Street. That property sold for \$3,500,000 or \$191/SF and a cap rate of 5.2%.

Written by partner and broker
Graham Dent, SIOR



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



RDM INDUSTRIAL

0.70%
VACANCY

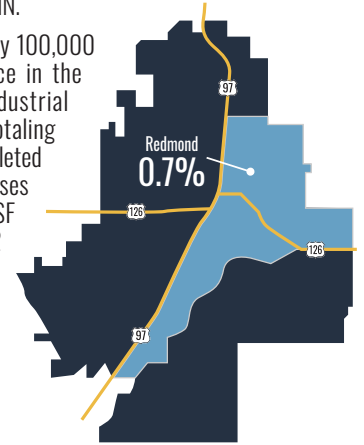
2,166 SF
ABSORPTION

88 buildings totaling 1.66 million square feet were surveyed in the second quarter of 2022. In this quarter, the Redmond industrial market recorded net positive absorption of 2,166 SF. At the end of Q1 2022, 13,891 SF of industrial space was available in Redmond, and there is now only 11,725 SF of vacant space in Q2 2022. The vacancy rate decreased as a result from 0.83% in Q1 to 0.70% in Q2.

LEASING: Activity in the Redmond industrial market continues to increase. The 11,725 SF that is currently available came on the market during Q2 and this is indicative to how tight the market is. 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* depending on the condition of the space. Asking rates for new projects under construction will probably be between \$0.95 and \$1.25/SF/Mo. NNN.

CONSTRUCTION: There is currently 100,000 to 130,000 SF of industrial space in the pipeline for 2022/2023. Two industrial buildings at 2505 SE 1st Street totaling 58,568 SF are projected to be completed in the summer of 2022 and some leases are already signed. Another 40,000 SF industrial building located at 2502 SE 21st Street is slated to break ground at the end of 2022. Some of these buildings will be owner/user facilities, and some will be for lease. In the last few months, lumber prices have settled down to levels about where they were two years ago.



Written by partner and broker
Pat Kestgard, CCIM

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

REDMOND INDUSTRIAL NET ABSORPTION BLDGS. OVER 3,000 SF

MARKET AREA	NO. BLDGS.	TOTAL SF	VAC. RATE	2ND QTR. ABSORP. SF	TOTAL YTD ABSORP. SF
Redmond	88	1,663,927	0.70%	2,166	(11,725)

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

BEND INDUSTRIAL NET ABSORPTION BLDGS. OVER 3,000 SF

MARKET AREA	NO. BLDGS.	TOTAL SF	VAC. RATE	2ND QTR. ABSORP. SF	TOTAL YTD ABSORP. SF
Southeast	143	1,685,983	0.44%	2,421	2,421
Northeast	127	2,151,516	0.38%	(4,609)	11,541
Central	38	469,915	0.00%	0	36,748
West Side	12	303,106	0.00%	1,710	1,710
TOTAL	320	4,610,520	0.34%	(478)	52,898

FOR SALE

Metal Industrial Building with Office
20732 High Desert Court, Bend
14,228 SF | \$3,500,000



NEW LISTING ALERT

FOR SALE: PRAIRIE CROSSING
Mixed-Use Land in Southwest Redmond
3 Tax Lots | 3.32 AC | \$2,500,000

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

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



3980 SW Badger Ave & 4297 SW Canal Blvd, Redmond



NOTABLE TRANSACTIONS

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



95
TRANSACTIONS



11
SALES



69
LEASES



\$41.2M
CONSIDERATION

	TYPE	PROPERTY	BLDG/LOT SIZE	PRICE	COMPASS COMMERCIAL REPRESENTED
SALE TRANSACTIONS	Retail	2221 NE 3rd St., Bend	36,253 SF 2.1 AC	\$4,700,000	SELLER: Dan Kemp & Peter May
	Land	61425 & 61475 American Ln., Bend	Two tax lots 8.27 AC	\$3,611,668	SELLER: Dan Kemp & Luke Ross
	Industrial	20576 NE Painters Ct., Bend	18,360 SF 1.23 AC	\$3,515,000	SELLER: Robert Raimondi & Luke Ross
	Industrial	4586 SW 21st St., Redmond	16,670 SF 0.93 AC	\$2,910,000	SELLER: Terry O'Neil BUYER: Pat Kesgard & Kristie Schmitt
	Industrial	20739 High Desert Ct., Bend	13,000 SF 0.59 AC	\$2,835,000	SELLER: Dan Kemp & Terry O'Neil
	TYPE	PROPERTY	SF LEASED	LESSEE	COMPASS COMMERCIAL REPRESENTED
LEASE TRANSACTIONS	Retail	1025 SE Cleveland Square Lp., Bend	3,470 SF	Jiffy Lube	TENANT: Dan Kemp
	Retail	Westside Yard 210 SW Century Dr., Bend	3,037 SF	Hook & Plow	LANDLORD: Russell Huntamer, Peter May & Eli Harrison
	Retail	Nolan Town Center 875 SW Rimrock Way, Redmond	4,825 SF	Oregon Community Credit Union	LANDLORD: Russell Huntamer, Jay Lyons, Grant Schultz & Eli Harrison
	Retail	The Forum Shopping Center 2680 NE Hwy 20, Bend	2,204 SF	Nothing Bundt Cakes	LANDLORD: Peter May, Russell Huntamer & Eli Harrison
	Retail	The Forum Shopping Center 2550 NE Hwy 20, Bend	4,363 SF	Bend Shoe Co.	LANDLORD: Peter May, Russell Huntamer & Eli Harrison



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Published quarterly. Subscription is free via sign-up on our website. Analysis and editorial by the management and staff of Compass Commercial Real Estate Services.

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