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UNDERSTANDING LEASE STRUCTURES

Know the Possibilities Before You Sign

By Graham Dent, Broker

Commercial real estate market fundamentals have improved significantly over the last 12 months. Now more than ever it's important for landlords and tenants to understand the nuances of the leasing contracts into which they enter. One of the most important components to understand in a commercial lease is the definition of base rent and how the operating expenses are paid. Here in Central Oregon, the most typical lease structures are Triple Net (NNN), Modified Gross (MG) and Full Service Gross (FSG).

The Triple Net (NNN) lease, (which literally means Net, Net, Net) is most common in office, retail and industrial leases in our market. In this rent structure a tenant pays both a base rent and also its share of the building's operating expenses. The NNN lease is most desired by landlords because it allows them to recover from tenants all of the building's operating expenses (property taxes, insurance, repairs and maintenance, management fees, utilities and others), even if those expenses increase from year to year. In the NNN structure, each tenant pays a pro rata share (percentage of the total building's square footage) of those expenses. For example, if the tenant occupies 2,000 square feet in a 10,000 square foot building, their pro rata share is 20%. Therefore, this tenant pays 20% of the building's operating expenses in addition to the base rent. The NNN lease is also easier to manage and administer for landlords. Because these expenses are fully covered by tenants, the tenant needs to understand exactly what those expenses are before entering into a lease. Tenants can often negotiate a maximum on the amount those expenses can increase from year to year which protects them from big spikes in those expenses.

The three N's in a NNN lease are Property Taxes, Insurance, and Common Area Maintenance. In a Single Net Lease the tenant pays only property taxes. In a NN lease the Tenant Pays for property taxes and building insurance. In a NNN lease as



described, they pay all three. NNN leases are intended to cover all operational costs of the building, while the landlord normally pays for capital costs such as roof replacement, major HVAC replacement, replacement of structural walls, parking lot replacement and the repair or replacement of utilities to the point of entry into the building. A Replacement Reserve is usually established for the landlord to account for these costs. This is also included in the analysis for building acquisition.

The foregoing provides the basic structure of a NNN lease, but in some cases the responsibility of which portion is borne by the landlord vs. tenant will vary from lease to lease.

The Modified Gross (MG) lease is most common in industrial and some smaller office leases in this market. Unlike the NNN lease, the rent in a MG lease structure includes the building's operating expenses except certain expenses that the tenant pays for directly such as electricity, natural gas and sometimes water and sewer charges. This requires that the tenant's space has separate utility meters for gas and electricity which is mostly seen in industrial buildings. This structure works well for

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Bend Office Market



Compass Commercial surveyed 206 office buildings totaling 2,500,767 square feet for the second quarter 2014 survey. The city wide office vacancy rate started at 12.19% at the end of Q1 2014 and dropped slightly to 11.48% at the end of Q2 2014. **This represents the ninth consecutive drop in a row and the lowest rate in six years, since the first quarter of 2008, when Bend's office vacancy stood at 11.18%.**

The survey results showed that 287,002 sq. ft. of space is now available for lease, compared to 304,728 sq. ft. at the end of Q1 2014.

This quarter, 17,726 sq. ft. of positive net absorption took place, compared to 94,283 sq. ft. of positive absorption in the previous quarter. We are optimistic that this absorption trend will continue and lease rates will continue moving back up to a more sustainable price for landlords who have seen office rates decline by up to 40% since the start of the recession.

NET ABSORPTION BY SUBMARKET — 2ND QUARTER 2014

MARKET AREA	NO. BLDGS.	TOTAL SQ. FT.	VAC % 2ND QTR	2ND QTR ABSORPTION	ABSORPTION YTD	TOTAL 2013
Downtown	49	490,121	6.45%	25,453	48,795	(148)
Hwy 97/3rd St.	56	673,207	14.51%	6,822	10,680	37,554
West side	101	1,337,439	11.79%	(14,549)	52,534	89,348
TOTAL	206	2,500,767	11.48%	17,726	112,009	126,754

Office buildings over 3,000 square feet

SELECT OFFICE LISTINGS



LEASE: East Side Bend Office
3,634 SF & 3,300 SF, near Hwy 20 & 27th St.
\$0.75 – \$1.25/SF/Mo. NNN | Tara Duncan



LEASE: West Side Bend Office
2,069 SF, near shopping, restaurants & amenities
\$0.75/SF/Mo. NNN | Terry O'Neil

Downtown

This quarter, Compass Commercial surveyed 49 downtown office buildings totaling 490,121 sq. ft. The downtown office vacancy had another steep fall from 11.64% at the end of Q1 2014 to the current vacancy of 6.45%. A total of 25,453 sq. ft. of positive absorption was recorded in the downtown office submarket adding to the 23,342 sq. ft. of positive absorption from the previous quarter for a year to date positive absorption of 48,795 sq. ft. Downtown remains a popular place for businesses and availability in this submarket is going to be increasingly difficult to find.

Hwy 97/3rd Street

A total of 56 office buildings were surveyed in the Highway 97/3rd Street corridor. The submarket recorded a positive absorption of 6,822 sq. ft. in Q2, almost double the gain from Q1's absorption of 3,858 sq. ft. Eight properties showed occupancies up, while three showed net losses. The largest gain was recorded at **155 NE Revere Ave.**, where 4,077 sq. ft. was absorbed. The vacancy rate fell slightly to 14.51%, down from the previous quarter of 15.53% and down from a historic high of 31.9% in the first quarter of 2010. **This is also the lowest vacancy in the corridor since the second quarter of 2008, when it stood at 14.4%.**

Continued on page 3

Bend Retail Market



Compass Commercial surveyed 257 retail buildings totaling 4,496,751 sq. ft. for the second quarter 2014 survey. The city wide vacancy fell to 8.58% in the second quarter, compared to 9.47% in Q1 2014, with eleven retail leases signed and four buildings losing tenants out of the 257 buildings surveyed.

The retail market bounced back with absorption of 40,047 sq. ft. of net leased space in the second quarter, up from the 33,963 sq. ft. loss in the first quarter. Six of the seven retail market areas surveyed experienced positive absorption over the quarter and only one lost a small amount of ground.

The downtown retail submarket again showed the best occupancy at a 1.70% vacancy rate, followed by the central corridor at 2.54%, the Old Mill District with 6.07%, the east side with 6.99%, south Highway 97 at 9.11%, north Highway 97 with 12.77% and the

west side trailing at 14.06% vacancy.

The south Highway 97 submarket led the way with the most positive absorption of 26,970 sq. ft. in Q2 (a great improvement from the previous quarter's net positive absorption of only 3,562 sq. ft.). A 19,000+/- sq. ft. lease by Sears Hometown Store in the South Trails Center contributed to the drop in vacancy.

Downtown Bend gained another 1,613 sq. ft. this quarter creating a cumulative year to date total absorption of 5,551 sq. ft. and a vacancy rate that now sits at a healthy 1.70%.

In the west side, The Old Mill District is the only retail submarket to experience a slight negative absorption of 103 sq. ft. affecting the vacancy rate with a slight rise to 6.07% from Q1's report of 6.03%. A gain was recorded at Old Mill Marketplace at 550 SW Industrial Way with 5,100+/- sq. ft. absorbed.

The east side, west side and central submarkets experienced a positive combined net absorption this quarter of 10,468 sq. ft. compared to a combined loss of 43,463 sq. ft. in Q1 2014.

NET ABSORPTION BY SUBMARKET — 2ND QUARTER 2014

MARKET AREA	NO. BLDGS.	TOTAL SQ. FT.	VAC % 2ND QTR	2ND QTR ABSORPTION	ABSORPTION YTD	TOTAL 2013
South 97	19	810,744	9.11%	26,970	30,532	27,492
Central 97	44	678,944	2.54%	850	774	20,727
North 97	29	1,199,295	12.77%	1,099	1,099	(103,356)
East side	29	590,267	6.99%	4,765	1,465	9,359
West side	54	560,394	14.06%	4,853	(35,234)	5,230
Downtown	65	424,617	1.70%	1,613	5,551	19,589
Old Mill District	17	232,490	6.07%	(103)	1,897	(8,172)
TOTAL	257	4,496,751	8.58%	40,047	6,084	(29,131)

BEND OFFICE MARKET

Continued from page 2

West Side

The west side submarket showed the only negative absorption in Q2, reporting a loss of 14,549 sq. ft. compared to a huge gain of 67,083 sq. ft. in Q1 2014. This is the first quarter in the last seven with negative absorption in this submarket and as a result, vacancy rates rose from 10.70% in

SELECT RETAIL LISTINGS



LEASE: Retail space in Medical Community
Surrounded by high density residential neighborhoods
\$2.25/SF/Mo. NNN | STEVE TOOMEY



LEASE: Drive Thru Restaurant in Prineville
1,675 SF, high traffic location, turn key restaurant
\$1.50/SF/Mo. NNN | DARREN POWDERLY



LEASE: Retail Space on Bus. HWY 97
3,140 SF, near Revere Ave. and Wagner Mall in Bend
\$1.10/SF/Mo. NNN | PAT KESGARD



LEASE: Bend River Promenade
1,359 – 4,524 SF, high traffic regional shopping center
\$1.75 – \$2.25/SF/Mo. NNN | RUSSELL HUNTAMER



Compass Commercial Real Estate Services is a full-service commercial real estate firm with expertise in all aspects of the business. *Compass Points* is published to inform our clients, partners and colleagues of trends, activity and opportunities in the Central Oregon commercial real estate and business markets.

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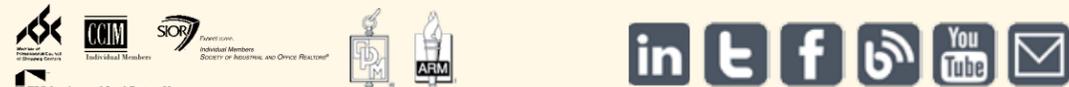
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Bend Industrial Market



Compass Commercial surveyed 297 buildings totaling 4,145,508 square feet for the second quarter 2014 survey. The city wide industrial vacancy fell this quarter to 8.53%, down from 10.85 in Q1 2014. Approximately, 353,640 sq. ft. of space is now available for lease, down from 449,904 sq. ft. at the end of Q1 2014. Two of the previously surveyed buildings in the industrial submarket have been sold to owner/users and are no longer included in the survey results.

There was over double the absorption this quarter with 96,264 sq. ft. of positive net leasing compared to the 44,545 sq. ft. that was leased in Q1 2014. Since the high of 20.0% in Q3 2010, we have now had twelve quarters of positive absorption and three quarters of negative absorption. City wide

industrial vacancy rates have fallen from 10.85% in Q1 2014 to a current rate of 8.53%. **The greatest gain was for 71,950 sq. ft. at 20545 Murray Road, the former Monaco Coach facility that was leased to ProBuild.**

In the second quarter of 2014, two submarkets had positive absorption and two had negative absorption.

The **southeast submarket** recorded 30,480 sq. ft. of positive net absorption in the second quarter while the vacancy rate fell from 7.32% to 5.47%. Eight buildings reported positive absorption and only three lost tenants out of 134 buildings surveyed in the submarket. The greatest gain was a building at **955 SE Wilson Ave.** that recorded 7,500 sq. ft. of leasing followed closely by 7,300 sq. ft. of leasing at **545 SE Bridgeford Blvd.** The largest vacancy reported in the area was in the **913 SE Zeller Ln.** building, which reported a loss of 4,400 sq. ft.

In the **northeast submarket**, a total of 118 industrial buildings were surveyed showcasing a significant positive net absorption of 70,681 sq. ft. Seven of the buildings reported positive absorption while five reported negative absorption. One of seven gains included 10,375 sq. ft. at **62915 NE 18th St.**, while **63050 Plateau Dr.** added 14,274 sq. ft. back to the market. The 16,360 sq. ft. former Cash & Carry site at **63229 Nels Anderson Rd.** was also sold to an owner/user, contributing to the decline in total available space.

The 36 building **central submarket** reported one loss of only 4,008 sq. ft. and no gains resulting in a vacancy rate of 2.34% up from 1.18% in Q1 2014. There are only two available spaces in this submarket, each with approximately 4,000 sq. ft. of available space.

The **west side** market had very little change with positive leasing of 821 sq. ft. and negative leasing of 1,210 sq. ft. for a total loss of only 889 sq. ft. The vacancy rate rose slightly from 3.37% to 3.87%. Movement in this submarket is usually small with only nine buildings surveyed and 178,144 total sq. ft. Only 6,899 sq. ft. of industrial space is currently available in the west side submarket.

With such strong absorption this quarter and a vacancy rate of 8.53%, we conclude that the industrial market has returned to a healthy status. Consequently lease rates will continue to be firm. We expect this trend to continue over the last half of the year.

NET ABSORPTION BY SUBMARKET — 2ND QUARTER 2014

MARKET AREA	NO. BLDGS.	TOTAL SQ. FT.	VAC % 2ND QTR	2ND QTR ABSORPTION	ABSORPTION YTD	TOTAL 2013
Southeast	134	1,652,306	5.47%	30,480	54,184	6,782
Northeast	118	1,969,590	12.60%	70,681	89,922	(28,865)
Central	36	345,468	2.34%	(4,008)	(2,408)	27,877
West side	9	178,144	3.87%	(889)	(889)	1,204
TOTAL	297	4,145,508	8.53%	96,264	140,809	6,998

Industrial buildings over 3,000 square feet

Redmond Industrial Market



Our second quarter 2014 Redmond Industrial survey included 76 buildings totaling 1,469,230 square feet. After the vacancy rate fell for six consecutive quarters, the market experienced its first setback with a rise in vacancy from 15.47% in Q1 2014 to 18.30%.

Even though we lost a little ground in the Redmond industrial market – primarily due to Altrec vacating 35,000 sq. ft. and another large tenant vacating roughly 17,000 sq. ft., vacancy rates are still below 20% – a number we last saw back in 2007. This is a positive sign. A total of six leases were signed along with six new vacancies resulting in negative net absorption for the quarter of 6,491 sq. ft. Currently 268,812

sq. ft. of space is available for lease.

Industrial leases in Redmond included 5,500 sq. ft. absorbed at **601 NE Antler Ave.**; 4,700 sq. ft. at **1097-1103 NE 11th St.**; and 7,128 sq. ft. absorbed at **580 NE Hemlock Ave.**

Don't let this quarter's setback fool you as Redmond's industrial market has shown significant progress over the last year. Peak vacancies in the market exceeded 25% and those vacancies have drawn down by about 7%. Even though Redmond isn't back to a normal market we are pleased to see more activity and expect to see positive net absorption through the remainder of the year. Moving forward we think that Redmond will benefit from the tightening of the Bend industrial markets.

NET ABSORPTION BY SUBMARKET — 2ND QUARTER 2014

MARKET AREA	NO. BLDGS.	TOTAL SQ. FT.	VAC % 2ND QTR	2ND QTR ABSORPTION	ABSORPTION YTD	TOTAL 2013
Redmond	76	1,469,230	18.30%	(6,491)	27,991	93,517

Industrial buildings over 3,000 square feet

TEAM SPOTLIGHT

Herb Arathoon, CPM®, Regional Property Manager, Broker



Herb Arathoon, CPM®

- 1. Where did you grow up?**
In Guatemala. My family has been in the lumber business in Guatemala City since 1939.
- 2. What brought you to Bend?**
Long story short, I went to school

at OSU because it was one of two schools in the United States that offered a Major in Business and Minor in Forest Products. The education was to prepare me for running our sawmill back home. Then I met my wife at school. We got married in Bend in 1972, moved to Guatemala and had three kids. Guatemala became an unsafe place to raise a family and after fourteen years, things got so bad we decided to leave. Luckily my wife, Mary, had grown up in this beautiful place called Bend, Oregon.

- 3. How did you start a career as a property manager?**

When we came to Bend I started working in computers and co-owned ComputerLand, but that was before Costco came and offered better deals. A friend who owned the Forum Shopping Center suggested I come to work with him helping lease spaces. From there I went to work with Cornerstone Realty and in 2007 I came to Compass Commercial.

- 4. What do you enjoy most about being in Property Management at Compass Commercial?**

I love the day to day challenge of being a property manager. Whether fielding calls from tenants, landlords, vendors and troubleshooting, to advising clients on important decisions that will impact the value of their investment, each day is different. Managing multiple buildings, navigating a range of challenges each day and being able to provide solutions quickly and efficiently are all part of what keeps me on my toes.

- 5. How has the property management industry changed and how has it evolved in Bend?**

Technology is our industry's biggest asset. Smart phones have freed us

from our desks to allow us to be in the field without lost time or access to tenants and clients. New systems and applications are helping us streamline our processes every day. Being efficient is essential in this industry.

- 6. What does it mean to be a Certified Property Manager®?**

The Certified Property Manager designation (CPM®) is given by the Institute of Real Estate Management to demonstrate that a person has the experience and preparation to be a successful property manager. Besides being a Realtor® and having several years of experience in property management, CPM's take at least seven industry related classes on topics such as marketing, human resources, maintenance, finance and ethics. To obtain this designation, you must also pass a management plan skills assessment. Being a CPM® and actually having three CPM's at Compass serves to substantiate our commitment to our work in property management. Our team is backed by solid management skills and experience, further demonstrating that we are part of a first class operation.

- 7. If you weren't a broker and property manager, what would you be doing?**

Running some other type of business – maybe a taco restaurant chain?

- 8. Beavers, Ducks, or plead the fifth?**

Beavers! You mean there is another big university in Oregon?

- 9. One word to describe Bend, OR:**

Perfection. If I could imagine a town where I'd want to live, I could not come up with a better place than Bend.

Herb Arathoon has been a licensed real estate broker since 1997. He has experience managing large shopping centers with national tenants, strip retail centers, office buildings and industrial buildings. Herb currently manages 25 properties, including retail, office and industrial buildings. As a broker, Herb meets with potential tenants, shows property, prepares letters of intent, prepares leases, and acts as liaison between landlords, tenants and contractors. Herb takes extra care in tenant retention and keeping the buildings he manages fully leased.

SELECT INDUSTRIAL LISTINGS



LEASE: Newly Refurbished Industrial Building
4,577 – 9,316 SF, off HWY 97 on Bend's north end
\$0.30/SF/Mo. NNN | Robert Raimondi



LEASE: Warehouse in NorthWest Crossing
1,710 SF, 14' automatic roll up door, large open space
\$0.79/SF/Mo. NNN | Joel Thomas



LEASE: Corner of 18th St. & Montana Way
20,000 – 44,000 SF, easy access to HWY 97 in Bend
\$0.54 – \$0.60/SF/Mo. NNN | Gardner Williams



SALE/LEASE: Dimeo Building in Redmond
9,000 – 18,000 SF flex space, near Roberts Field Airport
\$3,190,000 | \$0.25/SF/Mo. NNN | Dan Kemp

Q2 2014 NOTABLE TRANSACTIONS

Compass Commercial negotiated 109 transactions in the second quarter of 2014. Below is a selection of notable transactions Compass Commercial negotiated from April through June 2014. This is a sampling of transactions, as we hold some information in confidence per the wishes of our clients.

- 1) **1601 NE Hemlock Avenue, Redmond, 47,374 SF Industrial Building Sale, \$2,500,000**
Seller: Community West Bank, represented by Gardner Williams, SIOR and Bruce Kemp, CCIM
Buyer: Pam Martin Buresh, Randy Buresh represented by Erich Schultz, SIOR and Jay Lyons, CCIM
- 2) **427 NE Thurston Avenue, Bend 33,000 SF Multifamily Property Sale, \$2,200,000**
Seller: Cedarwood Holdings represented by Ron Ross, CCIM and Terry O'Neil, broker
Buyer: Orchard Park Apartments, LLC
- 3) **1320 SE Armour Road, Bend, 31,293 SF Industrial Building Sale, \$2,130,000**
Seller: DGS Enterprises represented by Terry O'Neil, Broker and Ron Ross, CCIM
Buyer: Shep East, LLC represented by Gardner Williams, SIOR and Peter May, CCIM
- 4) **63595 Hunnell Road, Bend, 30,000 SF Retail Building Sale, \$1,850,000**
Seller: Maple Sheldon Park 2011, LLC represented by Robert Raimondi, Broker and Ron Ross, CCIM
Buyer: Cost Less Carpet
- 5) **593 NW York Drive, Bend, 8,000 SF Light Industrial/Office Building Sale, \$1,400,000**
Seller: Ireland O'Neil, LLC represented by Pat Kesgard, CCIM and Joel Thomas, Broker
Buyer: Undisclosed
- 6) **20874 - 20884 Bob White Court, Bend, Residential Land Sale, \$1,411,000**
Seller: Peter B. Dinsdale represented by Bruce Kemp, CCIM and Dan Kemp, Broker
Buyer: Signature Home Builders
- 7) **395 SW Bluff Drive, Bend, 18,500 SF Office Lease Renewal**
Lessor: River Bend Limited Partnership represented by Gardner Williams, SIOR
- 8) **709 NW Wall Street, Bend, 14,400 SF Office Lease**
Lessor: David E. Cookson
Lessee: City of Bend represented by Ron Ross, CCIM, Bruce Kemp, CCIM and Dan Kemp, Broker
- 9) **370 and 390 SE Reed Market Road, Bend, 24 Lot Residential Subdivision Sale, \$768,000**
Seller: Norm Daniels represented by Bruce Kemp, CCIM and Dan Kemp, Broker
Buyer: MLS Holdings, LLC
- 10) **184 NE Franklin Avenue, Bend, 9,288 SF Retail Building Sale, \$659,000**
Seller: Tom J. Magliulo and Cynthia Magliulo Family Trust represented by Erich Schultz, SIOR and Jay Lyons, CCIM
Buyer: Marvin Wodtli represented by Stephen Toomey, CCIM

Q2 2014 TOP PRODUCERS

1. Erich Schultz, SIOR
2. Bruce Kemp, CCIM
3. Ron Ross, CCIM



As part of the 2014 United Way Days of Caring, Compass Commercial brokers and staff volunteered to provide landscaping services to Bend Park & Recreation District at River Bend Park on May 30th.

THE NEWS IS OUT — BEND IS A PRIME LOCATION FOR OUTDOOR BUSINESSES

Content provided by BEDAB (Bend Economic Development Advisory Board)

When Van Schoessler moved to Bend from Seattle three years ago, the outdoor industry executive expected to find a crowded scene of outdoor companies using this outdoor recreation paradise as a meeting ground for collaboration, a place to test gear, and a fabulous recruitment tool for top-notch employees.

What Schoessler, who has more than 25 years experience with name brand companies like Stanley, found was that only a dozen or so successful outdoor companies like Hydro Flask, Ruffwear, KIAOLA Paddles and Silipint are in on the secret of Bend.

Schoessler, who has since become a key member of the Bend Economic Development

Advisory Board, recalls having lunch with another outdoor industry veteran at the time and saying, "Geez. What the heck? Where is everybody?"

It's a good question. And business support groups in Bend, including the City of Bend, Economic Development for Central Oregon and newly launched incubator Bend Outdoor Worx have made it their mission to share the secrets of this prime location with outdoor businesses throughout the country.

The message is simple: Bend is by far one of the top recreation communities in the nation with magazines routinely ranking us as the best running, biking, skiing, boarding, rock

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NONPROFIT SPOTLIGHT | COBA Ramp-a-thon



Imagine yourself confined to your home, unable to move outside your door to enjoy fresh air or easy access to transportation. Many Central Oregon homeowners have found themselves in just that situation. Ramp-a-thon is one way that the Central Oregon Builders Association (COBA) Remodelers Council works to bring freedom to homeowners who have mobility and accessibility challenges in their own homes by building access ramps at no cost for qualified homeowners throughout Central Oregon.

This year's 6th annual Ramp-a-thon will take place in October and applications are currently being accepted with a deadline of August 20th to apply.

Program recipients are chosen by a council based on need and home ownership. Each approved homeowner is assigned to a

volunteer COBA member/team leader who then visits with the homeowner to discuss the process and final product expectations and to design the ramp which is based on ADA (Americans with Disabilities Act) guidelines and Universal Design standards.

Team leaders, all licensed contractors, manage the entire process from design and materials to construction of the ramp. This includes recruiting teams of volunteers to assist with labor, seeking material donations from suppliers and often pay for any balance of costs themselves. Each ramp has different material needs based on the finished floor height of the home, length of ramp needed, topography, the terrain and the layout of the site. Every wood ramp also utilizes special "Tuff Tread" material to provide traction for wheelchairs and walkers.

Finally, after all ramps are designed, builders and volunteers trained, and homeowners prepared, the teams assemble on their respective home sites and in one day build the ramps.

"Of prime importance to the success of Ramp-a-thon is the involvement and support of the community and local companies who have stepped up to donate," said Pat Kesgard,

COBA board member and partner with Compass Commercial "This year's Ramp-a-thon stands to make a huge impact as we've applied for a grant with the City of Bend Community Development Block to help with the process and project costs. With this potential funding, we want to be sure that all prospective recipients are aware of the opportunity and apply," Kesgard added.

"The improved independence we are able to provide recipients and the immense appreciation of the homeowner serves as an incredibly gratifying reward for the builders and teams," said Kesgard.

If you are interested in volunteering, supporting or donating to this year's COBA Ramp-a-thon, please visit the COBA website at www.coba.org or contact Gretchen Palmer at 541-389-1058, gretchenp@coba.org. If you know of anyone who would benefit from the installation of a ramp or if you would like more information on how to apply to receive a ramp, contact the COBA office at 541-389-1058 or timk@coba.org.

UNDERSTANDING LEASE STRUCTURES | Know the Possibilities Before You Sign

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short term leases and for smaller tenants because the expenses are fixed in the rent so the tenant knows exactly what portion of their rent is for operating expenses and variation in those expenses from year to year are paid by the landlord, unlike in the NNN structure. So, if the building's property taxes increase or there's an abnormally high expense for snow removal one year, the landlord is responsible for those incremental expenses, making this structure somewhat dis-advantageous for the landlord.

The Full Service Gross (FSG) lease is sometimes found in office leases in this market but is more predominant in larger markets around the country, particularly with government and regional or national tenants. In a FSG lease, all of the expenses to operate the building are included in the rent, including utilities. Often, these leases include what is known as a 'base year' in order to determine a base line of operating expenses for a tenant. This is usually the first year of a tenant's lease. Every year after the base year, the tenant is responsible for paying its pro rata share of any increase in the building's

operating expenses. So, if a tenant's pro rata percentage of the building is 20% and the building's operating expenses increase by \$1.00 per square foot, the tenant pays 20% of the \$1.00, or \$0.20 per square foot. This



is helpful for the landlord because they are able to recover increases in their expenses from their tenants.

It is important to note that these are not the only structures available to negotiate and that lease structures can vary in each scenario depending on the building and its landlord's willingness to negotiate. However, in an improving market and as rent and operating expenses increase, it's very important to

understand how base rent and operating expenses work in a lease especially when a lease commitment can be for multiple years. Landlords and tenants risk leaving a significant amount of money on the table by not understanding the lease. Regardless of the lease structure, most leases include a provision for a tenant to audit the landlord's books to verify that the expenses being billed are accurate.

Compass Commercial brokers can assist both landlords and tenants to understand the various lease structures and how to administer them in order to be most successful.

Graham Dent, Broker has extensive experience working through complicated and challenging lease and sale transactions across all product types (office, industrial, retail and multi-family). He enjoys helping clients reposition real estate assets within their investment portfolios to achieve and exceed their individual real estate objectives. 🍌

THE NEWS IS OUT — BEND IS A PRIME LOCATION FOR OUTDOOR BUSINESSES

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climbing, rafting, golf, and fly fishing city around. Combine this with our accolades as one of the best places for entrepreneurs, our growing technology industry and you have the makings of a dream location for the outdoor industry.

The biggest concern among the industry leaders he talks to is the location, said Schoessler.

"But I don't get that," he said. "If Ruffwear is able to do it here and realize critical mass—the logistics are there."

Companies like Ruffwear have indeed been able to achieve critical mass in Bend. Ruffwear saw more than \$7 million in sales as of 2012, and is now distributed by 2,339 retailers in 41 countries.

As Ruffwear founder Patrick Kruse describes

it, it's actually the location that makes Bend the perfect spot for an outdoor company.

"Since we build Ruffwear performance dog gear for these demanding outdoor pursuits, Bend is the perfect blend of geographic proving grounds for our products," said Kruse. "In a single day we can test our gear in the snow of the Cascade Mountains, riparian habitats along the Deschutes River and then head out east to our desert testing grounds in the Badlands."

Now BEDAB and its member groups are turning their attention to taking Kruse's message to the masses. In January of 2014, Ruffwear, EDCO and the City of Bend threw a Bend-themed party at Outdoor Retailer, a major national outdoor industry trade show. With Silipints full of Deschutes Brewery beer for refreshments, the

attendance, and the energy ran high.

The show yielded more than 250 contacts for EDCO's business team. Each has received a follow up contact as part of this strategic effort to grow the outdoor industry in Bend.

In the meantime, EDCO has begun holding regular outdoor industry roundtables in Bend, offering business leaders critical networking opportunities and a forum to share their ideas for how to make Bend a better place for outdoor businesses.

These meetings are leading to new ideas in Bend, such as the recently created outdoor incubator project that aims to grow new outdoor businesses in Bend from the bottom up. One way or another, the news about Bend's excellent outdoor industry potential is about to be out. 🍌