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2013 Summary / 2014 Forecast

In 1980, while vying for office, Ronald Reagan asked the country if it was better off than it was four years earlier. To paraphrase our 40th president, the inimitable portrayer of George "The Gipper" Gipp in the film, *Knute Rockne, All American*, we ask a similar question relative to this quarter — "are we better off than we were four quarters ago?" Well, if you are an office or industrial building owner in Bend, Oregon we can expect that the answer would be a resounding "yes."

Here is what we predicted in our Q4 2012 *Compass Points* Newsletter: ***In 2013, expect to see a continued drop in industrial vacancy rates, two or three new buildings on the survey and a slight rise in rental rates (between \$.40 and \$.45 per sq. ft.).***

The retail occupancy will also rise as consumer confidence gets stronger and tourism remains good. Retail rates should also continue to go up a bit. And we do expect a better office market, but that will depend on businesses feeling confident enough to expand, hire and absorb larger office spaces. We look for a one to two percent drop in vacancy and lease rates remaining stable.

How did we do in our prediction? Pertaining to the ***predicted drop in industrial vacancy rates***, the fourth quarter of 2012 registered a 9.6% vacancy rate, and although we finished the year in 2013 at 12.25%, a large industrial building of 125,000 sq. ft. of leasable space was added to the survey in Q3, (although it had been for sale for some time) which slightly skewed the results (see details in our Industrial Market section). Without that building, the vacancy rate would have been at 9.3% in Q4 2013.

The other three quarters of the year registered in the 8% – 9% range, whereas 2012 saw rates from 9.6% – 14.5%. Needless to say, there was a definite improvement. As for the prediction of ***adding two or three new industrial buildings to***

our survey, we plotted 297 buildings at the end of 2012 and by Q4 2013 we had 299 on the list. Pertaining to the predicted ***slight rise in rental rates of between \$.40 and \$.45 per sq. ft.*** — Bingo. We consistently leased industrial properties for those rates as the small space vacancies dwindled and it shifted back slightly to a landlord's market.

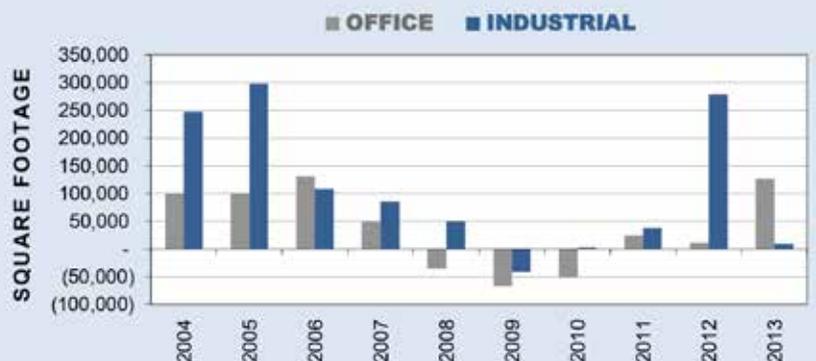
"Are we better off than we were four quarters ago? Well, if you are an office or industrial building owner in Bend, Oregon we can expect that the answer would be a resounding 'yes'."

Our predictions faltered when we said retail occupancy would also rise. But had the Sears store at the Bend River Promenade not shut its doors in Q4 of 2013 and 62,000 sq. ft. not added to the market, we would have seen a 30,000 sq. ft. gain in citywide occupancy for the year. ***As to foreseeing rising retail rates***, Compass Commercial leased several downtown restaurants within a \$1.65 – \$2.00 per sq. ft. (triple net) rate range, a definite rise from the previous couple years, and most of the other rental rates in retail commercial areas inched up slightly too.

Our prediction of a better office market, (with a one to two percent drop in vacancy and lease rates remaining stable) was also a miss — but on the positive side. We actually witnessed about a 5.1% drop from a citywide vacancy rate at the end

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BEND OFFICE AND INDUSTRIAL ABSORPTION BY YEAR



Bend Office Market



Compass Commercial surveyed 205 buildings for the fourth quarter 2013 office survey. The buildings in the sample totaled 2,500,767 square feet. The citywide office vacancy rate started at 17.8% at the end of Q3 2013, and dropped again, to 16.0% at the end of Q4. **This represents the sixth consecutive quarterly drop in a row, and the lowest rate in five and a half years, since the second quarter of 2008, when it stood at 13.5%.** The survey results showed that 399,011 sq. ft. of space is now available for lease,

compared to 441,429 sq. ft. at end of Q3.

This quarter, 48,718 sq. ft. of positive net absorption took place, compared to 31,927 sq. ft. of positive absorption in the previous quarter. We are again optimistic that this absorption trend will continue, and will eventually get our lease rates back up to a more tolerable price for landlords, who have seen office rates decline by up to 40% since the start of the recession.

Downtown submarket

Compass Commercial surveyed 49 downtown office buildings totaling 490,121 sq. ft. for

this quarter's survey. The downtown office vacancy rose slightly to 16.41%, compared to 16.36% at the end of Q3 2013. A total of 247 sq. ft. of negative net absorption was noted in this submarket, the only losing area of town. Two properties reported improved occupancy and three reported a net loss for the period.

Hwy 97/3rd Street submarket

The Highway 97/3rd Street corridor recorded a healthy 26,037 sq. ft. of positive net absorption in Q4, compared to a gain of 4,419 sq. ft. in Q3. Eleven properties showed occupancies up, while three showed net losses, with the largest gain recorded at 2500 NE Twin Knolls Dr., where nearly 14,000 sq. ft. was absorbed. With 56 buildings surveyed, the vacancy rate fell dramatically to 16.1%, down from the previous quarter of 19.97%, 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%.**

West side submarket

The west side submarket also showed positive absorption in Q4, reporting another healthy gain of 22,928 sq. ft., which followed the Q3 gain of 21,281 sq. ft., dropping the vacancy rate for the fifth consecutive quarter, to 15.7%. This is down from 17.2% in the previous quarter. There were fourteen buildings reporting net gains and eight reporting a net loss out of 100 buildings surveyed. The largest lease reported was again

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NET ABSORPTION BY SUBMARKET — 4TH QUARTER 2013

MARKET AREA	NO. BLDGS.	TOTAL SQ. FT.	VAC % 4TH QTR.	4TH QTR. ABSORPTION	ABSORPTION YTD	TOTAL 2012
Downtown	49	490,121	16.4%	(247)	(148)	10,433
Hwy 97/3rd St.	56	673,207	16.1%	26,037	37,554	15,567
West side	100	1,337,439	15.7%	22,928	89,348	(14,646)
BEND TOTAL	205	2,500,767	16.0%	48,718	126,754	11,354

Office buildings over 3,000 square feet

SELECT OFFICE LISTINGS



LEASE: West Side Commercial w/Drive-Thru
3,924 SF w/large parking lot near OSU-Cascades
\$1.25/SF/MO. NNN | ROBERT RAIMONDI



LEASE: Medical Space Near St. Charles Bend
1,845 – 7,250 SF, fully built-out, zoned RH
\$1.53/SF/MO. NNN | PAT KESGARD / DARREN POWDERLY

Bend Retail Market



Compass Commercial surveyed 255 retail buildings totaling 4,491,999 square feet for the 2013 fourth quarter retail survey. **The citywide vacancy rose to 8.6% in the fourth quarter, compared to 7.7% in Q3.**

The market lost 40,879 sq. ft. of net leased space in the third quarter, the largest losing quarter since the second quarter of 2009.

Four of the seven retail market areas surveyed experienced positive absorption over the quarter — two lost ground, and one remained unchanged. The north Highway 97 submarket dragged down the occupancy statistics when the Sears store in **Bend River Promenade** shut its doors, leaving a total vacancy of 62,236 sq. ft. And although negotiations are underway to fill a portion of the space, the vacancy rate rose from 7.0% in Q3 to 12.9% due to the event.

The south Highway 97 submarket was the greatest gainer, recording over 18,000 sq. ft. of positive absorption, fueled by **Ross Dress for Less** signing a lease at **Pioneer Crossing**,

adding 27,500 sq. ft. of total absorption in the complex. **Downtown Bend gained 3,406 sq. ft. and is showing a healthy 3.0% vacancy rate.** There was no activity in the Old Mill District in the quarter, while the east side gained 10,543 sq. ft. and the central area gained 1,545 sq. ft. in Q4. On the west side, Ray's Food Place closed its doors after the first of the year, and if it does not get leased prior to the end Q1 2014, there will be 40,853 sq. ft. of vacancy added to the mix.

Citywide, twelve retail leases were signed and eleven buildings lost tenants out of the 255 buildings surveyed. In the fourth quarter, the central Highway 97 corridor showed the best occupancy with just a 2.0% vacancy rate, followed by downtown at 3.0%, the Old Mill District with 6.9%, the east side with 7.2% the west side with 7.8%, and north and south Highway 97 each with a 12.9% vacancy rate.

On the retail sales front, Compass Commercial assisted with two transactions in the quarter. The former Backstrom Builders property sold for \$1,206,000 to **Bend Area Habitat for Humanity**, and the **Hertz Car Sales property** on 2.4 acres sold for \$2,245,000 in November.

NET ABSORPTION BY SUBMARKET — 4TH QUARTER 2013

MARKET AREA	NO. BLDGS.	TOTAL SQ. FT.	VAC % 4TH QTR.	4TH QTR. ABSORPTION	ABSORPTION YTD	TOTAL 2012
South 97	19	810,744	12.9%	18,111	27,492	9,863
Central 97	43	674,192	2.0%	1,545	20,727	7,527
North 97	28	1,199,295	12.9%	(73,764)	(103,356)	(7,045)
East side	29	590,267	7.2%	10,543	9,359	16,309
West side	54	560,394	7.8%	(720)	5,230	7,096
Old Mill District	17	16,012	6.9%	0	(8,172)	12
Downtown	65	424,617	3.0%	3,406	19,589	(12,566)
BEND TOTAL	255	4,491,999	8.6%	(40,879)	(29,131)	21,196

Bend Office Market

Continued from page 2

in the **Mill Point Business Campus**, where 8,655 sq. ft. of leasing took place.

Compass Commercial brokers were involved in two office building sales, and prices ranged from \$164 to \$258 per sq. ft., showing

the array of values still prevalent in Bend. At the lower end an 11,268 sq. ft. building on Colorado Ave. sold for \$1,850,000, and on Columbia St., the former 2,713 sq. ft. Washington Federal building sold, for the second time in 2013, for \$700,000.

SELECT RETAIL LISTINGS



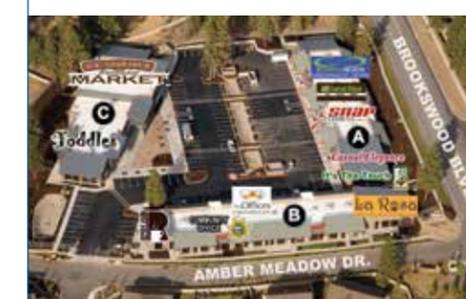
LEASE: High Traffic Greenwood Ave. in Bend
5,600 SF divisible to 1,000 SF retail or office space
\$0.75 – \$1.25/SF/MO. NNN | ROBERT RAIMONDI



SALE: Leased Investment Opportunity w/Upside
3 buildings w/2 long term tenants on HWY 20, Bend
\$459,000 | RON ROSS / TERRY O'NEIL



LEASE: Prime HWY 97 Retail in Bend
3,140 SF, long term lease available, fronts 3rd St.
\$1.10/SF/MO. NNN | PAT KESGARD



LEASE: Brookwood Meadow Plaza, Bend
1,254 – 3,486 SF in neighborhood shopping center
\$1.25/SF/MO. NNN | JOHN KEBE / 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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Bend Industrial Market

ABSORPTION



VACANCY



Compass Commercial surveyed 299 buildings for the fourth quarter 2013 industrial survey. The buildings in the sample totaled 4,187,797 square feet. **The citywide industrial vacancy rate rose for the second straight quarter.** Approximately 512,918 sq. ft. of space is now available for lease, up from 460,157 sq. ft. at the end of Q3 2013.

The downturn in absorption for the fourth quarter was the result of 59,747 sq. ft. of negative net leasing. And although the new vacancy rate is now 12.25%, much of the rise in 2013 was the result of the 125,000 square foot **Fuqua Building** being added to the survey in Q3, which represents over 24% of the total city-wide vacant square footage. Without that building, the rate would be just 9.3%. Since the high of 20.0% in Q3 2010, we have now had ten quarters of positive

absorption and three quarters of negative.

In the fourth period of 2013 two submarkets gained ground, and two lost.

The southeast submarket recorded 4,830 sq. ft. of negative net absorption in the third quarter, although the vacancy rate fell slightly from 8.83% to 8.75% as a result of a change in square footage in the area. Five buildings reported positive absorption and seven reported negative absorption out of 135 buildings surveyed in that submarket. The greatest gainer was a building on Carmen Loop that recorded 10,038 sq. ft. of leasing, and the largest vacancy reported in the area was a building in the 9th St. and Wilson Ave. area, which reported a loss of 7,500 sq. ft.

The northeast submarket was the biggest disappointment for the fourth quarter, recording a negative net absorption of 62,167 sq. ft. This was due to a vacancy at 18th St. and Montana Way of a building of 44,000

sq. ft., formerly home to Ida Tech; a 10,100 sq. ft. vacancy on Plateau Dr.; a 9,000 sq. ft. loss on Lower Meadow Dr.; and a new 9,500 sq. ft. vacancy on 18th St. in the **Basalt Business Center.** Only four buildings reported positive absorption of 5,000 sq. ft. or less. Along with the recent addition of the Fuqua facility, there is now 360,668 sq. ft. available in the 2-million sq. ft. submarket, representing a vacancy rate of 17.9%, up from 14.8% in Q3. 120 industrial buildings were surveyed in the area.

The 35 building central submarket reported one gainer of 7,362 sq. ft. and one loss of 1,600 sq. ft., **resulting in a vacancy rate of just 0.5%**, in an area with 341,397 sq. ft. of total inventory. The 1,600 sq. ft. vacancy is now the only available space in the submarket.

The west side submarket also gained slightly, with one lease and one vacancy reported, resulting in a net gain of 1,488 sq. ft. of positive absorption, lowering the vacancy rate to 3.4%, down from 4.2% in Q3, in a submarket with nine industrial buildings and 178,144 total sq. ft. **There is only 6,010 sq. ft. of industrial space currently available in the west side submarket.**

There were many industrial sales in Bend in the 4th quarter. **UPS** purchased their facility on Boyd Acres Rd. for \$3,700,000 for the 35,000 sq. ft. building, representing \$105.71 per sq. ft. The **Delta Center** on

NET ABSORPTION BY SUBMARKET — 4TH QUARTER 2013

MARKET AREA	NO. BLDGS.	TOTAL SQ. FT.	VAC % 4TH QTR.	4TH QTR. ABSORPTION	ABSORPTION YTD	TOTAL 2012
Southeast	135	1,652,306	8.8%	(4,830)	6,782	134,526
Northeast	120	2,015,950	17.9%	(62,167)	(26,865)	99,935
Central	35	341,397	0.5%	5,762	27,877	44,234
West side	9	178,144	3.4%	1,488	1,204	(218)
BEND TOTAL	299	4,187,797	12.25%	(59,747)	8,998	278,477

Industrial buildings over 3,000 square feet

Continued on page 5

Redmond Industrial Market

ABSORPTION



VACANCY



The third quarter 2013 Redmond Industrial survey included 75 buildings totaling 1,439,540 square feet. The vacancy rate fell for the fifth straight quarter

and now stands at 18.2%, compared to 21.4% in Q3 and 24.7% in the fourth quarter of 2012. **This is a significant statistic, as the last time the vacancy rate was below 20% in Redmond was the 4th quarter of 2007, 6 years ago!** Positive net absorption of 45,991 sq. ft. was

recorded. Eight buildings reported positive net absorption while none showed negative net absorption for the period. Currently, 261,803 sq. ft. of space is available for lease in the Redmond submarket.

Several pieces of industrial land sold in Redmond in the 4th quarter, with prices ranging from a bank owned sale at \$.58 per sq. ft. for 8.87 acres on Hemlock Ave., to \$2.02 per sq. ft. for an acre on NE 11th St., to \$5.20 per sq. ft. for a .68 acre parcel at the corner of Highway 97 and Quince Ave., or \$154,000.

NET ABSORPTION — 4TH QUARTER 2013

MARKET AREA	NO. BLDGS.	TOTAL SQ. FT.	VAC % 4TH QTR.	4TH QTR. ABSORPTION	ABSORPTION YTD	TOTAL 2012
Redmond	75	1,439,540	18.2%	45,991	93,517	36,489

Industrial buildings over 3,000 square feet

Compass Commercial Welcomes Two New Partners; Announces 2014 Board



Pat Kesgard, CCIM, VP Sales and Marketing



Krista Polvi, CPM®

The Partners of Compass Commercial Real Estate Services are pleased to announce the company's board officers for 2014. **Howard Friedman, CCIM** will serve as company president, overseeing day-to-day operations. **Patrick Kesgard, CCIM** has been named a new partner in the organization and will serve as vice president of Sales and Marketing. **Krista Polvi, CPM®** has also been named a new partner with the firm.

Gardner Williams, SIOR will serve as principal broker and **Erich Schultz, SIOR** continues in his role as vice president of Finance.

Bruce Kemp, CCIM has been elected editor of *Compass Points*.

The rest of the board is filled as follows:

- **John Keba, CPM®, ARM®,** partner, vice president of Asset and Property Management
- **Darren Powderly, CCIM,** partner, assisting manager of Sales and Marketing.
- **Lupita Wesseler,** partner, vice president of Broker Services.
- **Steve Toomey, CCIM,** partner

Compass Commercial is Pleased to Welcome New Staff to the Property Management Team



Luke Ross, Assistant Property Manager

In December, **Luke Ross** joined the company as an assistant to the property management team. Luke's experience includes working as a property manager for Aladdin Properties in the residential property management sector. He also previously worked at Pronghorn Golf Club.



William Bergen, Accounting Assistant

Luke has a Bachelor's of science degree in Business Administration with a concentration in Marketing, and a minor in Economics.

William Bergen recently joined the property management accounting team and brings valuable work experience to the company. Bergen recently moved to Bend from Massachusetts where he worked at State Street Corporation out of Boston as a fund accountant. His interests in cycling and

pursuit of an outdoor lifestyle led him to find a career in Bend. Bergen holds a Bachelor degree in Accounting and Finance from Bridgewater State College.

Bend Industrial Market

Continued from page 4

Clausen Rd. was sold for \$1,550,000, or just under \$60 per sq. ft. for the 26,325 sq. ft. retail/industrial complex. Also, an industrial building on the corner of Builders St. and Boyd Acres Rd. traded hands at \$43.49 per sq. ft., or \$835,000 for the 19,200 sq. ft. metal building. At 34 NE Bridgeford Blvd., an industrial/office flex building finally sold for \$405,000, or \$61.89 per sq. ft. for the 6,544 sq. ft. structure. The Salvation Army building on 2nd St. was purchased by **Oregon Beverage Recycling Corporation** for \$540,000 or \$75.52 per sq. ft., and the **Sunbeam Building**, an 11,355 sq. ft. industrial flex building traded on Clearwater Dr. in Northwest Crossing for \$995,000, or \$87.63 per sq. ft.

SELECT INDUSTRIAL LISTINGS



SALE / LEASE: Industrial Building on 9th St.
75,000 SF bldg. on 3.32 acre, just north of Wilson Ave.
\$2,600,000 | \$0.38/SF/MO. NNN
HOWARD FRIEDMAN / PAT KESGARD / RUSSELL HUNTAMER



SALE: Leased Business Park
3 buildings, 31,293 SF total on 3.68 acres in Bend
\$2,200,000 | RON ROSS / TERRY O'NEIL



LEASE: High Traffic Industrial or Retail
2,240 – 6,863 SF, high ceilings, 53 parking spaces on the north end of Bend near Cascade Village Shopping Center
\$0.45 – \$0.55/SF/MO. NNN | BRUCE KEMP / PETER MAY



LEASE: Great HWY 97 Access in Bend
72,000 +/- SF with fully fenced yard w/guard shack
\$0.25/SF/MO. NNN | PAT KESGARD

Top Three Priorities for Bend's Future: Students, Startups and Sustainability

Compass Commercial partner **Darren Powderly** recently made the rounds as a featured speaker at several high profile business events in Bend. At the **Bend Chamber's** recent town hall panel discussion held at Volcanic Theater Pub, Powderly shared the stage with **Robert Kieffer** (Facebook), **Todd Taylor** (President, Taylor NW) and Jim Coonan (EDCO Bend Venture Catalyst Manager) to talk about their vision for Bend's future success and what they identify as key priorities to drive the region's economic growth.

Powderly's key priorities to drive Bend's economic growth are what he coined, **"The Three S's — Students, Startups and Sustainability."** Below he provides a summary of his vision:

Investing in students is a number one priority given the critical importance that high-quality education serves in any community. As a father of two primary school aged children, I understand the importance of providing my kids with the best possible education available. The Bend - La Pine School District offers an outstanding level of education, yet there is more work to be done to ensure that our kids can compete with other kids around the globe. Thankfully, the local community supports our public schools and invests heavily in new facilities, teachers, programs, technology and overall care. Quality of K-12 public schools and higher education are top priorities for

business leaders when evaluating cities for their companies.

The **OSU-Cascades** campus is the optimal opportunity we have as a community to improve our quality of life and economic diversity. Universities attract smart people who start or attract companies that produce jobs. My partners and I at Compass Commercial served as the real estate consultants for OSU-Cascades and helped them evaluate the various four-year university campus locations in Bend. We also donated \$25,000 to the cause. We did so because we believe it's critical for Bend to have a strong higher education presence in order to compete for the high-paying jobs that every other city in America is aggressively competing for. Thanks in part to the success of COCC in Bend, OSU-Cascades was able to grow their student body to 938 students for the Fall Semester in 2013. By 2025, OSU-Cascades will have 5,000 students enrolled. **That's smart growth!**

A second priority is startups. According to the Kauffman Foundation, net job growth in the U.S. economy occurs through startup firms. I'm talking not only about technology startups, but also about startups in all industries. Thanks to the excellent work of many hard working entrepreneurs and supportive community leaders, there's a burgeoning startup community in Bend where entrepreneurs can access



funding, mentorship, education and other infrastructure. As a community, we need to invest in startups because entrepreneurs make job creation happen.

The third priority is sustainability. Most of us moved to Bend by choice because we wanted a higher quality of life than what was available elsewhere. An important element of quality of life is a steady supply of high paying jobs in a broad range of industries. However, we don't want growth for the sake of growth, nor to turn Bend into another poorly planned, overcrowded and financially strapped city. We need a master plan that balances smart growth with quality of life. The **Bend 2030** organization is doing great work to craft a vision for Bend that reflects our core community values. I encourage you to get involved and make a positive impact on our future. **Thanks for making Bend the best place to live in the U.S.**

Darren Powderly, CCIM is a partner with Compass Commercial. He is also a co-founder of CrowdStreet, an equity crowdfunding platform connecting accredited investors with high-quality commercial real estate investments.



Top 10 Deals of Q4 2013

Compass Commercial closed 90 deals in the fourth quarter of 2013 for a total consideration of \$24.9 million. Below are the some of the significant transactions Compass Commercial negotiated October through December. This is a sampling of transactions as we hold some information in confidence per the wishes of our clients.

- 62965 Boyd Acres Road, Bend, Industrial Building Sale \$3,700,000**
Seller: S&H Associates, LLC
Buyer: United Parcel Service, Inc. represented by Pat Kesgard, CCIM
- 535 NE Savannah Drive, Bend, Leased Investment Sale \$2,245,000**
Seller: West One Automotive Group, Inc. (Hertz Car Sales)
Buyer: Fred and Cheryl Guajardo represented by Bruce Kemp, CCIM and Terry O'Neil, Broker
- 975 SW Colorado Avenue, Bend, Leased Investment Sale \$1,850,000**
Seller: Sessler Properties, LLC represented by Bruce Kemp, CCIM
Buyer: NW Columbia Street, LLC represented by Gardner Williams, SIOR
- 63830 Clausen Drive, Bend, Leased Investment Sale \$1,550,000**
Seller: Curtis Swanson represented by Bruce Kemp, CCIM and Peter May, CCIM
- 2797 NW Clearwater Drive, Bend, Leased Investment Sale \$995,000**
Seller: Cheri D. Nager
Buyer: Carol J. Wood Kozimor represented by Gardner Williams, SIOR
- 2542 S Highway 97, Redmond, Retail Building Sale \$950,000**
Seller: Fred and Cheryl Guajardo represented by Ron Ross, CCIM and Terry O'Neil, Broker
Buyer: John Kiefer
- 3020 NW Merchant Way, Bend, Office Lease**
Lessor: Brooks Resources Corporation represented by Erich Schultz, SIOR and Jay Lyons, CCIM
Lessee: Paladin Data Corp. represented by Erich Schultz, SIOR and Jay Lyons, CCIM
- 224 NE Thurston Avenue, Bend, Retail Building Sale \$1,206,000**
Seller: Shirley V. Ray Trust and Susie Backstrom represented by Bruce Kemp, CCIM and Peter May, CCIM
Buyer: Bend Area Habitat for Humanity
- 320 SW Century Drive, Bend, Retail Lease**
Lessor: Century Park, LLC represented by Erich Schultz, SIOR
Lessee: Kenneth Jeffrey Johnson represented by Erich Schultz, SIOR and Darren Powderly, CCIM
- 1500 NE Cushing Drive, Bend, Retail Building Lease**
Lessor: Kendrick/Newby represented by Erich Schultz, SIOR and Darren Powderly, CCIM
Lessee: Jackson's Corner represented by Russell Huntamer, Broker and Stephen Toomey, CCIM

Nonprofit Spotlight:



Mosaic Medical
Real People, Real Care.

Last year, Darren Powderly, CCIM and Peter May, CCIM represented Mill Point Business Campus located on SW Columbia Street in Bend in the lease of 8,565 square feet of office space to Mosaic Medical. Located in the same building as Compass Commercial's headquarters, we are pleased to welcome them as new neighbors.

Many people don't realize that **Mosaic Medical** is a 501(c)3 non-profit organization operating Federally Qualified Health Centers since 2002. Mosaic Medical clinics are located in Prineville, Bend, Redmond and Madras, Oregon.

The first clinic was originally founded as Ochoco Community Clinic in Prineville by a group of community members who saw the

need for a Federally Qualified Health Center which could serve uninsured and medically underserved patients. The need for such a clinic was apparent in Bend which led to The Community Clinic of Bend opening in April 2005. The Jefferson Community Clinic opened in January 2006 in Madras. In July of 2008, these clinics were all united under the name "Mosaic Medical" which exists today as a private non-profit organization governed by a patient-majority board of directors. In June of 2013 the Redmond Mosaic Medical clinic opened and in October of 2013, Mosaic Medical Internal Medicine open their doors in Bend.

The mission of Mosaic Medical is "to improve the lives and health of individuals and families in the communities we serve." In 2013,



Mosaic Medical served over 18,000 patients. Each Mosaic Medical clinic offers high-quality, comprehensive, culturally competent primary care services, regardless of age, healthcare insurance coverage, language of origin or any other demographic characteristic. To learn more about Mosaic Medical, visit their website at www.mosaicmedical.org.

Congratulations to Our Top Producers of Q4 2013:



October and December
Bruce Kemp, CCIM
PARTNER,
PRINCIPAL BROKER



November
Pat Kesgard, CCIM
PARTNER,
PRINCIPAL BROKER

2013 Summary / 2014 Forecast

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of 2012 of 21.1%, down to 16.0% at the close of 2013. There was positive absorption in all four quarters in 2013, compared to two gainers and two losers in 2012. Lease rates have not gone down, but have definitely stabilized without much more threat of losing ground in the near future. Look for those to rise slightly in the year ahead.

In 2013, a total of 126,754 sq. ft. of office space was absorbed in Bend, compared to just 11,354 sq. ft. in 2012. In downtown Bend, 148 sq. ft. of negative absorption was recorded and pushed the office vacancy rate up slightly, from 15.9% at the end of 2012 to 16.4% at the end of last year. On the Highway 97/3rd Street corridor, 37,554 sq. ft. of positive absorption was tallied, but **Bend's west side submarket was the shining star, recording a whopping 89,438 square feet of positive absorption**, showing gains in all four quarters. Compare that with four negative quarters in 2012 where we recorded a net loss of 14,649 sq. ft. of occupancy and you can see our reason for optimism. Compass Commercial is currently negotiating on several other large spaces on the west side that should reduce the vacancy even further for Q1 of 2014 — stay tuned for that!

Industrial Market Review

The Bend industrial market showed a slight positive absorption for the year 2013 with 8,998 sq. ft. of net gain recorded, compared to a stellar 2012 when we saw 278,477 sq. ft. gained. Vacancy rates rose to 12.2% due to additional inventory, up from 9.6% at 2012 year-end, but down significantly from 2011's 16.7% number.

Redmond's industrial market recorded a gain in 2013 for the second year in a

row, showing a positive net absorption of 93,517 sq. ft., compared to 36,489 sq. ft. of positive absorption in 2012. This followed two previous years of negative net absorption. The vacancy rate is now at 18.2%, a positive sign for the Redmond industrial market, after 23 quarters of rates above 20% and as high as 31.4% in the third quarter of 2008. **At this absorption rate the supply is now at just 2.8 years, significantly down from a 10-year supply noted in our Q4 2012 newsletter.** This is welcome news for Redmond building owners.

Office Market Review

Only 22,939 sq. ft. was added to our office survey in 2013, mirroring the last six years of conservative construction in the marketplace. REO (real estate owned) bank properties dried up in 2013 as the economy improved and bank inventory was snapped up by cash buyers or owner/users in 2012 and early 2013. **In 2012 we predicted that "no savvy developers would start an office project in 2013 with a 21% vacancy rate"** and we were pretty much right on, with very little in the way of new office construction materializing.

Retail Market Review

Retail in Bend remains healthy, albeit with a couple large boxes shutting their doors late in the year. We lost 32,206 sq. ft. of occupancy and ended up at an 8.6% vacancy rate at year's end, compared to 8.0% at the end of 2012. Without the Sears closure, that rate would have been closer to 7.2%. Our retail brokers are currently in negotiations with no less than a third of that space, so we should see better numbers at the end of the first quarter.

Our Predictions for 2014

Overall we anticipate 2014 to be another positive year.

We expect the industrial market to continue to tighten with upward pressure on rates. At existing lease rates and with the rising cost of construction, new speculative construction is not feasible, but that gap will begin to close down by the end of the year. The rise of industrial rates will be influenced by increased demand as the economy recovers and fewer options are available in the market. With decreased vacancy and diminishing inventory, the size and amenity selection to fit the specific needs of particular businesses will begin to become a challenge. **This increase in demand and shortage will pave the way for new construction.**

Another area to keep your eye on is the very limited supply of existing industrial land in the UGB. **Although the dynamics for speculative building is a little early, the opportunity for investors and owner-users to purchase land is very timely.** We think the opportunity to acquire bargain priced inventory will begin to diminish throughout the year.

Retail demand is expected to continue throughout 2014 with similar pressure to increase rates along the way. We have seen a substantial increase in interest from a range of national, regional and local companies. Many of these deals will come to roost in 2014. **Expect vacancy rates to drop throughout the year, which will put an upside bias on rates as suggested.** Commercial land is limited and the amount of commercial land purchased for development will increase as long as land prices stay reasonable.

Our office market has been the laggard. We had four years of 20% plus vacancy from 2009 up until 2012. Last year has reduced that vacancy by about 20%. We expect this year to pick up steam and be a good year for office leasing. This will likely be the big winner for 2014. Medical office will be a part of that equation. **We think this will be the best year in medical absorption for the last half decade.**

Apartments have been a hot investment over the last couple of years driving down cap rates, partially caused by low interest rates. Vacancies have been very low and rents have begun to increase. This has caused new construction projects to emerge. We expect the new product coming to market will either be at or above existing rates, and will have some effect on vacancy. We expect that 2014 will be another good year for apartment sales.

Let's hope these predictions are as accurate as tradition would have it and hopefully we can all "win one for the Gipper!" 🍌

BEND OFFICE AND INDUSTRIAL VACANCY RATE BY YEAR

