

Q1 2015 MARKET SUMMARY

By Erich Schultz, SIOR

For the first time since the recession, the three product markets in Bend (retail, office and industrial) have single digit vacancy rates in the same quarter. Retail stands at 6.1%, office at 8.9% and industrial is at 6.6%. This is remarkable considering where we came from just a few years ago. It is also confirmation that the commercial real estate market is back!

Do you need 20,000 square feet of contiguous retail space? Good luck finding it. There are only two options to choose from in Bend. Searching for 5,000 square feet of office space for your new high tech company? You had better move quickly. There are just seven properties that can accommodate your need. Have a requirement for 7,000 square feet of office/warehouse space to expand your widget production facility? There are just nine buildings in Bend with that

amount of available square footage, and it is a certainty that at least half of these building owners won't divide the building to meet your needs. You may need to expand your search to Redmond where there are currently five buildings that have enough vacancy to meet your requirement.

Under these conditions, one would expect to see developers stepping in to create more inventory. Why isn't this happening? One reason is the lack of available/affordable land. During the last economic expansion, Bend experienced unprecedented commercial growth. Once plentiful, available land was snatched up and developed. Today, there are fewer options. In addition, many of the lots remain available because they are priced beyond what a potential development can support. This leads us

to reason number two: rents don't yet support new development. For example, the majority of office rents today range from \$1.25 to \$1.45 per square foot per month on a triple net basis and top out at about \$1.65. Based upon land, material and labor prices, not to mention city fees, rents have to exceed \$2.00 per square foot before it makes sense to develop office product. Thus, speculative development will be slow in coming.

For the first time since the recession, the three product markets in Bend (retail, office, and industrial) have single digit vacancy rates in the same quarter. This is remarkable considering where we came from just a few years ago.

Bend OFFICE Market

Compass Commercial surveyed 205 buildings for the Q1 office report. The buildings in the sample totaled nearly 2.48 million square feet. 47,000 sq. ft. of positive absorption was recorded during the quarter. The citywide office vacancy rate decreased from 10.6% to 8.9% as a result. There is now 221,000 sq. ft. of available space for lease. This is the 11th consecutive quarter of positive absorption.

5,952 sq. ft. of positive net absorption was reported in the downtown submarket during the first quarter. 1000 Wall St. and The O'Kane Building accounted for most of the leasing. In Q1, Compass Commercial sold the mixed use Columbia Bank building at the corner of Wall St.



OFFICE Net Absorption							BLDGS. OVER 3,000 SQ. FT.
Market Area	No. Bldgs.	Total Sq. Ft.	Vac. % 1st Qtr.	1st Qtr. Absorption	Absorption YTD	Total 2014	
Downtown	49	490,121	5.4%	5,952	5,952	48,149	
Hwy 97/3rd St.	55	662,325	16.4%	(5,454)	(5,454)	4,891	
West side	101	1,326,541	6.5%	46,498	46,498	90,660	
TOTAL	205	2,478,987	8.9%	46,996	46,996	143,700	

and Newport/Greenwood Ave. The buyer plans to convert the second floor office space to apartment units. The office vacancy rate downtown now stands at 5.4% –

CONTINUES NEXT PAGE ►

Bend OFFICE Market | CONTINUED

down from 7% at the end of 2014.

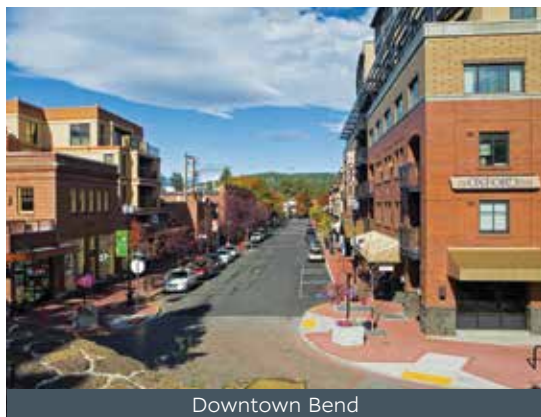
The Hwy. 97/3rd Street corridor recorded 5,454 sq. ft. of negative net absorption in Q1. A number of new smaller vacancies outpaced several small signed leases resulting in the vacancy rate increasing by 1.2 percentage points to 16.4%.

The west side submarket recorded 46,500 sq. ft. of positive net absorption. The Mill A Building, Vision Plaza, Building D at Shevlin Corporate Park, River West I, Osprey Point and Mt. Washington Center all reported notable leasing during Q1. The vacancy rate dropped to 6.5% from 9.5% as a result. In the last nine quarters, this submarket has had just one quarter of negative absorption.

Bend RETAIL Market

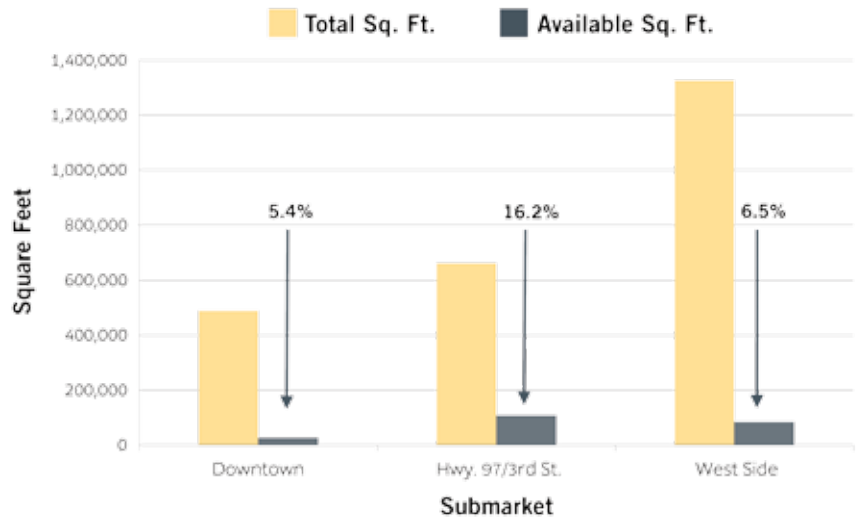
Compass Commercial surveyed 254 retail buildings totaling nearly 4.5 million square feet for the first quarter 2015 retail report. The citywide vacancy dropped from 6.7% in Q4 to 6.1% at the end of Q1 due to 25,400 sq. ft. of positive net absorption. It was the fourth consecutive quarter of positive absorption for this product type.

It was an unusually quiet 90 days for retail in Bend. Of the seven submarkets, none reported absorption of 9,000 sq. ft. or more. The south 97 corridor led the way with 8,600 sq. ft. of positive net absorption. The greatest vacancy rate is that of the west side submarket. It currently stands at 11.1%, primarily due to the vacant former Ray's Food Place in Westside Village. If we remove this vacancy from the statistics, the west side vacancy rate becomes less than 4%. Downtown has the least amount of vacancy from a square footage and vacancy rate perspective (2.9%).



Downtown Bend

OFFICE Vacancy



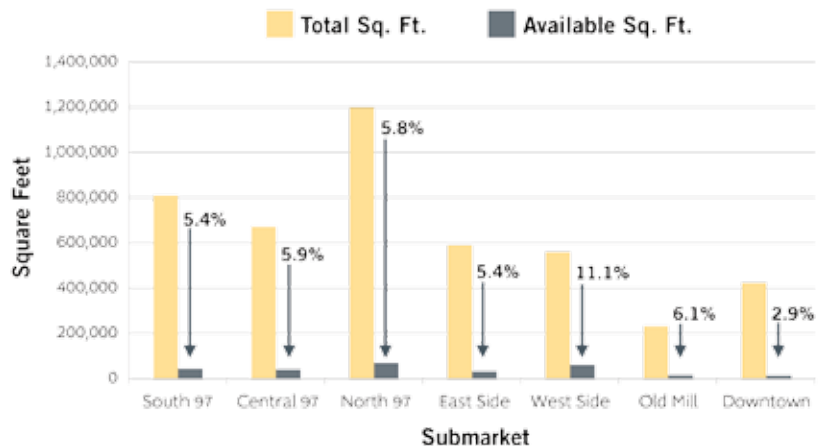
ABSORPTION VACANCY

RETAIL Net Absorption

BLDGS. OVER 3,000 SQ. FT.

Market Area	No. Bldgs.	Total Sq. Ft.	Vac. % 1st Qtr.	1st Qtr. Absorption	Absorption YTD	Total 2014
South 97	19	810,744	5.4%	8,581	8,581	51,718
Central 97	42	672,782	5.9%	(408)	(408)	(11,080)
North 97	28	1,199,319	5.8%	5,911	5,911	78,390
East Side	29	590,267	5.4%	4,628	4,628	7,223
West Side	54	560,394	11.1%	5,590	5,590	(24,279)
Downtown	17	232,490	6.1%	0	0	3,613
Old Mill District	65	424,617	2.9%	1,095	1,095	(2,356)
TOTAL	254	4,490,613	6.1%	25,397	25,397	103,229

RETAIL Vacancy



INDUSTRIAL Market

BEND

Compass Commercial surveyed 300 industrial buildings in Bend totaling over 4.15 million square feet for the Q1 report. 23,400 sq. ft. of positive net absorption took place, decreasing the citywide vacancy rate from 6.7% to 6.6%. There is roughly 275,000 sq. ft. of available space for lease.

The southeast submarket recorded 29,000 sq. ft. of negative net absorption in the first quarter. This means that move-outs exceeded move-ins. In the last 14 quarters, this is the second negative result recorded for this submarket. Despite this, few options remain available in this submarket. Just nine of the 134 buildings surveyed have any vacancy. The vacancy rate increased from 3.0% to 4.8% due to the new vacancies.

The northeast submarket recorded 46,000 sq. ft. of positive net absorption, dropping the vacancy rate from 11.4% to 9.8% as a result. Less than 8% of the buildings in this submarket reported having any vacancy. Most of these are larger spaces appealing to the less common large tenants.

The central submarket recorded 6,700 sq. ft. of positive net absorption. There is a single 1,250 square foot space available for lease in this submarket out of a total inventory of 342,000 sq. ft. The vacancy rate is now 0.4%.

The nine building, 178,000 sq. ft. west side submarket has no available space again this quarter. This is the second consecutive quarter in which the area offered no available space.

REDMOND

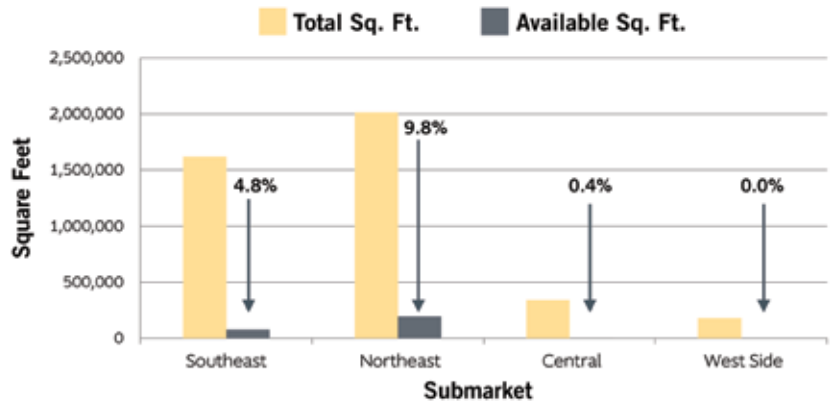
The Compass Commercial Redmond survey included 76 buildings totaling over 1.47 million sq. ft. 6,755 sq. ft. of positive absorption was recorded with four buildings reporting positive absorption over the past 90 days. Properties including Airport Industrial Park, 736 SW Umatilla Ave., 2095 SE Badger Ave. and 1950 SE Badger Ave., all reported healthy leasing activity. The leasing activity caused the vacancy rate to drop from 10.4% to 10%. There is now 147,000 sq. ft. of available space for lease.



BEND INDUSTRIAL Net Absorption BLDGS. OVER 3,000 SQ. FT.

Market Area	No. Bldgs.	Total Sq. Ft.	Vac. % 1st Qtr.	1st Qtr. Absorption	Absorption YTD	Total 2014
Southeast	134	1,619,701	4.8%	(28,866)	(28,866)	72,522
Northeast	122	2,013,906	9.8%	45,616	5,616	93,736
Central	35	341,397	0.4%	6,686	6,686	(2,265)
West Side	9	178,144	0.0%	0	0	6,010
TOTAL	300	4,153,148	6.6%	23,436	23,436	170,003

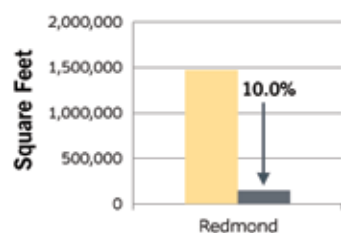
BEND INDUSTRIAL Vacancy



REDMOND INDUSTRIAL Net Absorption BLDGS. OVER 3,000 SQ. FT.

Market Area	No. Bldgs.	Total Sq. Ft.	Vac. % 1st Qtr.	1st Qtr. Absorption	Absorption YTD	Total 2014
Redmond	76	1,474,540	10.0%	6,755	6,755	107,855

REDMOND INDUSTRIAL Vacancy



Notable TRANSACTIONS

Compass Commercial Real Estate Services negotiated the following notable transactions in the first quarter of 2015. 75 transactions were closed totaling \$28.4 million in consideration.

SALES

TYPE	PROPERTY	BUILDING/LOT SIZE	PRICE	COMPASS COMMERCIAL REPRESENTED
Mixed-use	1133 NW Wall St., Bend	50,000 +/- SF	\$8,000,000	Ron Ross, Erich Schultz, Jay Lyons & Terry O'Neil / Seller
Industrial	20870 Redside Ct., Bend	50,057 +/- SF bldg. / 2.43 acres	\$4,500,000	Erich Schultz, Jay Lyons & Darren Powderly / Both parties
ME Land	Tax Lot # 171136CA01500	3 acres	\$1,568,160	Erich Schultz & Jay Lyons / Buyer
Mixed Riverfront	Corner of Arizona Ave. & Wall St., Bend	75,359 +/- SF	\$1,500,000	Ron Ross, Erich Schultz, Darren Powderly & Jay Lyons / Seller
Retail	211 NE Revere Ave., Bend	17,488 +/- SF bldg. / 1.03 acres	\$1,475,000	Stephen Toomey, Erich Schultz & Jay Lyons / Buyer
Industrial	63255 Jamison St., Bend	16,340 SF	\$1,130,000	Ron Ross & Terry O'Neil / Seller; Ross, O'Neil & Steve Toomey / Buyer
Industrial	35 SE Bridgeford Blvd., Bend	7,195 SF bldg. / 20,473 SF land	\$612,000	Graham Dent, Herb Arathoon CPM® & Luke Ross / Seller. Dent / Buyer.
Industrial	63090 & 63080 Corporate Pl., Bend	62,657 SF land	\$391,606	Howard Friedman CCIM / Both parties

LEASES

TYPE	PROPERTY	BUILDING/LOT SIZE	LESSEE	COMPASS COMMERCIAL REPRESENTED
Industrial	63065 18th St., Bend	40,000 SF	Undisclosed	Peter May, Bruce Kemp & Russell Huntamer / Lessee; Gardner Williams / Lessor
Industrial	63257 Nels Anderson Rd., Bend	36,660 SF	Bend Mailing Services LLC	Robert Raimondi / Lessor
Retail	555 NW Arizona Ave., Bend	7,316 SF	Immersion Brewing, LLC	Russell Huntamer, Erich Schultz and Jay Lyons / Both parties

CONTACT

For more information about this market report, please contact us at:

541.383.2444 | info@compasscommercial.com
600 SW Columbia St., Ste. 6100 | Bend, OR 97702



COMPASS POINTS

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

www.compasscommercial.com/Subscribe

© COMPASS COMMERCIAL, INC. 2015.