

2015 SUMMARY / 2016 FORECAST

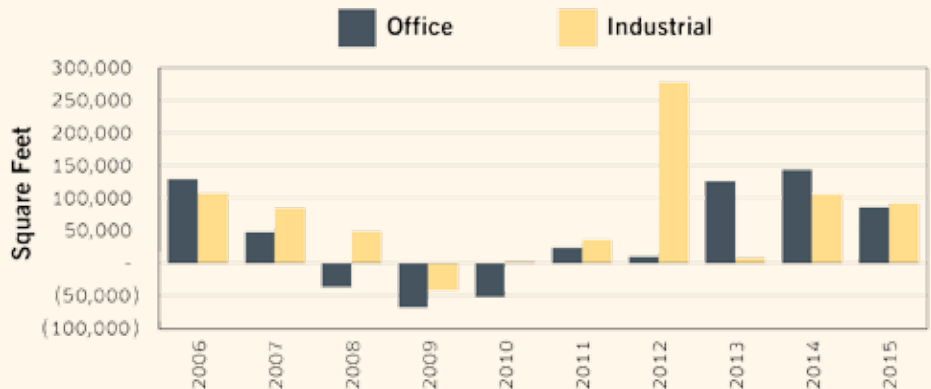
By Howard Friedman, CCIM

There is a saying that “A rising tide lifts all boats” in reference to the impact an improving economy will have on all entities, including real estate. Well, it is safe to say that in Central Oregon, the tide is definitely in!

With all four surveyed sectors showing dramatically decreased vacancies year over year, and with a handful of major development projects in the works, Bend and Redmond are once again showing strength in the commercial real estate market.

So what does this mean for landlords and tenants, or buyers and sellers? Of course the basic premise of supply and demand states that the more demand there is for a product with a constant or decreasing supply, the higher the price will be. With dwindling supplies of available space for lease in the office, industrial and retail markets, landlords

BEND OFFICE & INDUSTRIAL ABSORPTION BY YEAR



and sellers now have the upper hand.

In this issue of *Compass Points*, you will see that vacancy rates of office, industrial and retail properties in Bend, as well as industrial in Redmond have plummeted to single digits, a far cry from five to six years ago when vacancy rates were in

the 20% - 30% range. Lease rates during the recession, which can dictate property values, plunged by 40% or more. Today, those rates have recovered and in some sectors even surpassed the highs of the mid-2000's prosperity.

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Bend OFFICE Market

Compass Commercial surveyed 204 buildings for the fourth quarter office report. The buildings in the sample totaled 2.48 million square feet. Positive absorption of 13,225 sq. ft. was recorded during the quarter. The citywide office vacancy rate decreased again, from 7.4% to 6.8% as a result. There is now 168,000 sq. ft. available for lease, down from 183,000 sq. ft. in Q3. The positive absorption recorded in the fourth quarter continued the downward trend of vacancy for 13 of the last 14 quarters, dating back to Q2 2012, when the vacancy was at 21.9%.

The downtown submarket actually recorded 8,815 sq. ft. of negative net absorption during the fourth quarter, due mainly to a net loss at the



ABSORPTION



VACANCY

Riverpointe 2 building on Pacific Park Lane. Although Bank of the Cascades vacated the entire 20,000 sq. ft. building in November, a government agency snapped up over half of the space, resulting in a net loss of only 7,748 sq. ft. There is currently 46,153 sq. ft. available downtown. The office vacancy rate stands at 9.4%, up from 8.0%, at the end of Q3. Three buildings

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BEND OFFICE Net Absorption

BLDGS. OVER 3,000 SQ. FT.

Market Area	No. Bldgs.	Total Sq. Ft.	Vac. % 4th Qtr.	4th Qtr. Absorption	Absorption YTD	Total 2014
Downtown	49	490,121	9.4%	(8,815)	(15,693)	48,149
Hwy 97/3rd St.	55	668,425	10.3%	20,840	23,273	4,891
West Side	100	1,322,051	4.0%	1,200	78,765	90,660
TOTAL	204	2,480,597	6.8%	13,225	86,345	143,700



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Bend OFFICE Market | CONTINUED

reported positive absorption and four recorded negative absorption in the quarter. Other than the lease signed at Riverpointe 2, no significant leases over 1,800 sq. ft. were signed in the downtown area.

The Highway 97/3rd St. corridor recorded a healthy 20,840 sq. ft. of positive net absorption in Q4. Nine buildings reported positive absorption and just four buildings reported negative absorption. The vacancy rate for the submarket decreased again from 13.4% to 10.3%.

The west side submarket recorded just 1,200 sq. ft. of positive absorption, down from Q3's strong 26,074 sq. ft., but tallied nearly 79,000 sq. ft. for the year. Seven buildings reported positive change and seven were negative during the quarter, with the largest lease signed in the Westside Professional Center (6,900 sq. ft.). The vacancy rate dropped slightly to 4.0% from 4.1% in Q3.

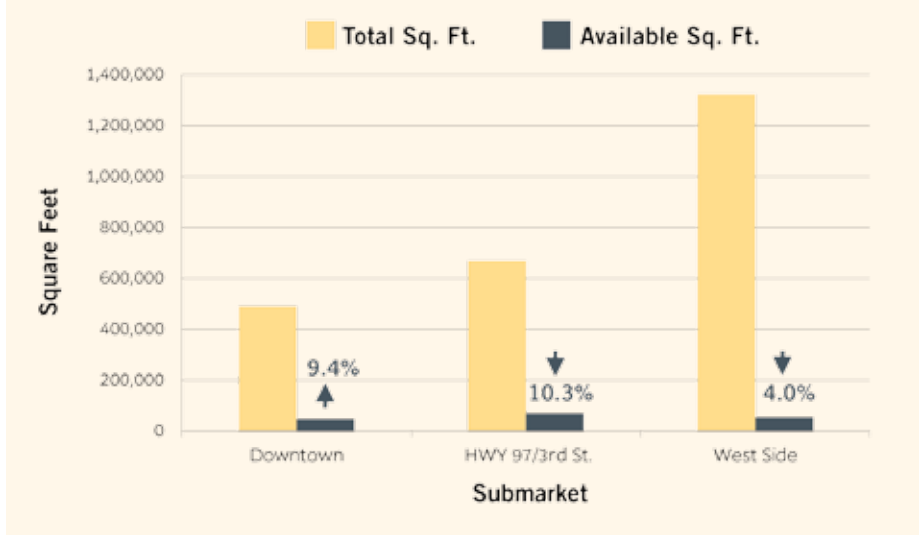
Bend RETAIL Market

Compass Commercial surveyed 254 retail buildings totaling over 4,485,000 square feet for the fourth quarter 2015 report. The citywide vacancy rate fell substantially to 5.2%, from 6.4% at the end of Q3, due to 42,850 sq. ft. of positive absorption.

Six out of the seven retail submarkets in Bend recorded positive net absorption, while just one was negative in the quarter. The south and central Highway 97 submarkets recorded 13,361 and 21,886 sq. ft. of positive net absorption, respectively, leading the survey results.

The central Highway 97 submarket jumped into the leading occupancy category in the quarter with just a 2.4% vacancy rate, while the downtown retail area was next, at 3.1%. The west side remained the highest at 10.6%, still due to the vacant 43,000 sq. ft. Ray's Food Place building in the Westside Village shopping center. The west side was the only loser in the absorption category, showing 1,893 sq. ft. of additional vacancy. Several significant retail leases took place in the quarter, including a nearly 16,000 sq. ft. lease signed by Teen Challenge in the former Bend Indoor Swap Meet space, and Bend Upcycle's move to a 5,790 sq. ft. space on NE Greenwood, both in the central Highway 97 corridor. A 6,254 sq. ft. lease was signed by Okawa Steakhouse and Sushi, a Japanese Hibachi-style restaurant backfilling the former Outback Steakhouse in the south Highway 97 submarket.

BEND OFFICE Vacancy



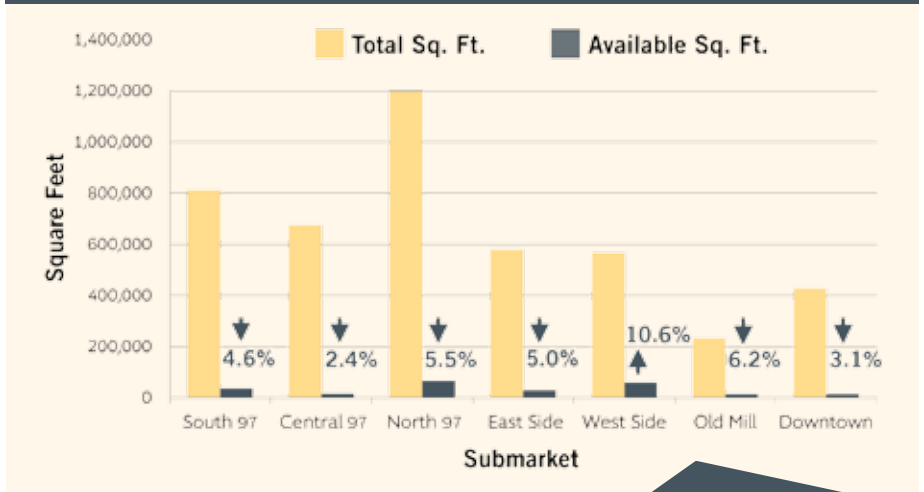
▲ ABSORPTION ▼ VACANCY

BEND RETAIL Net Absorption

BLDGS. OVER 3,000 SQ. FT.

Market Area	No. Bldgs.	Total Sq. Ft.	Vac. % 4th Qtr.	4th Qtr. Absorption	Absorption YTD	Total 2014
South 97	19	810,744	4.6%	13,631	15,143	51,718
Central 97	41	673,032	2.4%	21,886	29,503	(11,080)
North 97	28	1,199,319	5.5%	3,217	10,001	78,390
East Side	29	578,336	5.0%	4	(4,321)	7,223
West Side	55	564,594	10.6%	(1,893)	12,170	(24,279)
Old Mill District	17	232,475	6.2%	3,534	(303)	3,613
Downtown	65	426,617	3.1%	2,471	2,080	(2,356)
TOTAL	254	4,485,117	5.2%	42,850	64,273	103,229

BEND RETAIL Vacancy



INDUSTRIAL Market

BEND

A total of 304 buildings were surveyed for the fourth quarter industrial report comprising a sample of over 4.2 million square feet. The positive occupancy trend continued for eight straight quarters, with a recorded 19,506 sq. ft. of positive net absorption since the end of Q3. The citywide industrial vacancy rate decreased as a result from 6.3% to 5.9%. There is now just over 250,000 sq. ft. of available space for lease, down from the peak of 794,000 sq. ft. available in the third quarter of 2010, which resulted in a 20.0% vacancy rate!

Three of the four submarkets recorded positive absorption, while the small west side submarket remained unchanged at 5.6% with no activity and only one 9,900 sq. ft. space available.

The southeast submarket recorded the strongest activity, with 10,774 sq. ft. of positive absorption noted, dropping the vacancy rate from 4.7% to 4.4% at the end of Q4. Activity was relatively quiet in the 137 building submarket, with just four buildings reporting new vacancies and four reporting leasing activity. The largest gainer was the 1305 SE Armour Road building, which recorded multiple leases for a total of over 14,000 sq. ft. of positive absorption.

The northeast submarket recorded 7,392 sq. ft. of positive net absorption in the fourth quarter. Five buildings reported positive changes and five reported negative net absorption. Murray Road Industrial Park continued leasing up with 8,345 sq. ft. reported for the quarter, and the Boyd Acres JV building announced 100% occupancy with a 6,000 sq. ft. lease signed. The vacancy rate decreased as a result from 8.5% to 8.1%.

The central submarket recorded one lease signed of 1,340 sq. ft. resulting in a vacancy rate of just 0.4%, down from 0.8% at the end of Q3.

REDMOND

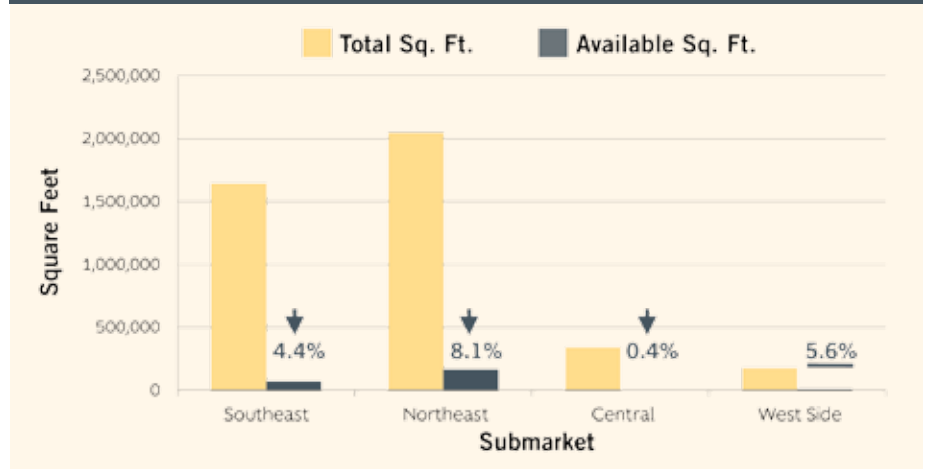
Redmond is back! The 1.49 million square foot industrial market recorded over 39,000 sq. ft. of positive absorption in Q4, resulting in an 87,650 sq. ft. gain in 2015. As a result, the vacancy rate dropped from 7.9% to an astounding 5.4% at the end of the year. There is now just 80,598 sq. ft. of industrial space on the market for lease, down from a high of over 434,000 sq. ft. available in the second quarter of 2011, when the vacancy rate stood at 29.9%! Using 2015's statistics, the available square footage now represents less than a one-year supply of industrial space



BEND INDUSTRIAL Net Absorption

Market Area	No. Bldgs.	Total Sq. Ft.	Vac. % 4th Qtr.	4th Qtr. Absorption	Absorption YTD	Total 2014
Southeast	137	1,642,591	4.4%	10,774	(1,108)	72,522
Northeast	123	2,047,766	8.1%	7,392	96,910	93,736
Central	35	341,397	0.4%	1,340	6,596	(2,265)
West Side	9	178,144	5.6%	0	(9,904)	6,010
TOTAL	304	4,209,898	5.9%	19,506	92,494	170,003

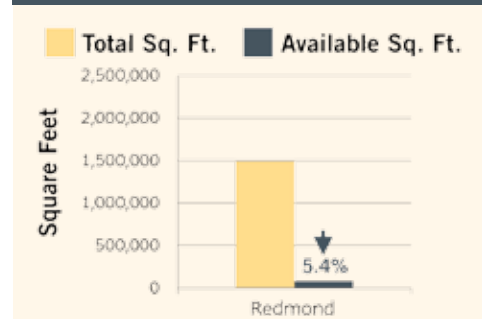
BEND INDUSTRIAL Vacancy



REDMOND INDUSTRIAL Net Absorption

Market Area	No. Bldgs.	Total Sq. Ft.	Vac. % 4th Qtr.	4th Qtr. Absorption	Absorption YTD	Total 2014
Redmond	76	1,490,240	5.4%	39,343	87,650	107,855

REDMOND INDUSTRIAL Vacancy



for lease in the Redmond market. Five buildings recorded positive absorption while four lost ground. The largest leases signed were at 375 NE 11th Street, where PCC Schlosser signed a 35,858 sq. ft. lease and at the Sundance Airport Center on Salmon Avenue, which recorded a 9,300 sq. ft. lease.

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For example, industrial lease rates reached a high of \$0.65 – \$0.75 per square foot on a triple net (NNN) basis between 2005 and 2006, but nosedived to \$0.35 – \$0.45 NNN in Bend during the lowest point of the recession of 20% vacancy. Those same spaces are back up to \$0.65 NNN in many cases, and we expect to see them continue to climb due to the low vacancy rate and lack of new construction. As rental rates rise, so do property values – the result being prices approaching replacement cost for the first time in years. The same is true in the retail market, where several new developments are advertising lease rates in the \$2.50 – \$3.00 NNN range – prices never seen before. There are finally new speculative office building projects in the works, which have not been financially feasible for almost a decade of high vacancies, low lease rates and light demand. Lease rates in the office sector have rebounded to the \$1.50 – \$1.75 NNN range, and for new developments, even higher.

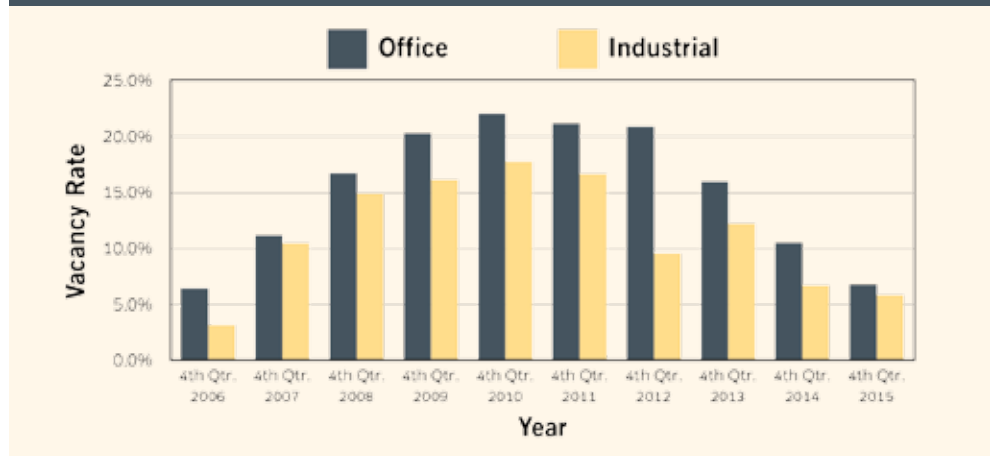
We anticipate continued growth as rising lease rates continue to increase, property values escalate and new developments come online. So fix up that boat and enjoy the ride!

*To recap our Q4 2014 predictions for 2015, we projected that a shortage of new construction on the drawing board, would result in rents for both office and industrial product types to increase in 2015, reporting that “As absorption continues to benefit from the improved local and national economies, rents will only continue to escalate in the short to mid-term and vacancies will continue to drop.” We speculated rising rents would prompt developers to start aggressively looking for sites for their next projects. **Nailed it.***

Summarizing, Bend’s citywide industrial vacancy, rates dropped from 6.8% to 5.9% over the course of the year. Rental rates have continued to increase, with \$0.55 – \$0.65 per sq. ft. per month (NNN) being the norm, and up to \$0.85 – \$1.00 for some industrial properties with showrooms or higher percentages of office space.

The office market took a huge step

BEND OFFICE & INDUSTRIAL VACANCY RATE BY YEAR



forward in Bend in 2015. At the end of 2014, the vacancy rate stood at 10.5%, and today, it stands at just 6.8%. In 2014, office rates were at \$1.20 – \$1.50 per sq. ft. per month (NNN), but those rates have since increased, with some new projects advertising \$2.25 per sq. ft. (NNN) or more. One of those projects is Crane Shed Commons, a 50,000 sq. ft. 4-story Class A office building soon to break ground on SW Industrial Way, at the site of the former historic mill Crane Shed building.

Retail vacancy in Bend dropped from a rate of 6.7% at the end of 2014 to 5.2% at the end of 2015. Rental rates are increasing accordingly, and some new retail projects are in the planning stages, with rates expected to climb well above the \$2.00 (NNN) range.

How then does this look in terms of supply?

For the office market, 86,345 sq. ft. of space was absorbed in 2015. With 168,189 sq. ft. now available, at the current absorption rate there is less than two years of supply. That bodes well for projects like Crane Shed Commons that forecasts to be online in the spring of 2017.

The industrial market saw 138,110 sq. ft. of positive net absorption in 2015. With 250,055 total sq. ft. currently available, the supply equates to just 22 months at the current absorption rate.

In the retail sector, just over 65,000 sq. ft. was absorbed in 2015. With 235,000 sq. ft.

currently available, there is still a three and a half year supply in Bend.

In Redmond, as noted in the industrial summary, the 87,650 sq. ft. absorbed in 2015 means there is less than a year of inventory left at the present absorption rate, with 80,598 sq. ft. of industrial space available.

LOOKING AHEAD

We fully expect to see new office, industrial and retail projects come off the drawing board and out of the ground in 2016 in Bend. The Redmond industrial market, although vibrant, does not seem to have the urgency that the Bend market has, therefore projects may be slow to start this year, which will put the squeeze on supply and increase rents. Redmond and Prineville are still lower cost alternatives to Bend and will again attract cost conscious tenants for goods and services that are not ‘Bend-centric’.

Base rents still range from \$0.30 – \$0.50 per sq. ft. per month (NNN) for those communities, and land prices are much more affordable as well, with Bend’s industrial price per sq. ft. pushing \$10.00 or more, but the outlying communities are still in the \$3.00 – \$5.00 range.

Notable TRANSACTIONS

Compass Commercial Real Estate Services negotiated the following notable transactions in the fourth quarter of 2015. 90 transactions (24 sales and 66 leases) were closed totaling \$27.3 million in consideration. For more details about our monthly transactions, please visit our blog at www.compasscommercial.com/Transactions.

SALES

TYPE	PROPERTY	BUILDING/LOT SIZE	PRICE	COMPASS COMMERCIAL REPRESENTED
Retail	12035 SW Pacific HWY, Tigard	8,554 SF / 0.92 acres	\$1,603,647	Joel Thomas & Pat Kesgard / Buyer
Office	377 SW Century Dr., Bend	7,813 SF / 0.34 acre	\$1,570,000	Russell Huntamer & Peter May / Seller; Pat Kesgard & Joel Thomas / Buyer
Retail	62070 27th St., Bend	12,039 SF / 0.92 acre	\$1,500,000	Ron Ross & Robert Raimondi / Seller
Land	62003 Dean Swift Rd., Bend	2.47 acres	\$1,150,000	Russell Huntamer & Peter May / Seller & Buyer
Office	2421 NE Doctors Dr., Bend	4,385 SF / 0.76 acre	\$1,096,000	Robert Raimondi / Seller & Buyer
Industrial	36 SE 9th St., Bend	10,249 SF / 1.91 acres	\$1,050,000	Terry O'Neil & Ron Ross / Seller
Retail	200 NE Greenwood Ave., Bend	5,546 SF / 0.32 acre	\$999,900	Robert Raimondi / Seller
Industrial	20428 Cady Way, Bend	9,000 SF / 0.86 acre	\$995,000	Ron Ross & Terry O'Neil / Buyer
Office	127 SW Allen Rd., Bend	3,884 SF / 0.20 acre	\$989,000	Erich Schultz & Jay Lyons / Buyer; Ron Ross & Terry O'Neil / Seller
Office	354 NE Greenwood Ave., Bend	14,900 SF / 0.48 acre	\$958,000	Ron Ross & Terry O'Neil / Buyer

LEASES

TYPE	PROPERTY	SF LEASED	LESSEE	COMPASS COMMERCIAL REPRESENTED
Retail	555 NW Arizona Ave. Suite 183, Bend	6,636 SF	The Gear Fix	Russell Huntamer, Erich Schultz & Jay Lyons / Lessee & Lessor
Restaurant	1180 SE 3rd St., Bend	6,254 SF	Okawa Steakhouse and Sushi	Pat Kesgard, Peter May, Russell Huntamer & Joel Thomas / Lessor
Retail	20205 Powers Rd., Bend	4,340 SF	Blue Sky Veterinary	John Keba, Pat Kesgard & Joel Thomas / Lessee & Lessor
Retail	3148 N HWY 97, Bend	4,524 SF	Eyemart Express	Russell Huntamer & Peter May / Lessor

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