

COMPASS POINTS

Commercial Real Estate Market Report

BEND & REDMOND, OR | Q2 2016

INFORMATION IS KING: A History of Compass Commercial Real Estate Analyses

By Howard Friedman, CCIM

Nobel Peace Prize winner, former Secretary-General of the UN and Ghanaian diplomat Kofi Annan once said, "Knowledge is power. Information is liberating. Education is the premise of progress, in every society, in every family."

As Compass Commercial celebrates its 20th year as Central Oregon's premier commercial real estate services provider, we look back at how we got here, and what it has taken to maintain a respected presence in our competitive industry.

When founders Erich Schultz, SIOR and Steve Toomey, CCIM dreamed of starting their own company back in 1996, they knew that information and knowledge of the real estate market were key components of gaining the respect and trust of their potential clients, as well as the greater business community. As such, a decision was born to consistently survey local commercial real estate vacancies and trends to provide the information as a valuable resource.

Production of the first few quarterly reports earned Compass Commercial a unique advisory position, resulting in media referencing the data, as well as clients relying on the reports to help inform their business decisions involving real estate.

Schultz and Toomey initially began surveying industrial data back in 1993, when just 1.2 million sq. ft. of space existed on the market of 92 industrial buildings, compared to our current survey of over 4.2 million sq. ft. and 304 buildings. In 1994 office space was added, which charted 53 buildings comprising 633,000 sq. ft. Today, 205 office buildings at 2.5 million sq. ft. are included.

In 1995, we began to survey Redmond's 18 industrial buildings totaling 302,600 sq. ft., and today the survey includes 78 industrial buildings totaling over 1.5 million sq. ft.

Retail property was added in 2008 as our region became a retail powerhouse, with its 4.285 million sq. ft. among 253 retail

properties – compared with 4.5 million sq. ft. in the same number of buildings today.

With the growth of the regional commercial market, our process evolved from its original two-person data gathering operation to what has now become a multi-broker collection machine. No less than nine brokers make calls, drive their study areas and do research to ensure accuracy of the data.

The survey is limited to buildings of 3,000 sq. ft. or more, and 100% owner occupied buildings are omitted to more accurately reflect the amount of speculative space available and actual space that has been leased. Lease rates are updated each quarter and notes on building sales, buildings under construction, and buildings that are new to the market are included.

Please contact our expert brokers to learn more about market trends, or to ask questions relative to your business.

Bend OFFICE Market

Compass Commercial surveyed 205 buildings for the second quarter office report. The buildings in the sample totaled nearly 2.5 million square feet. Positive net absorption of 8,766 sq. ft. was recorded during the quarter. However, despite the positive absorption, the citywide office vacancy rate increased slightly, due to the addition of a new building in the market. The rate rose from 6.26% to 6.4% as a result. There is now just less than 160,000 sq. ft. available for lease, up from 155,000 sq. ft. in Q1. This is still considered a healthy rate and certainly a welcome number, remembering the second quarter of 2012, when the vacancy was at 21.9%.

The downtown submarket recorded just 672 sq. ft. of positive net absorption during the second



quarter and the vacancy rate now stands at 4.6%, down from 4.7% in Q1. Three buildings recording positive absorption and five buildings saw negative absorption in the quarter. There is currently 22,502 sq. ft. available downtown.

The Highway 97/3rd St. corridor recorded 7,585 sq. ft. of positive net absorption in

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| BEND OFFICE Net Absorption | | | | BLDGS. OVER 3,000 SQ. FT. | | |
|----------------------------|------------|------------------|-----------------|---------------------------|----------------|---------------|
| Market Area | No. Bldgs. | Total Sq. Ft. | Vac. % 2nd Qtr. | 2nd Qtr. Absorption | Absorption YTD | Total 2015 |
| Downtown | 49 | 490,121 | 4.6% | 672 | 24,640 | (15,693) |
| Hwy 97/3rd St. | 55 | 668,425 | 10.7% | 7,585 | 2,911 | 23,273 |
| West side | 101 | 1,335,267 | 4.9% | 509 | 916 | 78,765 |
| TOTAL | 205 | 2,493,813 | 6.4% | 8,766 | 28,467 | 86,345 |



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Bend OFFICE Market | CONTINUED

Q2. Eight buildings reported positive absorption and three buildings reported negative absorption. The vacancy rate for the submarket decreased from 11.8% to 10.7% as a result. Red Oaks Square recorded the largest transaction of the quarter, when St. Charles leased 16,500 sq. ft. in the 3rd St. complex for their IT department.

The west side submarket recorded just 509 sq. ft. of positive absorption. Five buildings reported positive change and six were negative during the quarter, with no leases signed that were larger than 2,000 sq. ft. The vacancy rate rose from 4.0% to 4.92%, due to the aforementioned property at 1015 Emkay Dr. being added to the survey. The former Bellatrix Buildings were recently purchased and renamed the Edgeside Buildings, and there is over 13,000 sq. ft. of new leasable space in the 2 building project, although a signed lease is imminent in the smaller of the two buildings.

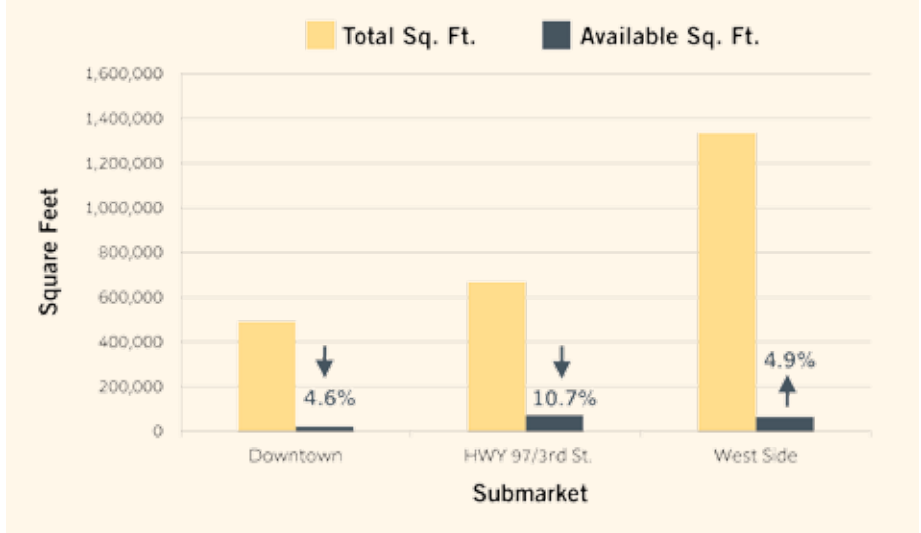
Bend RETAIL Market

Compass Commercial surveyed 253 retail buildings totaling nearly 4,495,000 square feet for the second quarter report. The citywide vacancy rate fell again, from 4.7% to 4.5% at the end of Q2, the result of another 8,867 sq. ft. of positive absorption.

Four out of the seven retail submarkets in Bend again recorded positive net absorption, and three were negative. The downtown and east side submarkets led the retail survey results, recording 6,068 sq. ft. and 4,471 sq. ft. of positive net absorption, respectively. In fact, the downtown submarket hit 100% occupancy, in the 65 retail building region, the first time that has happened since we began surveying the retail market in 2008. The west side remained the highest at 10.2%, still due to the stubborn vacancy of 43,000 sq. ft. at the former Ray's Food Place building in the Westside Village shopping center. The central submarket performed the poorest in the absorption category, recording a loss of 7,829 sq. ft., due to the vacancy of the Teen Challenge Thrift Store on SE 2nd Street, the only movement in the quarter in that area.

Citywide, there were 12 new retail leases noted and seven vacancies that took place in the quarter. Year to date, 28,679 sq. ft. of retail space has been absorbed in Bend, with a total of almost 202,000 sq. ft. available for lease.

BEND OFFICE Vacancy



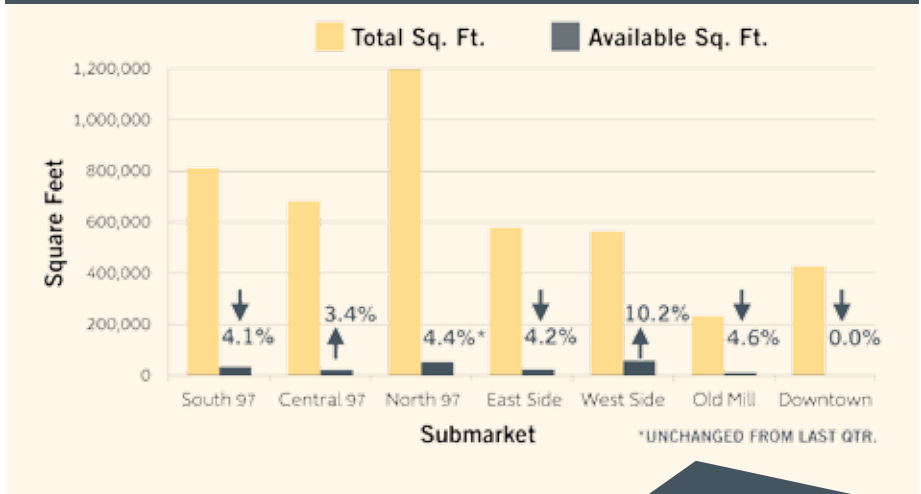
▲ ABSORPTION ▼ VACANCY

BEND RETAIL Net Absorption

BLDGS. OVER 3,000 SQ. FT.

| Market Area | No. Bldgs. | Total Sq. Ft. | Vac. % 2nd Qtr. | 2nd Qtr. Absorption | Absorption YTD | Total 2015 |
|-------------------|------------|------------------|-----------------|---------------------|----------------|---------------|
| South 97 | 19 | 810,744 | 4.1% | 3,679 | 4,279 | 15,143 |
| Central 97 | 41 | 682,500 | 3.4% | (7,829) | (7,263) | 29,503 |
| North 97 | 28 | 1,199,319 | 4.4% | (366) | 8,248 | 10,001 |
| East Side | 28 | 578,336 | 4.2% | 4,471 | 4,427 | (4,321) |
| West Side | 55 | 564,594 | 10.2% | (993) | 2,105 | 12,170 |
| Old Mill District | 17 | 232,475 | 4.6% | 3,837 | 3,837 | (303) |
| Downtown | 65 | 426,617 | 0.0% | 6,068 | 13,046 | 2,080 |
| TOTAL | 253 | 4,494,585 | 4.5% | 8,867 | 28,679 | 64,273 |

BEND RETAIL Vacancy



INDUSTRIAL Market

BEND

Compass Commercial surveyed 304 buildings for the second quarter industrial report. The buildings in the sample totaled over 4.2 million square feet. The industrial market took a big hit in the quarter, recording 140,454 sq. ft. of negative net absorption, due to several large vacancies that took place. The citywide industrial vacancy rate increased as a result from just 3.4% back up to 6.7%. There is now 281,844 sq. ft. available for lease, whereas at the end of Q1 there was just 141,390 sq. ft. available. This is still down from the peak of 794,000 sq. ft. available in the third quarter of 2010, when the vacancy rate was 20.0%, so just a blip on the radar screen.

Two of the four submarkets recorded negative absorption, and two remained unchanged.

The northeast submarket recorded the highest negative absorption in Q2. More than 123,700 sq. ft. were lost in that submarket, due to several large vacancies in the area, most notably an 83,000 sq. ft. loss on Brinson Blvd., when Advanced Energy vacated their building. The vacancy rate subsequently rose dramatically from 4.6% to 10.6% at the end of Q2. Nine buildings reported positive net absorption while seven recorded negative.

The southeast submarket also recorded poor results, with 16,748 sq. ft. of negative net absorption in the second quarter. Two buildings experienced positive and four reported negative net absorption in the quarter. The vacancy rate increased as a result from 2.3% to 3.3% at the end of Q2.

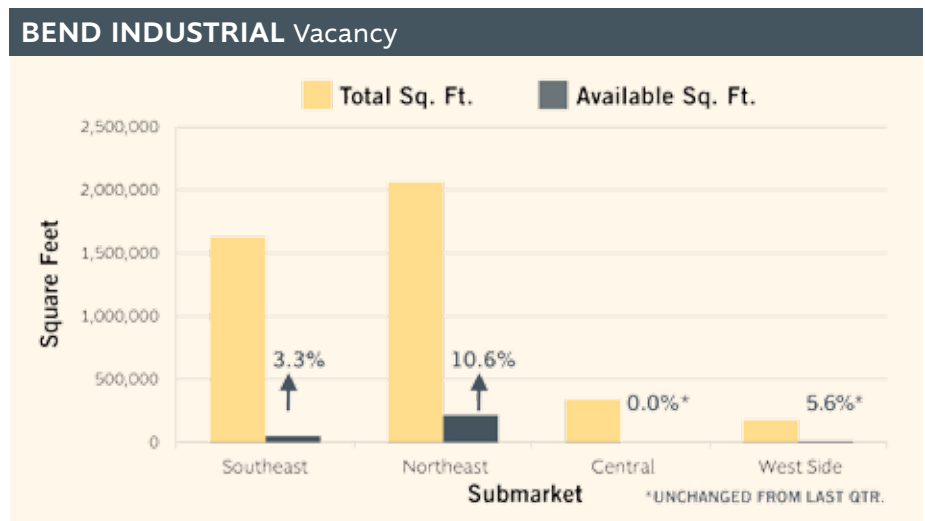
The central and west side submarkets remained unchanged in the quarter, with a 0% and 5.6% vacancy rate, respectively, in those two areas. There remains 9,904 sq. ft. available on the west side in just one building on Industrial Way.

REDMOND

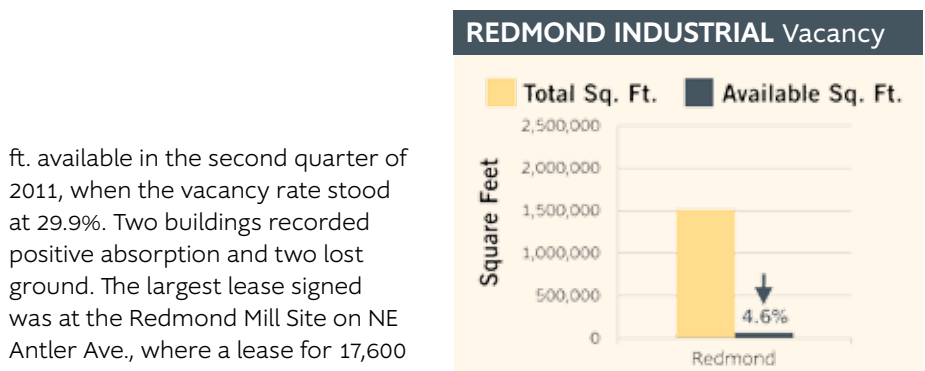
Redmond continued its astounding comeback in the second quarter of 2016. The 1.5 million square foot industrial market recorded another 11,230 sq. ft. of positive net absorption in Q2, resulting in a total of 34,330 sq. ft. for the year, and the vacancy rate dropped from 4.8% to 4.6% at the end of the quarter. There is now just 69,243 sq. ft. of industrial space on the market for lease, down from a high of over 434,000 sq.



| BEND INDUSTRIAL Net Absorption | | | | | BLDGS. OVER 3,000 SQ. FT. | |
|--------------------------------|------------|------------------|-----------------|---------------------|---------------------------|---------------|
| Market Area | No. Bldgs. | Total Sq. Ft. | Vac. % 2nd Qtr. | 2nd Qtr. Absorption | Absorption YTD | Total 2015 |
| Southeast | 136 | 1,626,391 | 3.3% | (16,748) | 8,110 | (1,108) |
| Northeast | 124 | 2,061,766 | 10.6% | (123,706) | (47,239) | 96,910 |
| Central | 35 | 341,397 | 0.0% | 0 | 1,340 | 6,596 |
| West Side | 9 | 178,144 | 5.6% | 0 | 0 | (9,904) |
| TOTAL | 304 | 4,207,698 | 6.7% | (140,454) | (37,789) | 92,494 |



| REDMOND INDUSTRIAL Net Absorption | | | | | BLDGS. OVER 3,000 SQ. FT. | |
|-----------------------------------|------------|---------------|-----------------|---------------------|---------------------------|------------|
| Market Area | No. Bldgs. | Total Sq. Ft. | Vac. % 2nd Qtr. | 2nd Qtr. Absorption | Absorption YTD | Total 2015 |
| Redmond | 78 | 1,513,215 | 4.6% | 11,230 | 34,330 | 87,650 |



ft. available in the second quarter of 2011, when the vacancy rate stood at 29.9%. Two buildings recorded positive absorption and two lost ground. The largest lease signed was at the Redmond Mill Site on NE Antler Ave., where a lease for 17,600 sq. ft. was reported.

Notable TRANSACTIONS

Compass Commercial Real Estate Services negotiated the following notable transactions in the second quarter of 2016. 113 transactions (18 sales and 95 leases) were closed totaling \$25.2 million in consideration. For more details about our monthly transactions, please visit www.compasscommercial.com/Transactions.

SALES

| TYPE | PROPERTY | BUILDING/LOT SIZE | PRICE | COMPASS COMMERCIAL REPRESENTED |
|-------------|--|------------------------|-------------|---|
| Residential | HWY 140 & Lakeshore Dr., Klamath Falls | 1,000 acres | \$1,700,000 | Dan Kemp / Seller & Buyer |
| Multifamily | 2320 NE Holliday Ave., Bend | 12-units / 0.30 acre | \$1,695,000 | Peter May & Ron Ross / Seller |
| Investment | 825-885 SW 17th St., Redmond | 8,504 SF / 1.73 acres | \$1,650,000 | Dan Kemp & Peter May / Seller |
| Multifamily | 2124 N Flint Ave., Portland | 5,513 SF / 0.11 acre | \$1,630,700 | Graham Dent / Buyer |
| Multifamily | 1302 Knoxville Blvd., Bend | 16,588 SF / 1.28 acres | \$1,600,000 | Dan Kemp / Buyer |
| Land | 825 SW 17th St., Redmond | 1.30 acres | \$1,050,000 | Dan Kemp / Seller & Buyer |
| Industrial | 2122 SW Deerhound Ave., Redmond | 14,280 SF / 0.94 acre | \$900,000 | Herb Arathoon & Pat Kesgard / Seller; Ron Ross & Terry O'Neil / Buyer |
| Industrial | 625 SE 9th St., Bend | 4,532 SF / 1.09 acres | \$649,000 | Peter May, Russell Huntamer & Dan Kemp / Seller |

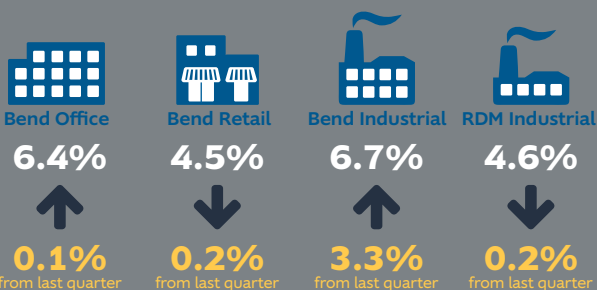
LEASES

| TYPE | PROPERTY | SF LEASED | LESSEE | COMPASS COMMERCIAL REPRESENTED |
|------------|----------------------------|-----------|---------------------------------|---|
| Office | 1230 NE 3rd St., Bend | 16,500 SF | St. Charles Health System, Inc. | Erich Schultz & Jay Lyons / Tenant |
| Restaurant | 63455 N HWY 97, Bend | 6,268 SF | Moose Sisters | Russell Huntamer & Peter May / Tenant |
| Retail | 514 NW Franklin Ave., Bend | 6,978 SF | L.I.F.T. | Erich Schultz, Russell Huntamer & Dan Kemp / Landlord; Jay Lyons / Tenant |
| Restaurant | 1288 SW Simpson Ave., Bend | 1,200 SF | Bangers & Brews | Peter May & Russell Huntamer / Tenant |

Q2 DATA SNAPSHOT

[CLICK TO VIEW INFOGRAPHIC]

VACANCY RATES



COMPASS POINTS

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