



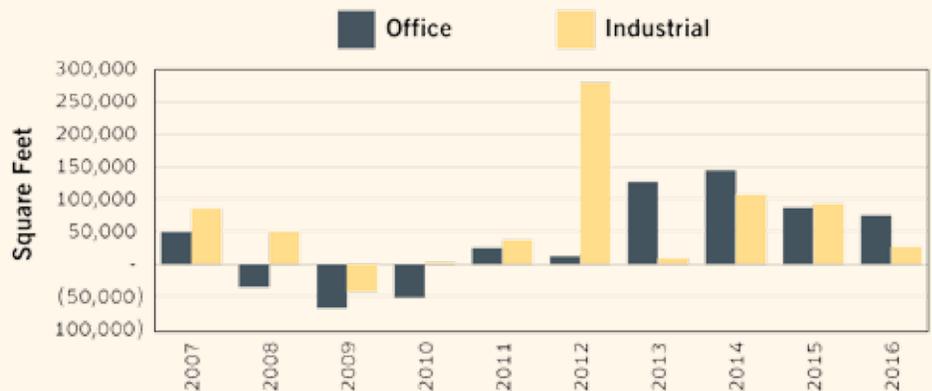
2016 SUMMARY / 2017 FORECAST

By Howard Friedman, CCIM

This just in...Bend is hot. But of course you already knew that. Okay, it's hard to believe that we are talking about the temperature with three feet of snow on the ground, and it is only February. But the heat of Bend's economy, and that of Central Oregon, remains one of the strongest in the country, according to numerous national economic reports.

Our Compass Commercial team recently participated in a webinar with Brian and Alan Beaulieu of ITR Economics, providing economic insights for the next several years. The webinar presented some encouraging points. The macro economy is doing well. Real GDP (Gross Domestic Product) is continuing to rise. The overall outlook is that there will be very little change in the economic situation even with the new presidency. According to ITR's models, they anticipate a slight downturn in the second half of 2018 and the first half of 2019. However, there is an

BEND OFFICE & INDUSTRIAL ABSORPTION BY YEAR



estimated 14 years to prepare before a significant downturn is predicted to occur in 2030. During this time, it is projected that there will be plenty of opportunities for wealth building.

ITR also reported that U.S. industrial production looks like it will be picking

up, along with GDP. The last time our country had a 4% growth rate was in 2000. We are currently at an overall 1.6% growth rate. It will be difficult to get to a 4% growth rate as President Trump called for because two things are happening.

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Bend OFFICE Market

Compass Commercial surveyed 203 buildings for the fourth quarter office report. The buildings in the sample totaled just less than 2.5 million square feet. Positive net absorption of 11,622 sq. ft. was recorded during the quarter. The vacancy rate fell once again, from 5.1% to 4.6% as a result. We now have just over 114,000 sq. ft. available for lease, down from 126,000 sq. ft. in Q3, and this is down from the peak of over 526,000 sq. ft. available in the fourth quarter of 2010! For the second quarter in a row, this is the lowest office vacancy rate since Compass' brokers began tracking vacancies prior to our company's launch in 1996.

All three submarkets recorded positive net

absorption in Q4. Downtown ticked up with 572 sq. ft. absorbed, lowering the vacancy rate from 4.8% in Q3 to 4.7% in Q4. Two buildings recording positive absorption and three buildings saw small negative absorption in the submarket.

There is currently 22,859 sq. ft. of office space available downtown.



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BEND OFFICE Net Absorption BLDGS. OVER						
Market Area	No. Bldgs.	Total Sq. Ft.	Vac. % 4th Qtr.	4th Qtr. Absorption	Total 2016 Absorption	Total 2015
Downtown	48	483,259	4.7%	572	24,027	(15,693)
Hwy 97/3rd St.	54	659,477	5.7%	8,482	37,115	23,273
West Side	101	1,336,159	4.1%	2,568	13,908	78,765
TOTAL	203	2,478,895	4.6%	11,622	75,050	86,345



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Bend OFFICE Market | CONTINUED

The Highway 97/3rd St. corridor recorded 8,482 sq. ft. of positive absorption in the fourth quarter, compared to nearly 26,000 sq. ft. in Q3. Eight buildings reported positive change and just one was negative during the quarter, lowering the vacancy rate from 6.9% to 5.7%. No leases of over 3,000 sq. ft. were noted, and a total of 37,330 sq. ft. is now for lease in that submarket.

The west side submarket recorded positive absorption of 2,568 sq. ft. in this quarter, lowering the vacancy rate from 4.2% to 4.1%. Eight buildings reported positive gains and six lost occupancy. Deschutes Ridge saw the largest vacancy of just over 7,000 sq. ft., while Shevlin Corporate Park absorbed 7,224 sq. ft. Currently, there is 54,190 sq. ft. of office space available on the west side, out of 1,336,000 sq. ft. total in the submarket.

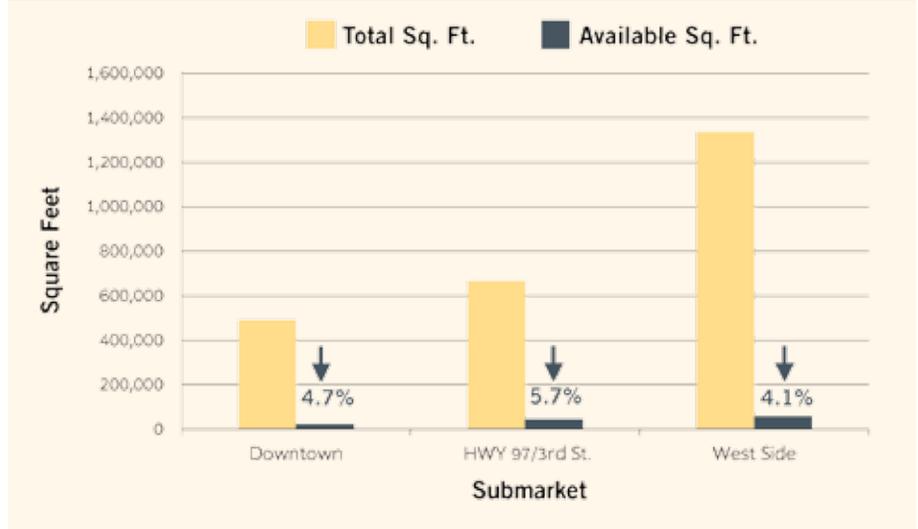
Bend RETAIL Market

Compass Commercial surveyed 252 retail buildings totaling over 4,490,000 square feet for the fourth quarter. The citywide vacancy rate fell once again, from 4.5% to 3.9% at the end of Q4, due to another 25,374 sq. ft. of positive absorption.

Three out of the seven retail submarkets in Bend recorded positive net absorption, two were negative, and two remained unchanged. The east side submarket saw the greatest gains, recording 11,248 sq. ft. of positive net absorption, while the south and north 97 areas saw moderate losses, with 1,525 and 1,370 sq. ft. of negative absorption recorded, respectively. The west side submarket still shows the highest vacancy of 8.7%, albeit down from Q3's 10.2%, thanks to 8,550 sq. ft. of positive absorption in the quarter due to four leases signed in that area. (As a side note, with the roof collapse of the former Ray's Food Place building, there has been much speculation on the future of the site. As of now, the building owners are weighing all options, including redeveloping the site and continuing lease negotiations with no less than three interested parties that had been ongoing prior to the incident.) The central 97 submarket gained 8,471 sq. ft. and the Old Mill District Shops and downtown submarkets remained unchanged at 4.6% vacancy and 0% vacancy, respectively.

For the year, 50,931 sq. ft. of retail space was absorbed in Bend, compared with 2015's 64,273, and the vacancy rate now stands at just 3.9% city-wide, compared to 5.2% at the end of 2015.

BEND OFFICE Vacancy

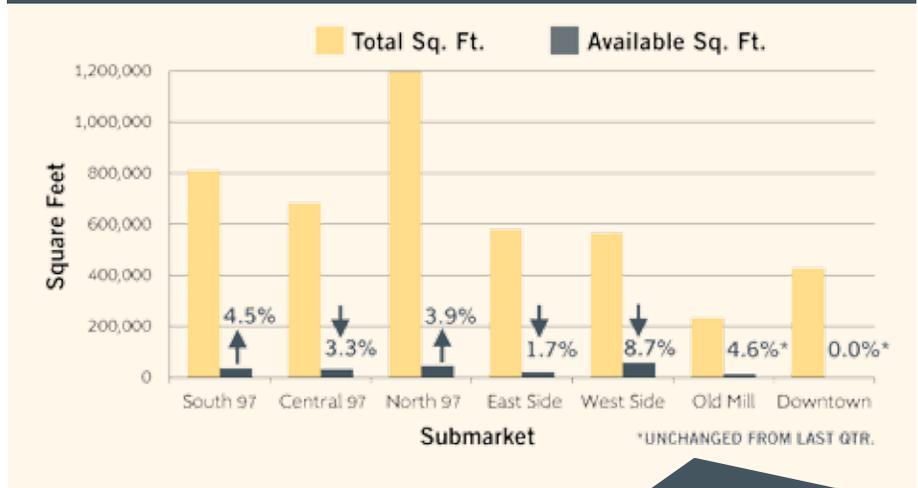


BEND RETAIL Net Absorption

BLDGS. OVER 3,000 SQ. FT.

Market Area	No. Bldgs.	Total Sq. Ft.	Vac. % 4th Qtr.	4th Qtr. Absorption	Total 2016 Absorption	Total 2015
South 97	19	810,744	4.5%	(1,525)	900	15,143
Central 97	41	682,500	3.3%	8,471	(6,510)	29,503
North 97	28	1,199,319	3.9%	(1,370)	14,605	10,001
East Side	28	578,336	1.7%	11,248	18,898	(4,321)
West Side	54	560,594	8.7%	8,550	6,155	12,170
Old Mill District	17	232,475	4.6%	0	3,837	(303)
Downtown	65	426,617	0.0%	0	13,046	2,080
TOTAL	252	4,490,585	3.9%	25,374	50,931	64,273

BEND RETAIL Vacancy



INDUSTRIAL Market

BEND

Compass Commercial surveyed 303 buildings for the fourth quarter industrial report. The buildings in the sample totaled just less than 4.2 million square feet. The industrial market gained 26,742 sq. ft. of positive net absorption in Q4, resulting in a citywide industrial vacancy rate of 4.7%, down from 5.5% in Q3. There is now just over 196,000 sq. ft. of industrial space available for lease in Bend. For the year, 37,966 sq. ft. of industrial space was absorbed, compared with 2015's total of 92,494 sq. ft. This slowdown was mostly due to a disastrous second quarter, when the northeast submarket lost nearly 124,000 sq. ft. of occupancy, caused mostly by the loss of Advanced Energy, which occupied 83,000 sq. ft.

In the fourth quarter, two of the four submarkets recorded positive net absorption, one remained unchanged, and one moved to 0% vacancy due to a vacant building correction.

The southeast submarket recorded the highest positive absorption in Q4, recording 25,077 sq. ft. of net gains. The vacancy rate is now just 0.8% with 12,370 sq. ft. available out of a total of 1.6 million sq. ft. Five buildings recorded positive results, while three were negative. The largest lease was in the former Workensport building at 9th St. and Reed Market Rd., where Snap Fitness absorbed over 11,000 sq. ft. The northeast submarket gained 1,665 sq. ft. of absorption, with four buildings positive and three negative, resulting in a vacancy rate of 8.9%, down from 9.0% in Q3. The two largest leases were the signing of a 7,880 sq. ft. industrial showroom space by Curtis Restaurant Equipment at the former Michi Designs building at 20671 High Desert Ln., and a lease of 7,771 sq. ft. on Plateau Dr. Two buildings lost 7,500 sq. ft. and 8,700 sq. ft. on Layton Ave. and Empire Corporate Park, respectively, in the quarter.

The central submarket remained unchanged in the quarter, with a 0% vacancy rate, and there is now no available industrial space on the west side.

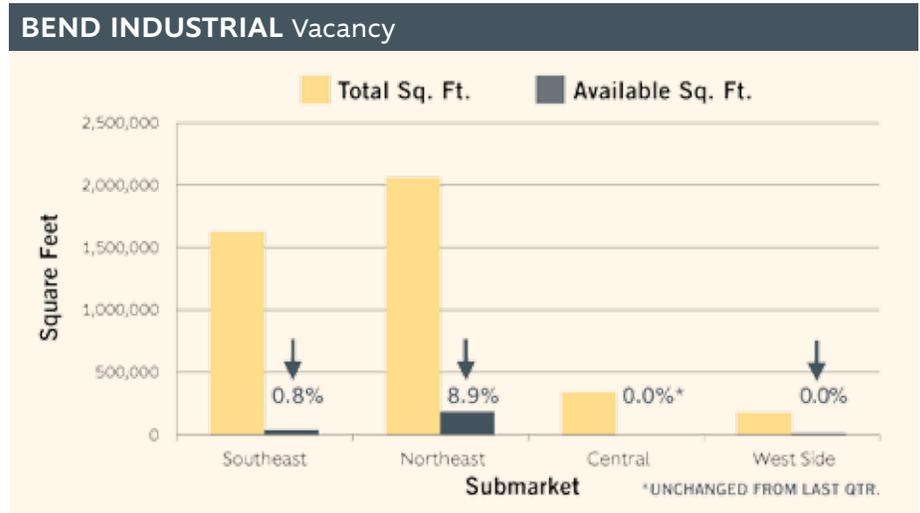
REDMOND

After a brief uptick in vacancy in Q3, Redmond returned its positive occupancy string in Q4, with nine of the last ten quarters gaining ground. The 1.524 million sq. ft., 78 building industrial market recorded 13,300 sq. ft. of positive net absorption in Q4, resulting in a total of 44,238 sq. ft. of positive absorption for the year 2016. The vacancy rate fell from 4.6% to 3.7% at the end of the quarter, with just



ABSORPTION VACANCY

BEND INDUSTRIAL Net Absorption					BLDGS. OVER 3,000 SQ. FT.	
Market Area	No. Bldgs.	Total Sq. Ft.	Vac. % 4th Qtr.	4th Qtr. Absorption	Total 2016 Absorption	Total 2015
Southeast	136	1,626,391	0.8%	25,077	49,943	(1,108)
Northeast	124	2,061,766	8.9%	1,665	(13,317)	96,910
Central	35	342,037	0.0%	0	1,340	6,596
West Side	8	168,240	0.0%	0	0	(9,904)
TOTAL	303	4,198,434	4.7%	26,742	37,966	92,494



ABSORPTION VACANCY

REDMOND INDUSTRIAL Net Absorption					BLDGS. OVER 3,000 SQ. FT.	
Market Area	No. Bldgs.	Total Sq. Ft.	Vac. % 4th Qtr.	4th Qtr. Absorption	Total 2016 Absorption	Total 2015
Redmond	78	1,523,715	3.7%	13,300	44,238	87,650

56,635 sq. ft. of industrial space on the market for lease, about a one year's supply based on current leasing activity. Two buildings recorded positive absorption and two lost ground, with the largest lease signed at Redmond Mill Site, of 15,200 sq. ft., reversing a loss of 13,200 sq. ft. in that building in Q3.



2016 SUMMARY / 2017 FORECAST | CONTINUED FROM PAGE 1

First, the economy is larger now than it was in 2000, therefore, it will take more time to change, reacting more slowly than in the past. Second, our demographics are different now. As the 68 million baby boomers get closer to retirement, they will become more risk averse which will affect the U.S. economy.

U.S. retail sales are projected to turn a corner and rise, according to ITR. As for housing, sales are up 12.4% year over year. New construction at 6.8% will follow. Industrial production or nonresidential construction is also on the rise. U.S. overall wage growth has increased; however, we can't count on this continuing for the long term. Commodity prices are on the rise, and oil prices will also increase in 2017.

So how does this trickle down to Central Oregon's state of the economy? If 2016 is an indicator, our market is very strong.

How did we do as prognosticators in 2016? At the end of 2015 we delivered the following prediction:

We fully expect to see new office, industrial and retail projects come off the drawing board and into 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'.

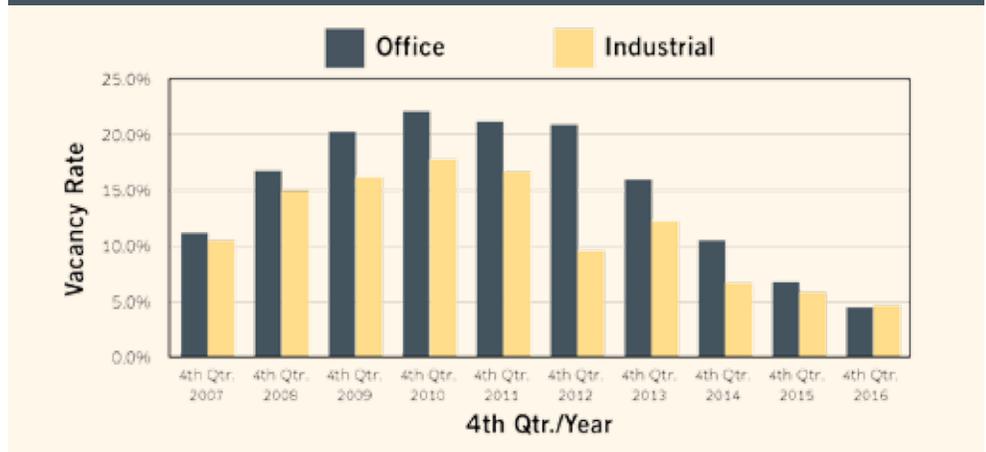
That pretty much sums up the past year.

SUMMARIZING 2016 DEMAND

For the year, Bend's overall **industrial** vacancy rate dropped from 5.7% to 4.67%. Rental rates that were in the \$0.55 - \$0.65 per square foot per month triple net (NNN) range in 2015, have crept up again with rates generally in the \$.65 - \$1.00 per sq. ft. range, with some advertising even higher rates.

The **office** market continued its strong comeback as well. At the end of 2015, the vacancy rate stood at 6.74%, and at the end of 2016, it was 4.61%. Lease rates in the office sector continue to rise

BEND OFFICE & INDUSTRIAL VACANCY RATE BY YEAR



as well, with second generation space being leased for \$1.50 - \$2.00 per sq. ft., NNN and new projects leasing at \$2.25 per sq. ft. NNN or more. Crane Shed Commons, Bend's latest large scale office development is one of those successes, with approximately 65% of the 50,000 sq. ft. 4-story Class A office building pre-leased.

Retail vacancies in Bend dropped from a rate of 5.2% at the end of 2015 to a stunning 3.9% at the end of 2016, the lowest rate we have reported since beginning our retail survey in 2008. Rental rates have increased along with the decrease in supply, with the norm being in the \$1.50 - \$2.00 NNN per sq. ft. range, and restaurants and new retail projects have leased in the \$1.75 - \$2.50 NNN range.

AND HOW ABOUT SUPPLY?

In the **office** market 75,050 sq. ft. of space was absorbed in 2016, compared with 86,345 sq. ft. 2015. There is 114,379 sq. ft. now available, making a one and a half year supply available at the current leasing activity rate.

The **industrial** market recorded 37,966 sq. ft. of positive net absorption in 2016, compared with 92,494 sq. ft. in 2015. There is currently just under 200,000 total sq. ft. available in the Bend industrial market.

In the **retail** sector 50,931 sq. ft. was absorbed in 2016, compared with just over 65,000 sq. ft. in 2015. With 174,704 sq. ft.

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

And in **Redmond** 44,238 sq. ft. was absorbed in 2016 which means there is just over a year of inventory left at the present absorption rate, with 56,635 sq. ft. of industrial space available.

LOOKING AHEAD

In a recent blog, ITR Economics reinforced that the outlook is good for 2017. They state, "The good news for the economy continues to come in. We have leading indicators that are going up. Corporate profits are on the rise. GDP is growing at a faster pace. Housing activity is strong and industrial activity is starting to recover."

In Bend and Central Oregon, we are also bullish on the economy. Our record setting low vacancies in nearly all commercial sectors may continue to push lease rates and property values up – good news of course for landlords and sellers (not so much for tenants and buyers), but with rising corporate and individual incomes predicted by many, we think we will be able to sustain our growth for the foreseeable future. Hopefully housing starts will continue to allow the workforce to find suitable living accommodations in our tight residential market, with vacancies hovering at around 1% in the rental sector according to local statistics, and that will allow our businesses to expand and prosper in the coming year

Notable TRANSACTIONS

Compass Commercial Real Estate Services negotiated the following notable transactions in the fourth quarter of 2016. 101 transactions (28 sales and 73 leases) were closed totaling \$43.3 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
Industrial	20750 Brinson Blvd., Bend	69,367 SF / 11.39 acres	\$12,550,000	Erich Schultz & Jay Lyons / Seller
Retail	1500 NE Cushing Dr., Bend	8,000 SF / 1.61 acres	\$4,019,150	Erich Schultz, Darren Powderly & Steve Toomey / Seller; Jay Lyons & Russell Huntamer / Buyer
Multifamily Land	SE Wildcat Dr. and SE Skylark Dr., Bend	2.45 acres	\$2,399,000	Ron Ross & Terry O'Neil / Seller
Industrial	2470 NE 2nd St., Bend	22,430 SF / 1.76 acres	\$2,080,000	Graham Dent / Seller
Office/Medical	726 NW Wall St., Bend	2,979 SF / 0.08 acre	\$1,150,000	Pat Kesgard, Ron Ross, Dan Kemp & Kerri Standerwick / Buyer
Retail	457 SW 6th St., Redmond	7,500 SF / 0.06 acre	\$1,080,000	Dan Kemp & Graham Dent / Seller
Commercial Land	400 SW Bond St., Bend	1.05 acres	\$1,060,000	Terry O'Neil & Ron Ross / Buyer
Commercial Land	NE Neff Rd. & NE 27th St., Bend	1.34 acres	\$1,007,000	Erich Schultz & Jay Lyons / Seller
Industrial	61579 American Loop, Bend	8,551 SF / 0.63 acre	\$965,000	Russell Huntamer, Erich Schultz & Jay Lyons / Buyer

LEASES

TYPE	PROPERTY	SF LEASED	LESSEE	COMPASS COMMERCIAL REPRESENTED
Retail	18575 SW Century Dr., Bend	19,963 SF	Hoss Babaie of SCD Bend	Joel Thomas / Tenant
Retail	6 SW Bond St., Bend	2,543 SF	Strictly Organic	Russell Huntamer / Tenant & Landlord; Jay Lyons & Erich Schultz / Tenant
Industrial	145 SE Logsdan St., Bend	6,270 SF	NW Kind	Russell Huntamer / Tenant

Q4 DATA SNAPSHOT [CLICK TO VIEW INFOGRAPHIC]

VACANCY RATES



COMPASS POINTS

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