COMPASS POINTS

Commercial Real Estate Market Report

BEND & REDMOND, OR | Q1 2017

COMMERCIAL REAL ESTATE AND THE UGB

By Howard Friedman, CCIM

As you will see from our market summaries in this issue of *Compass Points*, vacancies in all of our commercial real estate sectors are at historic lows in Bend and Redmond. With timing being everything, the recent process of increasing the Urban Growth Boundary (UGB) in these communities could not have come at a better time. Bend had a total of 2,380 acres added to the UGB (down from the original request to the State of Oregon of 8,000 acres) meaning there will be room to grow our residential communities by 1,142 acres, and our employment land (for commercial, industrial and retail), by 815 acres. So what does this mean for the commercial real estate sector?

The UGB increase theoretically represents an estimated 20-year supply of land for employment, housing, and other urban uses, and is reflected in the Bend Area General Plan. With the adopted UGB expansion in place as of December 6th, 2016, developers can now begin planning new developments. In fact, according to City of Bend assistant city manager Jon Skidmore, there have been 325 commercial projects approved since July 2016, with a total permit value of $140 million. This includes tenant improvement permits which make up the majority of those issued, as well as brand new projects, but both of those types of construction validate that the commercial economy is expanding.

The City of Bend encompasses various commercial zones strategically located to enhance employment, housing, and the availability of goods and services. These zones are comprised of **Central Business District (CB)** – includes the downtown area and provides commercial and mixed-use development with a storefront character; **Convenience Commercial (CC)** – typically small commercial areas adjacent and connected to residential districts they serve; **Limited Commercial (CL)** – provides locations for a wide range of retail, service, and tourist commercial uses along highways and shopping centers; and **General Commercial (CG)** – offers a variety of commercial uses that have large-site requirements.

The mixed use zones are comprised of **Mixed Employment (ME) Zone** – intended to provide a broad mix of uses that offer employment opportunities; **Mixed-Use Riverfront Zoning (MR)** – provides creative redevelopment of mill site properties adjacent to the Deschutes River; **Professional Office Zone (PO)** – intended for professional offices between residential areas and more intensive zones; **Mixed-Use Urban Zone (MU)** – provides opportunities for vibrant mixed-use centers; and **Mixed-Use Neighborhood Zone (MN)** – intended to provide neighborhood-scaled, pedestrian-oriented areas with a range of residential, retail, service, and office uses.

Industrial districts are comprised of **General Industrial (IG)** – intended to provide for the establishment of heavier industrial uses; and **Light Industrial (IL)** – services lighter industrial uses with easy access to collector and arterial streets.

In short, all these zones will benefit from additional acreage that the new UGB will provide to the residents of Bend. The only problem we see is that it may be time to begin planning for the next 20 years. Here we go again!

Bend OFFICE Market

Compass Commercial surveyed 205 buildings for the first quarter 2017 office report. The buildings in the sample totaled just over 2.5 million square feet. Positive net absorption of 19,106 sq. ft. was recorded during the quarter. The vacancy rate fell once again, from 4.6% to 3.7% as a result. We now have just 92,062 sq. ft. available for lease, down from 114,379 sq. ft. in Q4 2016. We have seen nearly 434,000 sq. ft. of space leased since the fourth quarter of 2010 when we were in the throes of the recession. And for the third quarter in a row, this is the lowest office vacancy rate since Compass' brokers began tracking vacancies in 1996.

All three submarkets again recorded positive net absorption in Q1. Downtown saw 375 sq. ft. of positive occupancy absorbed, lowering the vacancy rate from 4.7% in Q4 2016 to 4.0% in Q1 2017. Two buildings recorded positive absorption and four buildings saw negative absorption in the submarket, with the largest lease being a 5,197 sq. ft. occupancy in the Riverpointe 2 Building on Pacific Park Ln. There is currently 19,273 sq. ft. of office space available in the downtown area.

CONTINUED ON PAGE 2

ABSORPTION VACANCY

BEND OFFICE Net Absorption — BLDGS. OVER 3,000 SQ. FT.

Market Area	No. Bldgs.	Total Sq. Ft.	Vac. % 1st Qtr.	1st Qtr. Absorption	Total 2017 Absorption	Total 2016
Downtown	48	483,259	4.0%	375	375	24,027
Hwy 97/3rd St.	55	676,837	4.9%	4,455	4,455	37,115
West Side	102	1,346,467	3.0%	14,276	14,276	13,908
TOTAL	**205**	**2,506,563**	**3.7%**	**19,106**	**19,106**	**75,050**

Bend OFFICE Market | CONTINUED

The Highway 97/3rd St. corridor recorded 4,455 sq. ft. of positive absorption in the first quarter. Four buildings reported positive change and four were negative during the quarter, lowering the vacancy rate from 5.7% to 4.9%. Leases of 3,500 and 4,500 sq. ft. were noted in the Deschutes Business Center and Farmer's Insurance Exchange Building, respectively, where the latter will house administration for Central Oregon Radiology. A total of 32,875 sq. ft. is now for lease in that submarket.

The west side submarket recorded the largest gain in the quarter, with positive absorption of 14,276 sq. ft., lowering the vacancy rate from 4.1% to 3%. Four buildings reported positive gains and four lost occupancy. The Edgeside Building, formerly occupied by Bellatrix Systems, saw the greatest gain of over 14,000 sq. ft. Grace Bio-Labs will be moving their corporate headquarters there in May, adding a 2,500 sq. ft. connecting structure linking the two buildings. No vacancies over 3,000 sq. ft. were recorded in the quarter. Presently, there is 39,914 sq. ft. of office space available on the west side, out of 1,346,000 sq. ft. total in the submarket, the lowest amount of available space since Q4 2006, and down from a peak of over 293,000 sq. ft. in Q4 2012, when the vacancy rate stood at 22.3%.

Bend RETAIL Market

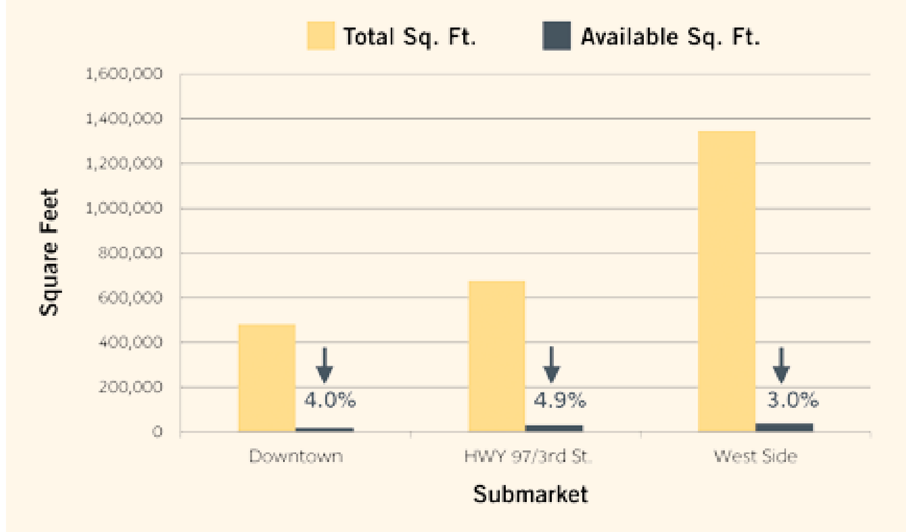
Compass Commercial surveyed 252 retail buildings totaling nearly 4,450,000 square feet for the first quarter of 2017. The citywide vacancy rate fell once again, from 3.9% to 3.2% at the end of Q1, although due to a building deletion, 9,534 sq. ft. of net negative absorption took place.

Three out of the seven retail submarkets in Bend recorded positive net absorption, three were negative, and one remained unchanged. The south and north 97 submarkets saw the greatest gains, recording 9,416 and 8,239 sq. ft. respectively. The south 97 submarket finished the quarter at 3.4%, down from Q4's 4.5% with new leases being signed at the Bend Factory Stores (4,200 sq. ft.) and Brookswood Meadow Plaza (3,363 sq. ft.), and the north 97 submarket finished at 3.2% vacancy, down from 3.9%, with Fat Tuesdays occupying the 6,941 sq. ft. former Shilo Inn restaurant.

The west side submarket logged the aforementioned correction with the Ray's building taken off the market until it is rebuilt, so the vacancy now stands at 1.7% The central

CONTINUED ON PAGE 4

BEND OFFICE Vacancy



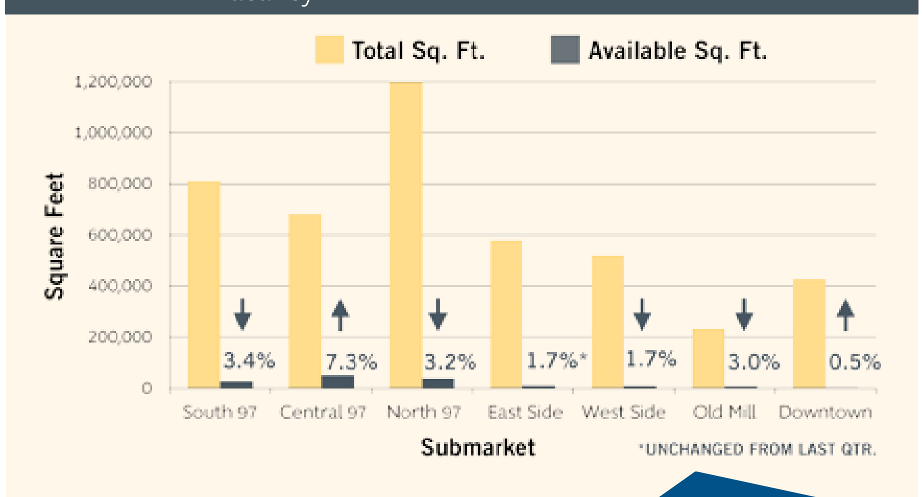
ABSORPTION VACANCY

BEND RETAIL Net Absorption

BLDGS. OVER 3,000 SQ. FT.

Market Area	No. Bldgs.	Total Sq. Ft.	Vac. % 1st Qtr.	1st Qtr. Absorption	Total 2017 Absorption	Total 2016
South 97	19	810,744	3.4%	9,416	9,416	900
Central 97	41	682,500	7.3%	(27,428)	(27,428)	(6,510)
North 97	28	1,199,319	3.2%	8,239	8,239	14,605
East Side	28	578,336	1.7%	0	0	18,898
West Side	54	519,224	1.7%	(1,205)	(1,205)	6,155
Old Mill District	17	232,475	3.0%	3,558	3,558	3,837
Downtown	65	426,617	0.5%	(2,114)	(2,114)	13,046
TOTAL	**252**	**4,449,215**	**3.2%**	**(9,534)**	**(9,534)**	**50,931**

BEND RETAIL Vacancy



COMPASS Commercial REAL ESTATE SERVICES

INDUSTRIAL Market

BEND

Compass Commercial surveyed 304 buildings for the first quarter industrial report. The buildings in the sample totaled just less than 4.2 million square feet. The industrial market gained 10,145 sq. ft. of positive net absorption in Q1, resulting in a citywide industrial vacancy rate of 4.6%, down from 4.7% in Q4 2016. There is now 194,440 sq. ft. of industrial space available for lease in Bend. In the first quarter, two of the four submarkets recorded negative net absorption, one was positive and one remained unchanged.

The southeast submarket recorded the only positive absorption in Q1, recording 16,229 sq. ft. of net gains. The vacancy rate is now just 0.3% with only 4,541 sq. ft. available out of a total of 1.6 million sq. ft. Six buildings recorded positive results, while just one was negative. Two leases were recorded over 4,000 sq. ft. on Carmen Lp. and the one negative vacancy on Twin Knolls Dr. was over 4,500 sq. ft.

The northeast submarket lost 2,951 sq. ft. of absorption, with one building positive and one negative, resulting in a vacancy rate of 9.1%, up from 8.9% in Q4 2016. The Murray Rd. Industrial Building lost 5,426 sq. ft. and the PMI Building 'B' on Plateau Dr. leased up fully, adding 2,475 sq. ft. in the former Curtis Restaurant Equipment space.

The central submarket also lost ground in the quarter, recording 3,133 sq. ft. of negative net absorption in one vacancy. That submarket now stands at 0.9%, after being fully leased at 0.0% in the previous quarter. The vacancy took place in the Old Iron Works building at 50 SE Scott St.

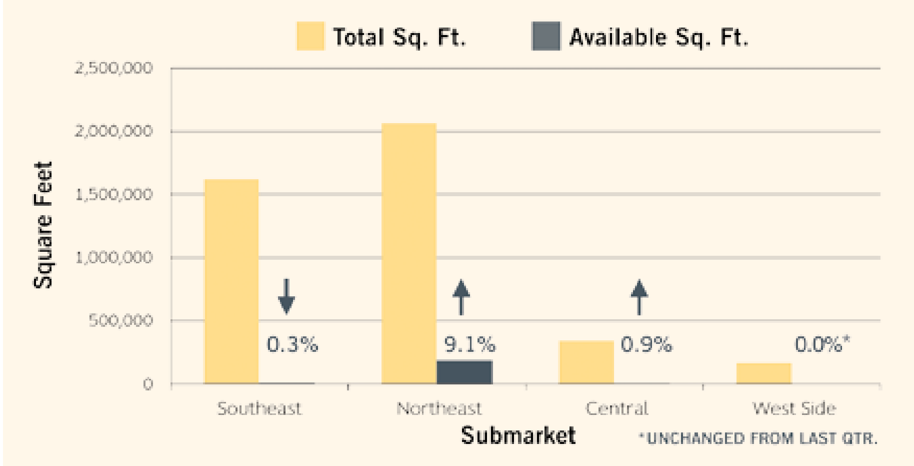
For the seventh quarter in a row, there is no industrial space available on the west side.

ABSORPTION VACANCY

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

Market Area	No. Bldgs.	Total Sq. Ft.	Vac. % 1st Qtr.	1st Qtr. Absorption	Total 2017 Absorption	Total 2016
Southeast	136	1,623,431	0.3%	16,229	16,229	49,943
Northeast	124	2,061,766	9.1%	(2,951)	(2,951)	(13,317)
Central	35	342,037	0.9%	(3,133)	(3,133)	1,340
West Side	9	168,240	0.0%	0	0	0
TOTAL	**304**	**4,195,474**	**4.6%**	**10,145**	**10,145**	**37,966**

BEND INDUSTRIAL Vacancy



REDMOND

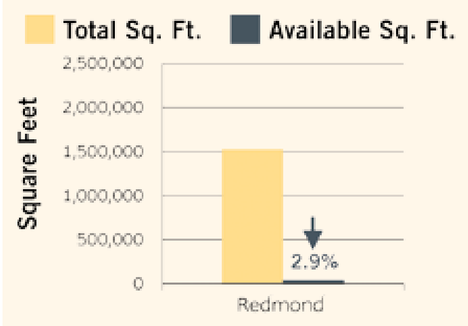
Redmond's 1.524 million square foot, 78 building industrial market recorded 13,200 sq. ft. of positive net absorption in Q1, resulting in a drop in the vacancy rate from 3.7% to 2.9% at the end of the quarter. There is now only 43,435 sq. ft. of industrial space on the market for lease, just over a nine months' supply at current leasing activity. One building recorded positive absorption at the Redmond Mill Site, and ten of the last eleven quarters have now shown increasing occupancy in the Redmond industrial market.

ABSORPTION VACANCY

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

Market Area	No. Bldgs.	Total Sq. Ft.	Vac. % 1st Qtr.	1st Qtr. Absorption	Total 2017 Absorption	Total 2016
Redmond	**78**	**1,523,715**	**2.9%**	**13,200**	**13,200**	**44,238**

REDMOND INDUSTRIAL Vacancy



Bend RETAIL Market | CONTINUED

97 submarket took a big hit and lost 27,428 sq. ft. with the closure of the 19,900 sq. ft. Erickson's grocery store on NE Greenwood Ave. and the 7,528 sq. ft. Family Christian Bookstore on SE 3rd St., resulting in a vacancy rise from 3.3% to 7.3%. The Old Mill District gained some ground when Athleta, a women's active wear store owned by Gap, signed a lease for 3,558 sq. ft. in the former Orvis building, lowering the vacancy rate from 4.6% to 3.0%. And downtown saw a slight rise in their previously fully occupied submarket when a 2,114 sq. ft. vacancy popped up in the St. Clair Place building on the corner of Bond and Minnesota, resulting in a 0.5% vacancy rate.

There is currently 142,868 sq. ft. available for lease city-wide. For comparison, that is about the size of an average Costco, according to their website, and reveals a very healthy retail market. In Q2 2009, for example, the vacancy rate was 13.2%, with nearly 574,000 sq. ft. of retail space available for lease, compared with this quarter's 3.2%, the lowest rate we have recorded since we began tracking retail vacancies in 2008.

Notable TRANSACTIONS

Compass Commercial Real Estate Services negotiated the following notable transactions in the first quarter of 2017. 65 transactions (10 sales and 55 leases) were closed totaling $19.5 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	63830 Clausen Dr., Bend	26,325 SF / 1.97 acres	$2,037,000	Dan Kemp & Peter May / Seller
Retail	205 NW Franklin Ave., Bend	2,245 SF / 0.37 acres	$715,000	Gardner Williams / Seller; Terry O'Neil & Ron Ross / Buyer
Commercial Land	SWC of NW Lolo Dr. and NW York Dr., Bend	0.90 acres	$535,000	Erich Schultz & Jay Lyons / Seller
Industrial Land	2765 NW Lolo Dr., Bend	1.13 acres	$490,390	Erich Schultz & Jay Lyons / Seller; Howard Friedman / Buyer
Industrial	51530 Russell Rd., Bend	14,400 SF / 2.07 acres	$480,000	Ron Ross / Seller

LEASES

TYPE	PROPERTY	SF LEASED	LESSEE	COMPASS COMMERCIAL REPRESENTED
Office	721 Industrial Way, Bend	30,154 SF	Undisclosed	Erich Schultz & Jay Lyons / Landlord; Gardner Williams / Tenant
Industrial	1015 SW Emkay Dr., Bend	16,114 SF	Grace Bio-Labs	Howard Friedman & Ron Ross / Landlord & Tenant
Office	150 NW Pacific Park Ln., Bend	5,197 SF	Parametrix Inc.	Erich Schultz & Jay Lyons / Landlord & Tenant
Industrial	20671 High Desert Ln., Bend	7,880 SF	Curtis Restaurant Equipment	Howard Friedman, Erich Schultz & Jay Lyons / Landlord; Russell Huntamer / Tenant
Office	1133 NW Wall St., Bend	2,596 SF	Premier Property Group	Gardner Williams / Tenant

COMPASS POINTS

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

COMPASSCOMMERCIAL.COM/POINTS

CONTACT

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

COMPASS Commercial REAL ESTATE SERVICES