



## 2017 SUMMARY / 2018 FORECAST

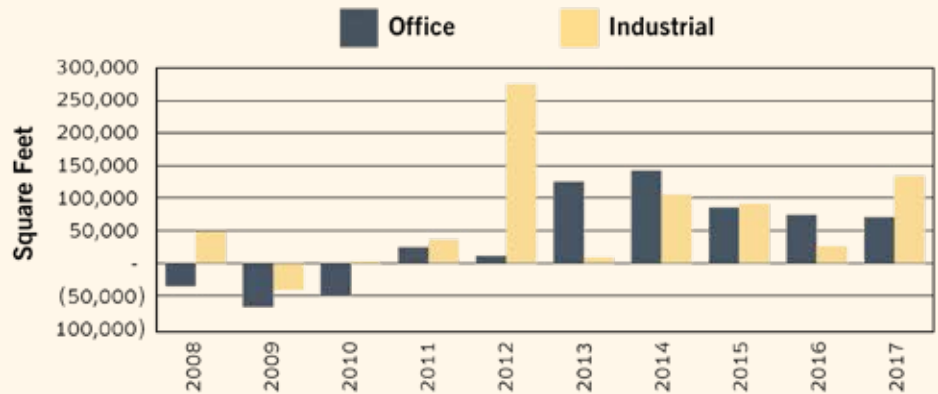
By Howard Friedman, CCIM

We always like to check our predictions from the previous year. At the end of 2016 we delivered the following forecast:

Our national source, ITR Economics stated that "...the (national) outlook is good for 2017. 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."

We added this for the local forecast: "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

### BEND OFFICE & INDUSTRIAL ABSORPTION BY YEAR



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 and beyond."

As you will read, our prediction was right on target, and we feel the trend will continue into 2018.

### SUMMARIZING THE 2017 MARKET

For the year, the Bend office market

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## Bend OFFICE Market

Compass Commercial surveyed 206 buildings for the fourth quarter 2017 office report. The buildings in the sample totaled just over 2.54 million square feet. Positive net absorption of 26,155 sq. ft. was recorded during the quarter. However, the vacancy rate rose slightly to 3.61%, up from 2.64% in Q3 due to the addition of two new buildings to the survey. There is now 91,797 sq. ft. available for lease, up from 65,540 sq. ft. in the third quarter.

All three submarkets recorded positive net absorption in Q3. Downtown logged 3,996 sq. ft. of net leasing, lowering the vacancy rate from 4.51% in Q3 2017 to 4.12% in Q4. The 7,002 sq. ft. Kate's Place building at 225 NW Franklin Ave. was added back on to the survey following the reconstruction of the historic former home of

Klondike Kate's after the September 2016 fire that destroyed it. There is still 2,412 sq. ft. available there. Three buildings recorded positive absorption

and one saw negative absorption in the submarket, with the Pioneer Park building at the corner of Wall St. and Portland Ave. leading the way with

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▲ ABSORPTION ▲ VACANCY

BEND OFFICE Net Absorption					BLDGS. OVER 3,000 SQ. FT.	
Market Area	No. Bldgs.	Total Sq. Ft.	Vac. % 4th Qtr.	4th Qtr. Absorption	Total 2017 Absorption	Total 2016
Downtown	49	490,261	4.1%	3,996	1,847	24,027
Hwy 97/3rd St.	55	676,837	1.9%	2,656	24,753	37,115
West Side	102	1,373,261	4.3%	19,503	45,183	13,908
<b>TOTAL</b>	<b>206</b>	<b>2,540,359</b>	<b>3.6%</b>	<b>26,155</b>	<b>71,783</b>	<b>75,050</b>



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Bend OFFICE Market | CONTINUED

4,881 sq. ft. of positive net absorption. There is currently 20,213 sq. ft. of available office space in the downtown area.

The Highway 97/3rd St. corridor recorded 2,656 sq. ft. of positive absorption in the fourth quarter. Three buildings reported positive change and two were negative, lowering the vacancy rate from 2.25% to just 1.86%. No leases over 2,300 sq. ft. were recorded in Q4. A total of 12,577 sq. ft. is now for lease in that submarket.

The west side submarket recorded positive absorption of 19,503 sq. ft., but the vacancy rate rose from 2.15% to 4.3%. This was the result of the Crane Shed Commons office building being added to the survey, increasing the 1,373,261 sq. ft. submarket by 50,000 sq. ft. Sony Interactive Entertainment, a game design division of the corporate giant is anchoring that building with over 33,000 sq. ft. leased, leaving an additional 16,194 sq. ft. available. Five buildings reported positive gains in absorption and eight lost occupancy. Besides Crane Shed Commons, the second largest lease was in the Deschutes Ridge Business Park, where Academy Mortgage leased 3,084 sq. ft. in the newly remodeled 1001 Disk Dr. building. The largest vacancy was at 395 SW Bluff Dr., where Sony vacated 9,709 sq. ft. to make their move. Currently there is 59,007 sq. ft. available on the west side, up from 28,510 sq. ft. in Q3.

Bend RETAIL Market

Compass Commercial surveyed 252 retail buildings totaling 4,461,445 square feet for the fourth quarter of 2017. The citywide vacancy rate rose from 2.6% at the end of Q3 to 2.8% at the end of Q4. A total of 11,470 sq. ft. of negative net absorption took place.

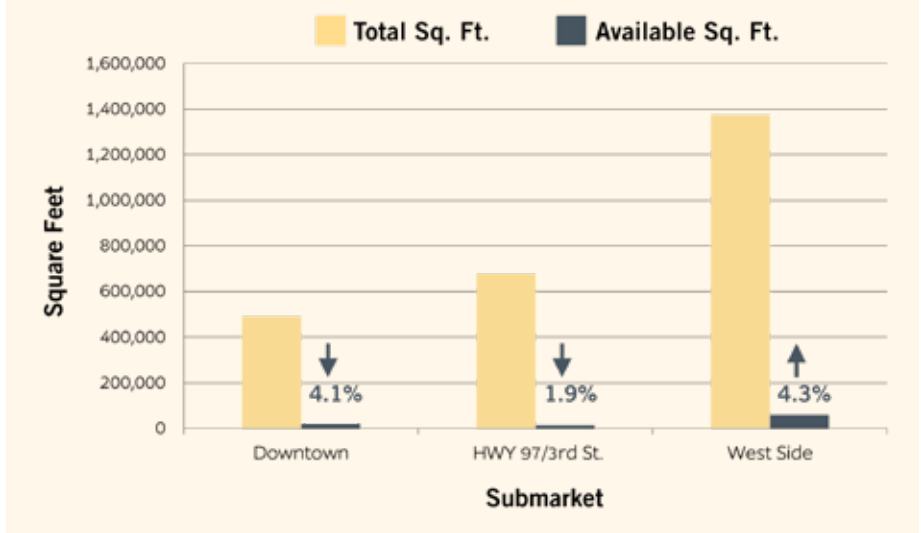
Five out of the seven retail submarkets in Bend recorded negative net absorption, one was positive and one remained the same.

The south 97 submarket saw the greatest loss, recording 5,934 sq. ft. of negative net absorption. New West Plaza and Reed Lane Plaza were two of the four properties that lost vacancy, albeit just 2,700 sq. ft. and 1,530 sq. ft. respectively, and there were no new leases signed in the area. The south 97 submarket finished at 3.7% vacancy, up from the previous quarter's 3.0%.

The central 97 submarket also lost ground, recording 4,923 sq. ft. of net negative absorption, with two buildings losing occupancy and no new leases recorded. The vacancy rate moved from 1.9% to 2.7% as a result.

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BEND OFFICE Vacancy



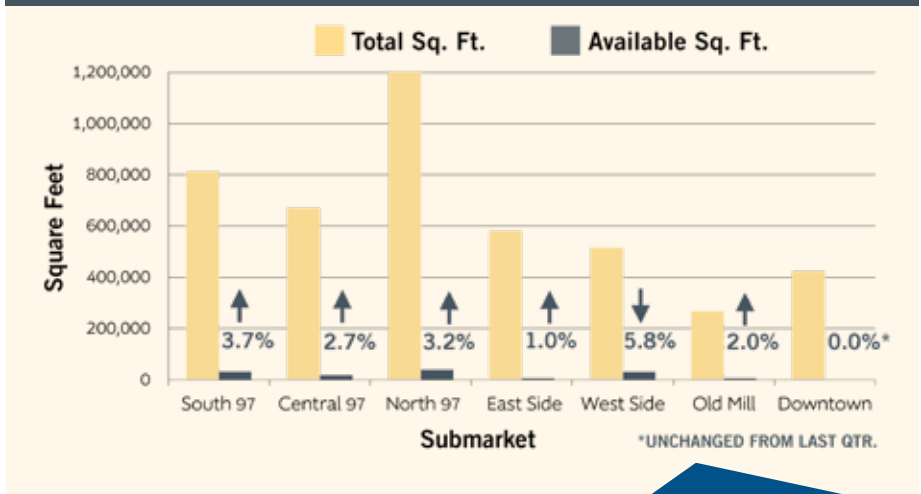
ABSORPTION
 VACANCY

BEND RETAIL Net Absorption

BLDGS. OVER 3,000 SQ. FT.

Market Area	No. Bldgs.	Total Sq. Ft.	Vac. % 4th Qtr.	4th Qtr. Absorption	Total 2017 Absorption	Total 2016
South 97	19	810,744	3.7%	(5,934)	6,396	900
Central 97	41	669,172	2.7%	(4,923)	4,700	(6,510)
North 97	28	1,200,620	3.2%	(300)	3,744	14,605
East Side	28	578,336	1.0%	(559)	4,100	18,898
West Side	53	514,732	5.8%	2,377	(22,312)	6,155
Old Mill District	19	265,502	2.0%	(2,131)	5,311	3,837
Downtown	64	422,339	0.0%	0	0	13,046
<b>TOTAL</b>	<b>252</b>	<b>4,461,445</b>	<b>2.8%</b>	<b>(11,470)</b>	<b>1,939</b>	<b>50,931</b>

BEND RETAIL Vacancy



# INDUSTRIAL Market

## BEND

Compass Commercial surveyed 305 buildings for the fourth quarter industrial report, totaling over 4,265,000 square feet. The industrial market gained another 12,736 sq. ft. of positive net absorption in Q4, and the vacancy rate dropped from Q3's 3.56% to 3.26%. There is now 139,208 sq. ft. of industrial space available for lease in Bend, compared to 151,944 in Q3. Two of the four submarkets again recorded positive net absorption, and two remained unchanged and are fully leased.

The northeast and southeast submarkets recorded 6,674 and 6,062 sq. ft. of positive absorption in Q4, respectively, and the vacancy rate is now 5.5% and 1.3%. That is a drop in the northeast market from 5.9% and in the southeast market from 1.7% in Q3. Two buildings recorded positive results and one was negative in the northeast submarket, while three buildings recorded positive results, and just one was negative in southeast.

The central and west side submarkets remained fully leased, with vacancy rates standing at 0.0%.

## REDMOND

Although there was positive absorption in the Q4 Redmond Industrial market, the vacancy rate rose from 2.2% to 3.5%, due to the addition to the survey of a vacant 22,512 square foot building on Jackpine Ct. Redmond's industrial sector now has 1,544,227 sq. ft. of total industrial space, with 54,559 of that available for lease in the 79 building industrial market. Net positive absorption of 952 sq. ft. was recorded in Q4.

Two buildings recording positive absorption and three were negative. The Dimeo Industrial Plaza recorded the largest absorption with 9,000 sq. ft. leased, while the largest loss was at Aero Park West on Pumice Ave., which dropped 4,500 sq. ft.

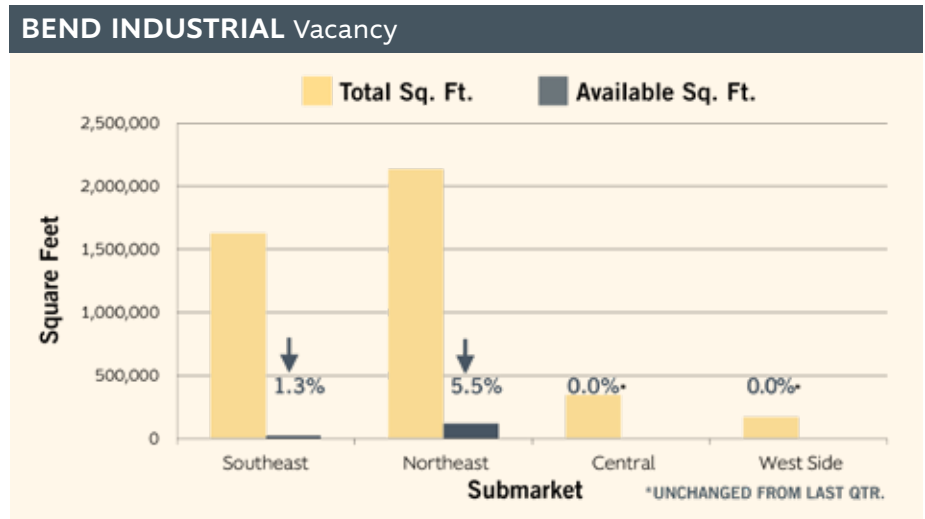


ABSORPTION



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 2017 Absorption	Total 2016
Southeast	136	1,623,511	1.3%	6,062	(160)	49,943
Northeast	125	2,131,766	5.5%	6,674	135,537	(13,317)
Central	35	342,037	0.0%	0	0	1,340
West Side	9	168,240	0.0%	0	0	0
<b>TOTAL</b>	<b>305</b>	<b>4,265,554</b>	<b>3.3%</b>	<b>12,736</b>	<b>135,377</b>	<b>37,966</b>

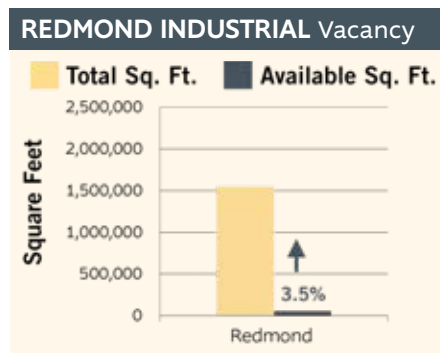


ABSORPTION



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 2017 Absorption	Total 2016
Redmond	79	1,544,227	3.5%	952	24,588	44,238



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showed improvement. At the end of 2016, the vacancy rate was 4.61%; at the end of 2017 it was 3.61%. Lease rates held steady in the office market, with spaces being leased for \$1.50 - \$2.00 per square foot per month triple net (NNN) for existing units (depending on location and quality), and \$2.00 - \$2.35 for newly built office space. The office vacancy rate has now dropped seven years in a row. Dating back to the end of 2010, when vacancies were 22.1% of the total market, there was over 526,000 sq. ft. of office space available for lease, while at the end of 2017 there was just under 92,000 sq. ft.

**Retail** vacancies in Bend also dropped from 3.9% at the end of 2016 to just 2.8% at the end of 2017, having dipped even further in Q3 to 2.6%. Once again this is the lowest rate we have reported since beginning our retail survey in 2008. Rental rates held strong in 2017 due to limited supply, with rents in the \$1.50 - \$2.00 NNN per sq. ft. range, and restaurants and new retail projects climbed further in the \$2.00 - \$2.75 range or higher.

Bend's overall **industrial** vacancy rate dropped again for the fourth year in a row, from 4.9% to 3.26%. Rental rates rose to between \$0.65 and \$0.85 per sq. ft. NNN in 2017, and some higher quality spaces commanded as much as \$1.25 per sq. ft.

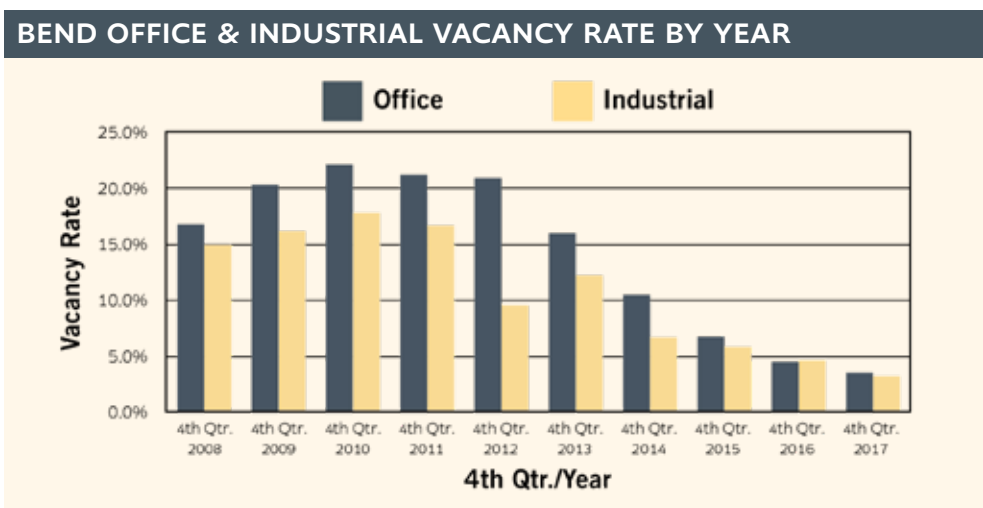
In Redmond, **industrial** rates dropped again for the sixth year in a row from 3.7% at the end of 2016 to 3.5% at the close of 2017. In 2011, the vacancy rate was 27.8%!

**THE DEMAND FOR SUPPLY**

In the Bend **office** market, 71,783 sq. ft. of space was absorbed in 2017, compared with 75,050 sq. ft. in 2016. There is now just 91,797 sq. ft. available out of a 2.5 million sq. ft. market. Using market absorption calculation methods, this represents just over a one and a quarter years' supply of office space.

In the **retail** sector only 1,939 sq. ft. of positive net absorption was recorded in 2017, due to several large vacancies occurring, notably the Ray's Food Place building on Century Dr. and the Erickson's Thriftway on Greenwood Ave. This compared with 2016's total of 50,931 sq. ft. of positive absorption. There is presently 126,685 sq. ft. available in the Bend retail market.

The **industrial** market recorded 135,377



sq. ft. of positive net absorption in 2017, compared with 37,966 sq. ft. in 2016. There is currently 139,208 total sq. ft. available in the Bend industrial market, also representing just over a year's supply at current absorption rates.

And in Redmond 24,588 sq. ft. of **industrial** space was absorbed in 2017, compared with 44,238 sq. ft. of positive absorption in 2016. There is currently 54,559 sq. ft. of industrial space available in Redmond, vastly different than the end of 2011, when 408,836 sq. ft. was vacant.

**WHAT'S AHEAD?**

All the indicators we see point to another strong year in the commercial real estate market, both nationally and locally. Although 4th quarter economic reports from the Commerce Department recently announced a growth rate in 2017 of 2.6%, down from earlier predictions of 3.2%, it continued the trend of one of the longest periods of economic expansion in U.S. history.

**OFFICE:** Rental rates will remain strong as supply is short in Bend. This mirrors national trends as the economy continues its slow but steady growth, but with land prices reaching all-time highs locally, new projects will be difficult for developers to pencil. Coupled with rising construction and labor costs, this will continue to squeeze the office market's supply. Projects like the Crane Shed Commons and Deschutes Ridge Business Park will continue to attract new and expanding users, and smaller spaces that come on the market will be quickly snapped up due to short supply.

**RETAIL:** Despite the regular announcements

of store closings in the U.S., Central Oregon's retail market continues its strong growth. The Robal Road Village shopping center and Box Factory are filling up quickly, the Erickson's site has backfilled with a Planet Fitness chain, and preliminary plans for the former west side Ray's Food Place include up to 20,000 sq. ft. of retail and over 200 apartments on five stories above.

**INDUSTRIAL:** Record breaking rents and a low supply will continue to offer landlords excellent values on their properties. Many will take advantage of low cap rates and high occupancy to dispose of properties in 2018. Thankfully, the IRC Section 1031 Exchange program was left alone by the current administration after threats of dismantlement, so sellers and buyers will be able to continue to take advantage of the tax deferral program.

**MULTI-FAMILY:** Central Oregon has witnessed a huge wave of multi-family development in the past couple years, and with the new tax changes, many home buyers may abandon the pursuit of home ownership and continue to rent, further increasing the demand for multi-family housing. A recent national study showed that 2018 may see the highest multi-family development since 1980. Expect to see more projects come out of the ground in Bend and Central Oregon.

In short, Central Oregon is open for business in the commercial real estate market. Call one of our team members to take advantage of the current conditions.

Bend **RETAIL** Market | CONTINUED FROM PAGE 2

The east side and north 97 submarkets each slightly lost ground, recording negative net absorption of 559 sq. ft. and 300 sq. ft. in those areas.

The west side submarket remains the highest vacancy rate city-wide at 5.8%, but was the only positive gain in the retail sector, recording 2,377 sq. ft. of net positive absorption. Two buildings

recorded positive absorption, at the Box Factory and Cascade Lakes Plaza, and an in-line space at 133 SW Century Dr. recorded the only loss in the submarket, of 1,980 sq. ft.

There was one vacancy in the Old Mill District due to the Pure Barre fitness studio's closure, so the 2,131 sq. ft. space rose the vacancy rate from 1.2% to 2.0%.

There is now 5,270 sq. ft. available.

The Downtown submarket remained fully leased and recorded a 0.0% vacancy rate.

There is currently 126,685 sq. ft. available for lease city-wide, up from 115,215 sq. ft. in Q3. This is the first rise in vacancy since the second quarter of 2015, but by no means of any concern, as it still represents a very healthy retail economy.

## Notable TRANSACTIONS

Compass Commercial Real Estate Services negotiated the following notable transactions in the fourth quarter of 2017. 89 transactions (16 sales and 73 leases) were closed totaling \$26.8 million in consideration. For more details about our monthly transactions, please visit [Compasscommercial.com/Transactions](http://Compasscommercial.com/Transactions).

### SALES

TYPE	PROPERTY	BUILDING/LOT SIZE	PRICE	COMPASS COMMERCIAL REPRESENTED
Land	20312 Halfway Rd., Bend	5.47 acres	\$1,800,000	Peter May & Russell Huntamer / Seller
Retail	211 N. 8th St., Klamath Falls	23,060 SF / 1.43 acres	\$1,550,000	Joel Thomas & Russell Huntamer / Seller
Industrial	32941 E. Saginaw Rd., Cottage Grove	112,000 SF / 37.38 acres	\$1,200,000	Pat Kesgard & Kerri Standerwick / Seller
Restaurant	64619 Highway 20, Tumalo	9,600 SF / 0.55 acre	Price Undisclosed	Pat Kesgard & Kerri Standerwick / Seller
Office	390 NE Emerson Ave., Bend	4,864 SF / 0.34 acre	\$1,100,000	Erich Schultz, Jay Lyons & Grant Schultz / Seller & Buyer

### LEASES

TYPE	PROPERTY	SF LEASED	LESSEE	COMPASS COMMERCIAL REPRESENTED
Industrial	875 NE Kingwood Ave., Redmond	25,115 SF	X Factor Machine & Design Inc.	Dan Kemp & Russell Huntamer / Landlord
Medical	SWC of Shevlin Park Rd. & NW Crossing Dr., Bend	2,979 SF	Dr. Blake Drew	Jay Lyons / Tenant   Erich Schultz, Bruce Churchill & Grant Schultz / Landlord
Land	1424 NE Cushing Dr., Bend	1+ acre	Eric Kramer / On Tap	Joel Thomas / Tenant
Office	650 SW Bond St., Bend	11,629 SF / 1.60 acre	Cascade Sotheby's International Realty	Erich Schultz, Jay Lyons & Grant Schultz / Tenant
Medical	1239 NE Medical Center Dr., Bend	3,411 SF	Undisclosed Medical Provider	Peter May & Dan Kemp / Tenant

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