

CHALLENGES OF CONSTRUCTION IN A HEATED BUILDING ENVIRONMENT

By Howard Friedman, CCIM

While driving around the southeast industrial area to survey buildings for our *Compass Points* newsletter, I noticed an unusual amount of 'Now Hiring' signs posted in front of businesses in the area. It should come as no surprise to locals that the construction industry and its related trades are in a very dynamic and busy time. But it is also a very challenging task for the industry to keep projects on time and on budget.

At the recent Central Oregon Builders Association breakfast, SunWest Builders President Steve Buettner discussed the labor shortage in the area. He talked about the need to pay his subcontractors well and on time, a sentiment echoed by Sage Builders President Mark Huffman. Both Buettner and Huffman are involved with the Bethlehem Inn homeless shelter's two-phase project currently underway on north Highway 97 in Bend to completely rebuild the facilities. Huffman serves as the Inn's "owner's representative," a volunteer position designed to be the liaison between general contractor SunWest and the Inn.

"It is a challenge to find and keep good sub[contractor]s," Huffman noted at a recent OAC (owner, architect, contractor) meeting at the Inn. "And with construction material and labor costs on the rise, it presents a real challenge for owners to stay within their budget."

Steve Hendley, Managing Partner of Compass Commercial Construction Services (CCCS) added that it is important to have an identified group of subs loyal to the team, as the competition is fierce for quality workers. "To foster responsiveness, we make sure that our subs are paid in a timely manner, often well in advance of our billing cycle. This means we pay our subs first then are reimbursed by the owner. When subcontractors perform for us in this environment, we feel a responsibility to provide excellent service to them in return, similar to how we treat our clients. It all goes back to the company's core values." Dale Hendley, project manager with CCCS, says the labor market is so tight "Contractors are pulling subs from as far away as Seattle who are

looking for a different environment to work in."

Bethlehem Inn's rebuild has been a smooth project, according to Executive Director Gwenn Wysling. "Even in this highly competitive construction market, SunWest has stayed extremely close to their time schedule and budget, even taking into account the rising costs of material and labor over the last three years of planning and building. We expect to get the keys on June 11th to the first building, which will house ten families, (double our present capacity), our service hub and support service, and for the first time ever, a commercial kitchen!" So far, the community has helped to raise \$7.5 of the \$9 million dollar campaign. With this great community support, Phase 2 will start soon and is scheduled to be completed at this time next year, expanding services for single adults experiencing homelessness.

Howard Friedman is a partner and principal broker at Compass Commercial and currently serves as vice-president of the Bethlehem Inn board of directors.

Bend OFFICE Market

Compass Commercial surveyed 207 buildings for the first quarter 2018 office report. The buildings in the sample totaled just over 2.55 million square feet. Negative net absorption of 11,410 sq. ft. was recorded during the quarter. The vacancy rate rose as a result from 3.61% in Q4 '17 to 4.22% in Q1 '18. There is now 107,707 sq. ft. available for lease, up from 91,797 sq. ft. in the previous quarter.

Two submarkets recorded negative net absorption and one recorded positive in Q1. Downtown was the only gainer, recording 7,398 sq. ft. of positive net absorption, lowering the vacancy rate from 4.12% to 2.61% in Q1. Seven buildings reported gains and one reported a loss in the Downtown submarket. There is now just 12,815 sq. ft. for lease in that area.

The Highway 97/3rd St. corridor recorded 4,569 sq. ft. of negative absorption in the first quarter. Two buildings reported positive change

while four were negative during the quarter, raising the vacancy rate from 1.86% to 3.14%. No significant leases over 2,500 sq. ft. were recorded



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BEND OFFICE Net Absorption					BLDGS. OVER 3,000 SQ. FT.	
Market Area	No. Bldgs.	Total Sq. Ft.	Vac. % 1st Qtr.	1st Qtr. Absorption	Total 2018 Absorption	Total 2017
Downtown	49	490,261	2.6%	7,398	7,398	1,847
Hwy 97/3rd St.	56	688,917	3.1%	(4,569)	(4,569)	24,753
West Side	102	1,373,261	5.3%	(14,239)	(14,239)	45,183
TOTAL	207	2,552,439	4.2%	(11,410)	(11,410)	71,783



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Bend OFFICE Market | CONTINUED

negative or positive in Q1. A total of 21,646 sq. ft. is now for lease in that submarket, up from 12,577 sq. ft. in Q4.

The west side submarket also recorded negative absorption, losing 14,239 sq. ft., resulting in a vacancy rate rise from 4.3% to 5.3%. The largest loss was at 345 SW Cyber Dr., former partial home of Grace Bio-Labs that relocated into the 1015 SW Emkay Dr. building late last year. There is now 3,990 sq. ft. available in that building. Two buildings reported positive gains and six lost occupancy in the quarter. The Mill A building on Industrial Way welcomed Exit Realty in the quarter and a building at 745 Mt. Washington Dr. also became fully occupied with a 2,080 sq. ft. lease recorded in Q1. Currently there is 73,246 sq. ft. available on the west side, in the 1,373,261 sq. ft. submarket.

Bend RETAIL Market

Compass Commercial surveyed 253 retail buildings totaling 4,471,397 square feet for the first quarter of 2018. The citywide vacancy rate rose again for the third straight quarter from 2.8% at the end of Q4 to 3.2% at the end of Q1 '18. A total of 7,284 sq. ft. of negative net absorption took place in the first quarter of the year.

Three out of the seven retail submarkets in Bend recorded negative net absorption, two were positive and two remained the same.

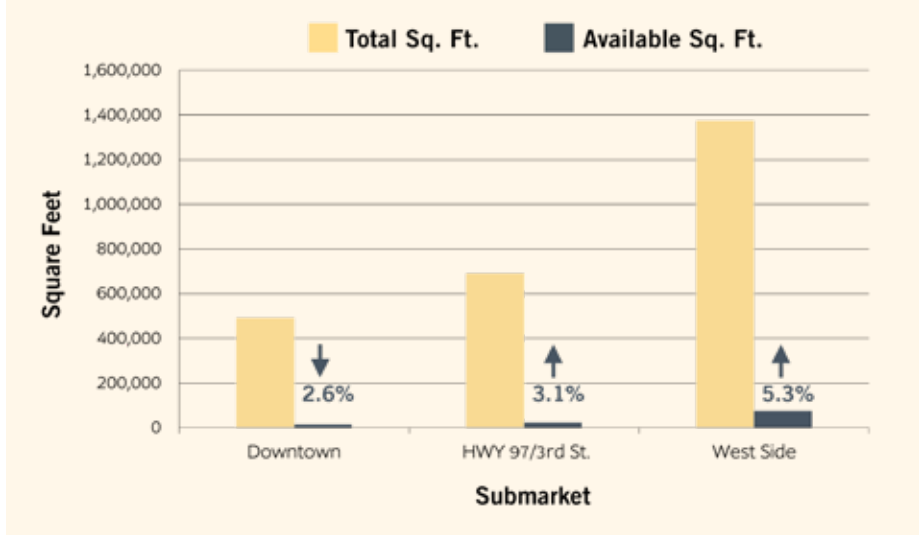
The south 97 submarket recorded 3,420 sq. ft. of negative net absorption in the quarter. Pioneer Crossing lost 6,214 of leased space and Bend Factory Stores recorded 2,592 sq. ft. of negative absorption, while New West Plaza picked up 3,300 sq. ft. of positive absorption and Brookwood Meadow Plaza also gained 2,086 sq. ft. Those four transactions were the only movement in that area. The south Hwy 97 submarket finished at 5.3% vacancy, up from the previous quarter's 3.7%.

The central 97 submarket also lost ground, recording 4,285 sq. ft. of net negative absorption, with two buildings losing occupancy and one building gaining. The vacancy rate in that area rose from 2.7% to 3.3% as a result.

The north 97 submarket saw no activity in the quarter, remaining at a 3.2% vacancy rate with 38,000 sq. ft. available, while the east side submarket lost ground, recording 1,942 sq. ft. of negative net absorption in Q1, moving the vacancy rate from 1.0% to 1.3%. Two buildings

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BEND OFFICE Vacancy



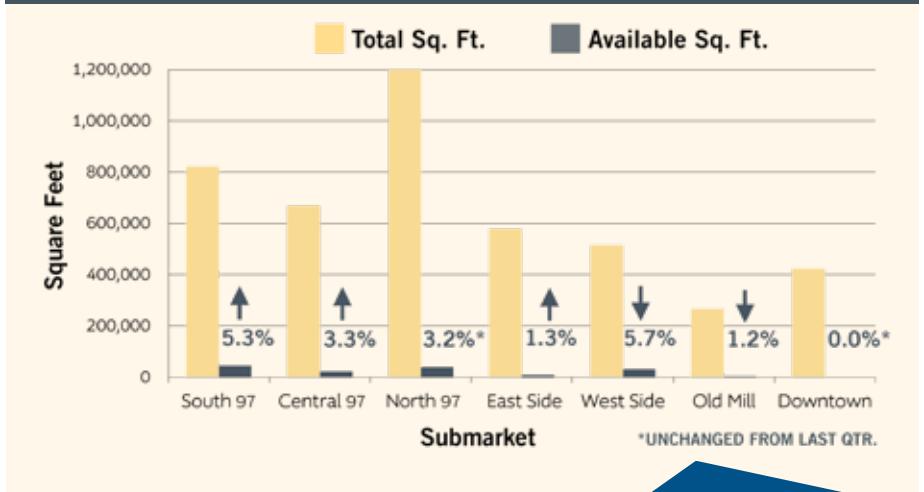
ABSORPTION VACANCY

BEND RETAIL Net Absorption

BLDGS. OVER 3,000 SQ. FT.

Market Area	No. Bldgs.	Total Sq. Ft.	Vac. % 1st Qtr.	1st Qtr. Absorption	Total 2018 Absorption	Total 2017
South 97	20	820,696	5.3%	(3,420)	(3,420)	6,396
Central 97	41	669,172	3.3%	(4,285)	(4,285)	4,700
North 97	28	1,200,620	3.2%	0	0	3,744
East Side	28	578,336	1.3%	(1,942)	(1,942)	4,100
West Side	53	514,732	5.7%	232	232	(22,312)
Old Mill District	19	265,502	1.2%	2,131	2,131	5,311
Downtown	64	422,339	0.0%	0	0	0
TOTAL	253	4,471,397	3.2%	(7,284)	(7,284)	1,939

BEND RETAIL Vacancy



INDUSTRIAL Market

BEND

Compass Commercial surveyed 308 buildings for the first quarter industrial report, totaling over 4,286,000 square feet. The industrial market gained another 82,218 sq. ft. of positive net absorption in Q1, and the vacancy rate dropped for the fourth quarter in a row, from Q4's 3.26% to just 1.82%, the lowest industrial vacancy rate we have recorded since 1994! There is now just 77,959 sq. ft. of industrial space available for lease in Bend, compared to 139,208 sq. ft. in Q4. Two of the four submarkets again recorded positive net absorption, and two remained unchanged and fully leased.

The northeast and southeast submarkets recorded 6,391 and a whopping 75,827 sq. ft. of positive absorption in Q1, respectively. The vacancy rate is now 2.2% in the southeast and 2.0% in the northeast submarket. Three buildings recorded positive results and one was negative in each of the southeast and northeast submarkets in the quarter. The reason for the substantial absorption in the northeast submarket was due to two large leases recorded in that area. 22,571 sq. ft. was absorbed in the Murray Road Industrial Park, the successful revamp of the former Fuqua Homes manufacturing site, and 55,000 sq. ft. was leased to the Bend La Pine School District in one of the former Advanced Energy buildings on Brinson Blvd. for the new Realms High School and Skyline High School.

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

REDMOND

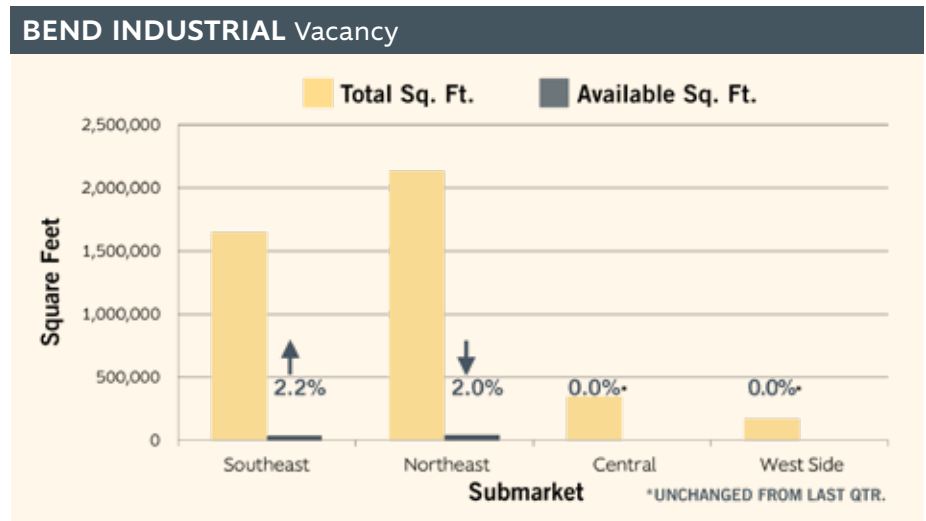
The Redmond Industrial market tabbed another drop in the vacancy rate from 3.5% to 2.7% in the first quarter of 2018. 12,660 square feet of net positive absorption was recorded and there is now 41,899 sq. ft. available in the 79 building, 1,544,227 sq. ft. industrial market.

Three buildings recording positive absorption, and just one was negative. The Afatatti Industrial Park on SW 2nd Ct. recorded the largest absorption with 6,500 sq. ft. leased, while the only loss of 1,800 sq. ft. was at the Redmond Business Park Condos at Timber Ave. and 1st St.



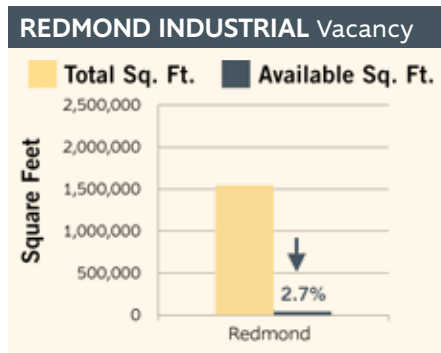
ABSORPTION VACANCY

BEND INDUSTRIAL Net Absorption						BLDGS. OVER 3,000 SQ. FT.
Market Area	No. Bldgs.	Total Sq. Ft.	Vac. % 1st Qtr.	1st Qtr. Absorption	Total 2018 Absorption	Total 2017
Southeast	139	1,644,480	2.2%	6,391	6,391	(160)
Northeast	125	2,131,766	2.0%	75,827	75,827	135,537
Central	35	342,037	0.0%	0	0	0
West Side	9	168,240	0.0%	0	0	0
TOTAL	308	4,286,523	1.8%	82,218	82,218	135,377



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 2018 Absorption	Total 2017
Redmond	79	1,544,227	2.7%	12,660	12,660	24,588



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

lost vacancy and one recorded positive results in the east submarket.

The west side submarket recorded 232 sq. ft. of net positive absorption in the quarter. Only two buildings saw any changes, with the Box Factory gaining 3,732 sq. ft. and College Park Plaza losing 3,500 sq. ft. of absorption. The resulting vacancy rate dropped slightly from 5.8% to 5.7%,

remaining the highest vacancy rate city-wide, with just under 30,000 sq. ft. available for lease.

The Old Mill District has one space for lease in one-third of the former Orvis building, leaving the vacancy rate at 1.2% with 3,139 sq. ft. available in that submarket.

And the Downtown submarket

remained fully leased and recorded a 0.0% vacancy rate.

There is currently 143,921 sq. ft. available for lease city-wide, up from 126,685 sq. ft. in Q4 of 2017. At the combined city-wide vacancy rate of just 3.2%, our retail market remains very strong, with more retail coming online in the next several quarters.

Notable **TRANSACTIONS**

Compass Commercial Real Estate Services negotiated the following notable transactions in the first quarter of 2018. 95 transactions (24 sales and 71 leases) were closed totaling \$36 million in consideration. For more details about our monthly transactions, please visit Compasscommercial.com/Transactions.

SALES

TYPE	PROPERTY	BUILDING/LOT SIZE	PRICE	COMPASS COMMERCIAL REPRESENTED
Multifamily	155 NE Craven Rd., Bend	48-units / 5.38 acres	\$7,250,000	Dan Kemp, Jay Lyons & Grant Schultz / Seller
Office	2330 NE Division St., Bend	14,336 SF / 1.02 acres	Price Undisclosed	Joel Thomas, Pat Kesgard, Kerri Standerwick & Luke Ross / Seller
Resort Business	55885 Cascade Lakes Hwy, Bend	7.99 acres	Price Undisclosed	Dan Kemp & Graham Dent / Seller
Industrial	20514, 20518 & 20534 Murray Rd., Bend	30,100 SF / 1.76 acres	Price Undisclosed	Pat Kesgard & Kerri Standerwick / Seller
Office	300 SE Reed Market Rd., Bend	9,242 SF / 0.67 acre	\$1,600,000	Dan Kemp & Terry O'Neil / Seller

LEASES

TYPE	PROPERTY	SF LEASED	LESSEE	COMPASS COMMERCIAL REPRESENTED
Medical	3818 SW 21st Pl., Redmond	3,519 SF	Deschutes Pediatric Dentistry	Ron Ross & Terry O'Neil / Tenant Bruce Churchill & Dan Kemp / Landlord
Industrial	20495 Murray Rd., Bend	22,571 SF	Arclight Dynamics	Dan Kemp & Bruce Churchill / Landlord
Retail	555 NW Arizona Ave., Bend	2,906 SF	River Pig Saloon	Russell Huntamer, Jay Lyons & Grant Schultz / Tenant & Landlord
Industrial	62885 Mercury Pl., Bend	15,000 SF	JH Cosmetics, Inc.	Bruce Churchill & Dan Kemp / Landlord
Industrial	63052 Layton Ave., Bend	2,676 SF	Premier Printing Solutions	Jay Lyons & Grant Schultz / Landlord