

2018 SUMMARY / 2019 FORECAST

By Howard Friedman, CCIM

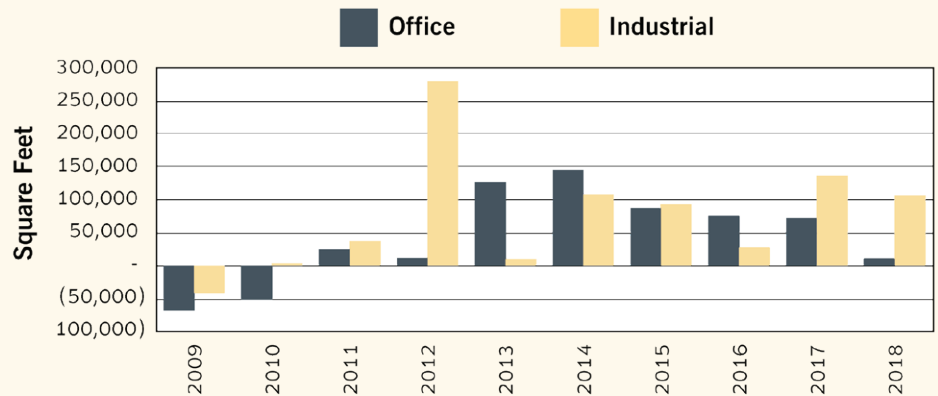
It's that time of year to take a look back at how we forecast the previous year.

At the end of 2017 we delivered the following predictions:

"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. In short, Central Oregon is open for business in the commercial real estate market."

Our prediction proved to be true. Compass Commercial had our best year ever, thanks to our valued clients. We foresee continued growth in Central Oregon in 2019, but are cautious beyond that, taking heed of global predictions beyond this year.

BEND OFFICE & INDUSTRIAL ABSORPTION BY YEAR



SUMMARIZING THE 2018 MARKET

Bend's **office** market showed improvement in 2018. At the end of 2017, the vacancy rate stood at 3.61%, whereas at the end of 2018 it was 3.40%. Lease rates held fairly 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 (and depending on location and quality) and \$2.00-\$2.35 for newly built office space. The vacancy rate has now dropped eight years in a row in the office market, dating back to the end of 2010, when vacancies

CONTINUED ON PAGE 4 ▶

Bend OFFICE Market

Compass Commercial surveyed 206 buildings for the fourth quarter 2018 office report. The buildings in the sample totaled over 2.56 million square feet. Positive net absorption of 7,151 sq. ft. was recorded during the quarter. The vacancy rate moved to 3.4%, down from 3.65% in Q3. There is now 87,331 sq. ft. available for lease, down from 94,671 sq. ft. in the third quarter.

All three submarkets recorded positive net absorption in Q4. Downtown logged 980 sq. ft. of net leasing, lowering the vacancy rate from 1.86% in Q3 to just 1.66% in Q4. Once again, this represents the lowest downtown vacancy rate since we began our surveys in 1993, and significantly down from the peak of 18.8% vacancy during the throes of the recession in Q2 of 2013, when there was 93,438 sq. ft. of available

office space in the submarket! One building recorded positive absorption and two saw negative absorption in the submarket, with the Pioneer Park

building at the corner of Wall St. and Portland Ave. as the only gainer with 2,913 sq. ft. of positive net absorption. There is currently 8,115 sq. ft. of

CONTINUED ON PAGE 2 ▶



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

Market Area	No. Bldgs.	Total Sq. Ft.	Vac. % 4th Qtr.	4th Qtr. Absorption	Total 2018 Absorption	Total 2017
Downtown	49	490,261	1.7%	980	12,098	1,847
Hwy 97/3rd St.	56	688,917	1.8%	2,917	4,970	24,753
West Side	101	1,390,760	4.8%	3,254	(6,481)	45,183
TOTAL	206	2,569,938	3.4%	7,151	10,587	71,783



Want CRE news delivered to your inbox?
SIGN UP TODAY: CompassCommercial.com/Subscribe

Bend OFFICE Market | CONTINUED

available office space in the downtown area.

The Highway 97/3rd St. corridor recorded 2,917 sq. ft. of positive absorption in the fourth quarter. Four buildings reported positive change and three were negative, lowering the vacancy rate from 2.18% to 1.76%, the lowest on record compared to Q4 of 2017's 1.86%, and down from the peak in Q1 of 2010, when a whopping 199,492 sq. ft. of office space was available, representing a 31.9% vacancy rate! The largest lease of 4,500 sq. ft. was recorded at 63830 Clausen Rd. and the largest vacancy of 2,912 sq. ft. occurred at the Frontage Park building on Halfway Rd. in Q4. A total of just 12,107 sq. ft. is now for lease in that submarket.

The west side submarket recorded positive absorption of 3,254 sq. ft., and the vacancy rate fell from 4.98% to 4.83%, despite the fact that four buildings reported negative net absorption and only one was positive. However, the Deschutes Ridge Business Park on Disk Dr. signed a lease totaling 10,974 sq. ft. to The Haven Coworking space in the renovated 1001 building. The largest vacancy of 3,326 sq. ft. was at Shevlin Corporate Park. Currently there is 67,109 sq. ft. available on the west side, down from 70,552 sq. ft. in Q3.

Bend RETAIL Market

Compass Commercial surveyed 254 retail buildings totaling 4,472,142 square feet for the fourth quarter of 2018. The citywide vacancy rate fell from 2.88% at the end of Q3 to 2.77% at the end of Q4. A total of 4,241 sq. ft. of positive net absorption took place.

Four out of the seven retail submarkets in Bend recorded negative net absorption, and three were positive for the quarter.

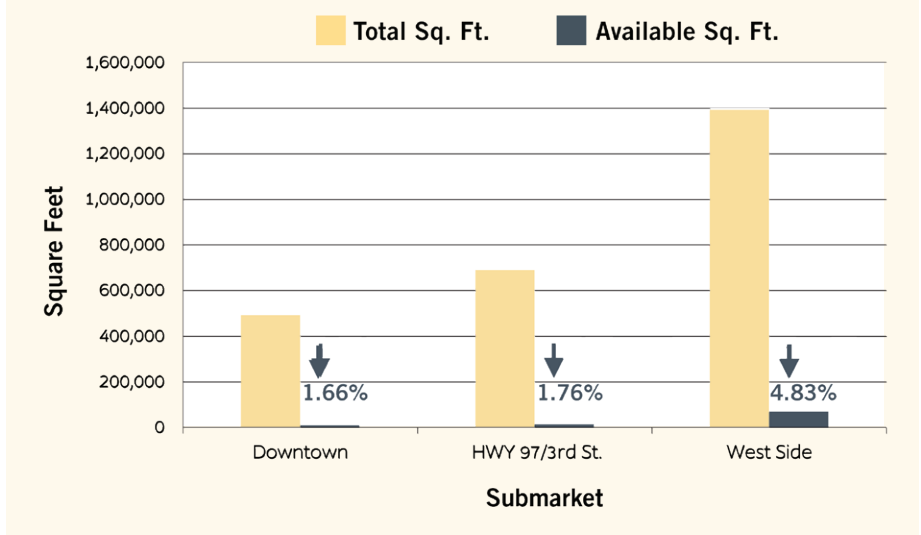
The south 97 submarket recorded 767 sq. ft. of negative net absorption. Just one location gained occupancy and one lost during the quarter. The south 97 submarket finished at 5.14% vacancy, up from the previous quarter's 5.05%.

The central 97 submarket also lost ground, recording 1,440 sq. ft. of net negative absorption, with just the Revere Center losing occupancy and no new leases recorded. The vacancy rate moved from 2.1% to 2.3% as a result.

The east side and north 97 submarkets each gained ground, gaining 1,600 sq. ft. and 3,787 sq. ft. respectively. Bend River Promenade and 63830 Clausen Rd. each lost occupancy in the north submarket, while Cascade Village Shopping Center gained 7,620 sq. ft. in Q4, welcoming Affordable Care, LLC, Pretty Moments Lingerie,

CONTINUED ON PAGE 5 ▶

BEND OFFICE Vacancy



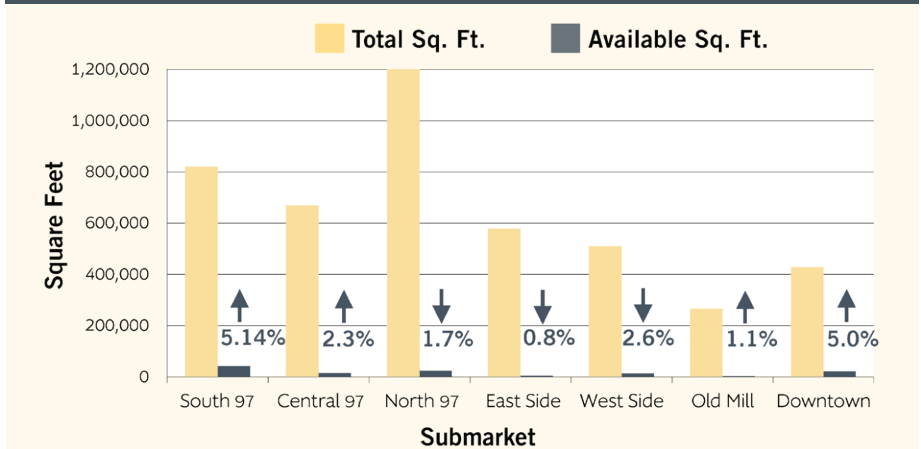
▲ ABSORPTION ▼ VACANCY

BEND RETAIL Net Absorption

BLDGS. OVER 3,000 SQ. FT.

Market Area	No. Bldgs.	Total Sq. Ft.	Vac. % 4th Qtr.	4th Qtr. Absorption	Total 2018 Absorption	Total 2017
South 97	20	820,696	5.1%	(767)	(2,061)	6,396
Central 97	41	669,172	2.3%	(1,440)	2,518	4,700
North 97	28	1,200,712	2.0%	3,787	23,284	3,744
East Side	28	578,336	0.8%	1,600	961	4,100
West Side	53	510,341	2.6%	16,163	23,679	(22,312)
Old Mill District	19	265,502	1.1%	(2,922)	2,348	5,311
Downtown	65	427,383	5.0%	(12,180)	(16,394)	0
TOTAL	254	4,472,142	2.8%	4,241	34,335	1,939

BEND RETAIL Vacancy



INDUSTRIAL Market

BEND

Compass Commercial surveyed 309 buildings for the fourth quarter industrial report, totaling nearly 4,296,000 square feet. The industrial market lost 23,696 sq. ft. of net absorption in Q4, for the first time since the second quarter of 2016 and the vacancy rate rose from Q3's 1.17% to 1.72%, still the third lowest vacancy rate since we started tracking in 1993. There is now 73,833 sq. ft. of industrial space available for lease in Bend, compared to 50,137 sq. ft. in Q3. Three of the four submarkets recorded negative net absorption, and one remained unchanged and fully leased.

The southeast submarket recorded 13,510 sq. ft. of negative absorption in Q4, and the vacancy rate is now 2.5%, up from 1.7% in Q3. Two buildings recorded negative results with no gainers in the quarter. A 9,110 sq. ft. space came available on Business Way in Q4, and a 4,400 sq. ft. space formerly occupied by a brewing system manufacturer is for lease on Zeller Ln.

In the northeast submarket, 9,946 sq. ft. of net negative absorption was recorded in Q4. Three buildings reported negative absorption and one was positive. The biggest loss was at the Edge Business Center on Sockeye Pl., where 8,357 sq. ft. became available. The vacancy rate now stands at 1.1% in the northeast, compared to 0.7% in the previous quarter.

The central submarket lost 240 sq. ft. of absorption in the quarter with one building reporting positive gains and one losing ground.

The west side submarket remained fully leased, with vacancy rates standing at 0.0%.

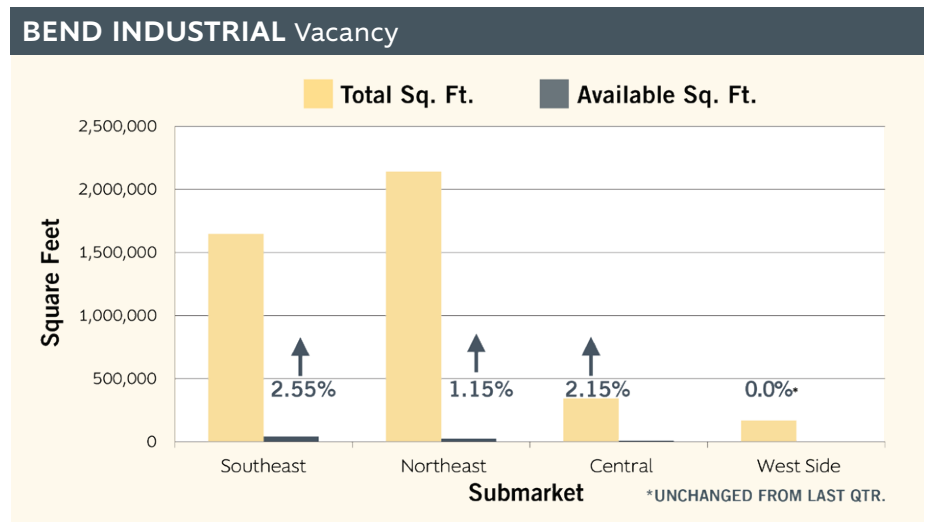
REDMOND

There was positive absorption in the Q4 Redmond Industrial market, with the vacancy rate lowering from 2.8% to 1.9%, due to 13,624 sq. ft. of net leasing. Redmond's industrial sector now has 1,586,227 sq. ft. of total space, with just 30,251 sq. ft. available for lease in the 82 building industrial market. This is the lowest vacancy rate in Redmond since Q4 of 2000 when the vacancy rate was 1.4%, but there was less than 400,000 sq. ft. of space on the market and 5,400 sq. ft. available for lease. As a comparison, the highest vacancy rate we have ever recorded was in the fourth quarter of 2008, when 392,064 sq. ft. were available for lease and the vacancy rate topped 31.4%! That was certainly NOT a good time to be a landlord in Central Oregon.



ABSORPTION VACANCY

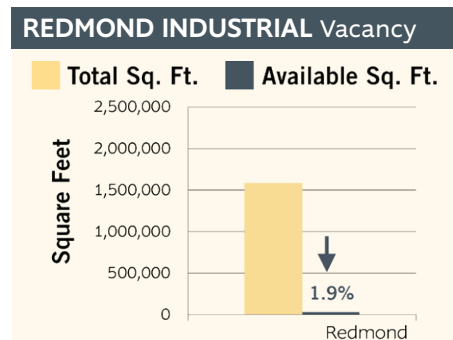
BEND INDUSTRIAL Net Absorption						BLDGS. OVER 3,000 SQ. FT.
Market Area	No. Bldgs.	Total Sq. Ft.	Vac. % 4th Qtr.	4th Qtr. Absorption	Total 2018 Absorption	Total 2017
Southeast	139	1,645,827	2.55%	(13,510)	15,339	(160)
Northeast	126	2,139,766	1.15%	(9,946)	97,236	135,537
Central	35	342,037	2.15%	(240)	(7,360)	0
West Side	9	168,240	0.00%	0	0	0
TOTAL	309	4,295,870	1.7%	(23,696)	105,215	135,377



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 2018 Absorption	Total 2017
Redmond	82	1,586,227	1.9%	13,624	30,808	24,588

Three buildings recording positive absorption and one was negative in Q4. A 6,500 sq. ft. space owned by Ridge Runner, LLC leased an industrial suite to Mission Statement Homes on 23rd St., the largest lease for the quarter in the Redmond industrial market.



2018 SUMMARY / 2019 FORECAST | CONTINUED FROM PAGE 1

were 22.1% of the total market. At that time there was over 526,000 square feet of office space available for lease, while at the end of 2018 there was just over 87,000 sq. ft. available.

Retail vacancies in Bend also dropped from a rate of 2.8% at the end of 2017 to 2.77% at the end of 2018. Rental rates held strong again in 2018, with rents in the \$1.50-\$2.00 per sq. ft. NNN range and restaurants and new retail projects commanding \$2.00-\$2.75 or higher, in spite of many new projects coming out of the ground.

Bend's overall **industrial** vacancy rate dropped again for the fifth year in a row, from 3.26% to an amazing 1.72%. Rental rates rose again to between \$0.75 and \$1.00 per sq. ft. per month NNN in 2018, with many flex buildings commanding rates much higher than that.

In Redmond, **industrial** vacancy rates dropped again for the seventh year in a row from 3.5% at the end of 2017 to just 1.9% at the close of 2018.

SUPPLY VS. DEMAND

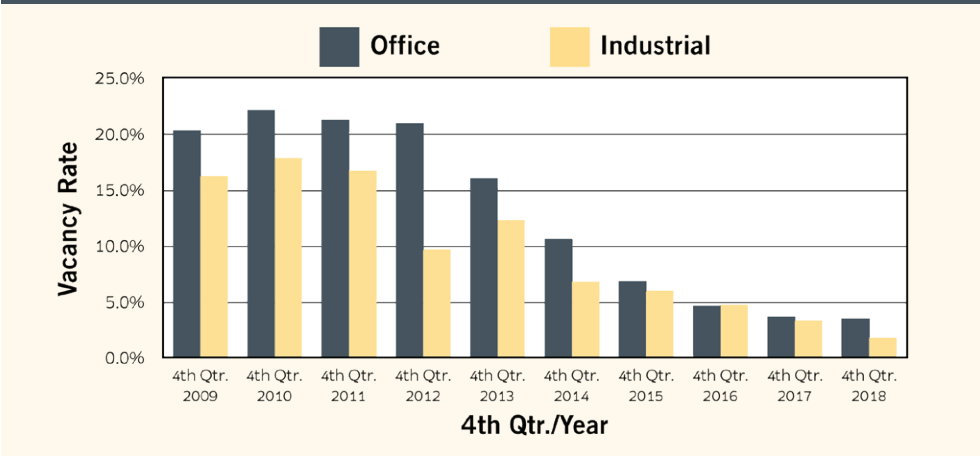
In the **office** market 10,587 square feet of space was absorbed in 2018, compared with 71,783 sq. ft. 2017. There is now only 87,331 sq. ft. available out of a 2.57 million sq. ft. market. Absorption slowed in 2018, but remained in positive territory.

In the **retail** sector, 34,335 sq. ft. of positive net absorption was recorded in 2018. This compared with 2017's total of just 1,939 sq. ft. of positive net absorption. There is presently 123,663 sq. ft. available in the Bend retail market, with a slew of new projects looking to open in the next two years.

The **industrial** market recorded another 105,215 sq. ft. of positive net absorption in 2018, compared with 135,377 sq. ft. in 2017. There is currently only 73,833 total sq. ft. available in the Bend industrial market. Using market absorption calculation methods, this represents just three quarters of supply available in the Bend industrial market. Several buildings are being constructed in the Carmen Ln./ American Ln. area and are scheduled to come online in 2019, which should ease any strains on the industrial leasing market.

And in Redmond 30,808 sq. ft. of **industrial** space was absorbed in 2018, compared to 24,588 sq. ft. of positive absorption in 2017. There is currently 30,251 sq. ft. of industrial space available in the Redmond

BEND OFFICE & INDUSTRIAL VACANCY RATE BY YEAR



market, just a one-year supply at current absorption rates, compared to the end of 2017, when 54,559 sq. ft. was available for lease in Redmond.

WHAT'S AHEAD?

Although there has been talk of a slowing economy nationally, we predict that commercial real estate in Central Oregon will continue to be strong, with rents slowing in their increases, but values staying robust – at least for 2019. Cap rates should rise a bit due to the recent interest rate increases, but all in all, we see a bullish market ahead.

OFFICE: Rental rates will remain strong as supply continues to be tight in Bend. This mirrors national trends as the economy continues its steady growth. High land prices locally continue to be a challenge for developers wanting to start new projects. Strong construction and labor costs continue in the area, with some companies pointing to tariffs contributing to steel and appliance price increases. This will continue to squeeze the office market's supply. Projects like Crane Shed Commons and Deschutes Ridge Business Park saw successful leasing during 2018, and there are few new office projects on the books for 2019.

RETAIL: Central Oregon's retail market continues its strong growth and low vacancies. Several projects we mentioned last year, including the former Ray's west side redevelopment, are still in the start-up or planning stages and many redeveloped retail properties saw strong absorption in 2018. Although Shopko recently announced its Bend store will close due to its impending bankruptcy proceedings, and Deschutes Brewery's recent layoffs (caused

by a slowing craft beer industry) will affect our workforce, there is still a dearth of qualified workers in some trades, notably the restaurant business, where many 'now hiring' signs grace storefront windows in Central Oregon.

INDUSTRIAL: Strong industrial rents and limited supply continue in the Bend and Redmond markets. New projects in both areas may hold off any supply panic in 2019, but if the economy slows as predicted in a few years, it may well be a blessing that we did not overbuild during these bullish years.

MULTIFAMILY: Central Oregon continues a strong building phase in the multifamily market. Many new projects have eased the housing crunch, but the affordability issue is still prevalent in our community. Local community leaders are aware of the problem and are attempting to ease the situation, but it does not come easy. Will Bend follow Portland's lead and implement some sort of rent control to assist low-income renters in their quest for fair housing prices? Many in the area hope not, but something must be done to help our neighbors be able to live and work in our community without the fear of becoming homeless or displaced out of our growing region.

Howard Friedman is a partner and the managing principal broker for Compass Commercial. He was recently promoted to president of the board of directors and CEO of the Bethlehem Inn homeless shelter in Bend.

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

Left Coast Burger, Open Range western and lodge home décor, and Conscious Ink temporary tattoos. In the east side submarket, the 1,600 sq. ft. space at the Twin Knolls retail center was occupied.

The west side submarket was the greatest gainer in Q4 recording 16,163 sq. ft. of positive absorption. The vacancy rate now stands at 2.6%, down from 5.6% in Q3. Four buildings recorded positive absorption, and

two were negative in Q4. The biggest gains came at the Box Factory, which welcomed Seksé Dance and Pole Fitness, West Side Barber Shop and others totaling over 13,400 sq. ft. of new leases.

Two small vacancies were noted in the Old Mill District raising the vacancy rate from 0% to 1.1%. There is now 2,922 sq. ft. available.

The Downtown submarket lost 12,180 sq.

ft. in Q4. Two buildings, the O’Kane and former Boomtown buildings lost 6,434 sq. ft. and 7,200 sq. ft., respectively, while the restaurant complex on the corner of Bond St. and Franklin Ave. went back to full capacity, leasing 1,454 sq. ft. to TeaCupfuls’ second location.

There is currently 123,663 sq. ft. available for lease city-wide, down from 129,040 sq. ft. in Q3.

Notable **TRANSACTIONS**

Compass Commercial Real Estate Services negotiated the following notable transactions in the fourth quarter of 2018. 93 transactions (22 sales and 71 leases) were closed totaling \$50.2 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
Mixed Use	20332-20370 Empire Ave., Bend	54,508 SF / 5.56 acres	\$6,112,000	Robert Raimondi, John Keba, Russell Huntamer & Paul Weaver / Seller Gardner Williams, Peter May & Paul Weaver / Buyer
Office	300 SW Columbia St., Bend	12,395 SF / 0.76 acres	\$3,445,000	Jay Lyons & Grant Schultz / Seller & Buyer Peter May / Buyer
Industrial	20505 Robal Rd., Bend	15,000 SF / 1.31 acres	\$2,600,000	Robert Raimondi / Seller Graham Dent / Buyer
Industrial	20790 High Desert Ln., Bend	11,500 SF / 1.06 acre	\$2,300,000	Bruce Churchill / Seller Joel Thomas / Buyer
Land	21350 NE Butler Market Rd., Bend	9.64 acres	\$2,250,000	Adam Bledsoe & Bruce Churchill / Seller & Buyer

LEASES

TYPE	PROPERTY	SF LEASED	LESSEE	COMPASS COMMERCIAL REPRESENTED
Office	775 SW Bonnett Way, Bend	7,843 SF	Elevation Capital Strategies, Inc.	Peter May, Jay Lyons & Grant Schultz / Landlord John Keba / Tenant
Office	1001 SW Disk Dr., Bend	10,974 SF	The Haven	Howard Friedman, Jay Lyons & Grant Schultz / Landlord Pat Kesgard & Kerri Standerwick / Tenant
Retail	63455 N Hwy 97, Bend	3,000 SF	Affordable Care, LLC	Russell Huntamer / Landlord
Office	1550 NE Williamson Blvd., Bend	5,601 SF	Deschutes County Property Mgmt.	Joel Thomas / Landlord Bruce Churchill / Tenant
Office	510 NE 3rd St., Bend	6,170 SF	Cascade School of Music	Pat Kesgard & Kerri Standerwick / Landlord