

BOOMTOWN BUILDING | 6,900 SF RETAIL LEASED MARCH 2019

NAVIGATING THE OPPORTUNITY ZONE

By Adam Bledsoe, Broker

In recent months, the pace of conversation surrounding Opportunity Zones has accelerated, and as with any new tax law, questions lead to more questions. After being party to a few panels with real “pros” in the OZ world, here are a few things we now know, and a few others that remain cloudy.

ASPECTS CLARIFIED

Exclusion is the name of the game. If a Qualified Opportunity Fund (QOF) is created and held for at least 10 years, any gains by appreciation are then exempt from tax. The law also has provisions for deferral of tax liability and incremental steps-up in basis, but the exclusion provision is by far the most lucrative incentive.

Entity Type – QOFs must be either a partnership or corporation. Single member LLCs are not eligible.

Complexity and Cost – QOF investing is complicated. Without elaborating, it’s fair to say that QOF investors will be incurring significant CPA and legal fees in order to meet quarterly IRS “tests.”

Effect on RE Values – “Will OZs cause inflated prices?” Professionals overwhelmingly answer, “no.” Investing via QOF will not turn a bad deal into a good deal. There are significant capital improvement costs involved, and procedural costs are uncertain.

Timing – The program begins to sunset at the end of 2019. A QOF is eligible for two steps-up in basis, equating to 10% if held for 5 years, and another 5% if held for 7 years. The QOF election period ends on 12/31/2026. In order to hold a property for seven years and take advantage of the full 15% basis step-up, a QOF would need to make its investment by the end of 2019.

QUESTIONS OUTSTANDING

Math – There will be a substantial amount of calculation involved in quarterly filings to meet the requisite tests, and these calculations have not yet been outlined by the IRS. Further, there is currently not an exact equation for calculating the “substantial improvement” requirement.

State Taxes – States are moving slowly to indicate whether they will mirror

the federal law, partially mirror it, or disregard it all together. Oregon appears to be leaning toward non-compliance, meaning a QOF investor will still have state tax liability on the capital gain they are intending to re-invest.

Raw Land – Both the tax code and the general consensus are still a bit fuzzy on the “substantial improvement” requirement for raw land. If a QOF is required to make improvements equal to or greater than the adjusted basis, it is unclear what that means for raw land which has an adjusted basis of zero.

In summary, the OZ provision in the new tax law appears to be achieving its intent, at least initially. It is spurring investment in the identified zones, and giving investors a vehicle to reinvest gains domestically, and locally. Rulemaking is slated to be complete by the end of 2019 but OZ experts agree that investors should stay close to the “middle of the fairway” – that is, if one invests in line with the spirit of the OZ provisions, then upcoming rulemaking will likely not bring many surprises. **Read the full article at CompassCommercial.com/OZupdate.**

Bend OFFICE Market

Compass Commercial surveyed 206 buildings for the first quarter 2019 office report. The buildings in the sample totaled over 2.56 million square feet. Positive net absorption of 9,429 sq. ft. was recorded during the quarter. The vacancy rate moved to 3.03%, down from 3.4% in Q4 2018. There is now 77,902 sq. ft. available for lease, down from 87,331 sq. ft. in Q4.

One submarket recorded positive net absorption and two were negative. Downtown lost 3,041 sq. ft. of net leasing, raising the vacancy rate from 1.66% in Q4 of 2018 to 2.28% in Q1 of 2019. This is the first rise in vacancy in two years, dating back to the first quarter of 2017. Just one building recorded change at 1195 NW Wall St., where the 3,041 vacancy occurred. There is currently 11,156 sq. ft. of available

office space in the downtown area.

The Highway 97/3rd St. corridor was the other occupancy loser, with 5,646

sq. ft. of negative net absorption. One building reported positive change and four were negative, raising the vacancy rate from 1.76% to 2.58%, still a low



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Bend Office Net Absorption						BLDGS. OVER 3,000 SF	
Market Area	No. Bldgs.	Total Sq. Ft.	Vac. % 1st Qtr.	1st Qtr. Absorption	Total 2019 Absorption	Total 2018	
Downtown	49	490,261	2.3%	(3,041)	(3,041)	12,098	
Hwy 97/3rd St.	56	688,917	2.6%	(5,646)	(5,646)	4,970	
West Side	101	1,390,760	3.5%	18,116	18,116	(6,481)	
TOTAL	206	2,569,938	3.0%	9,429	9,429	10,587	



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Bend OFFICE Market | CONTINUED

data point, and down from the peak in Q1 of 2010, when 199,492 sq. ft. was available, and the vacancy rate stood at 31.9%. The only lease of 2,000 sq. ft. was recorded at the Freeland Building on Franklin Ave., again filling that property to 100%, and the largest vacancy of just under 3,000 sq. ft. occurred at the Deschutes Business Center on Bend's north end. A total of 17,753 sq. ft. is now for lease in that submarket.

The west side submarket recorded positive absorption of 18,116 sq. ft., and the vacancy rate fell from 4.83% to 3.52%. Six buildings reported positive net absorption and four were negative. One of the largest leases was at the First American Title Building in the Old Mill District, which leased 9,734 sq. ft. Currently there is 48,993 sq. ft. available on the west side, down from 70,552 sq. ft. in Q4.

Bend RETAIL Market

Compass Commercial surveyed 254 retail buildings totaling 4,472,142 square feet for the first quarter of 2019. The citywide vacancy rate rose slightly from 2.77% at the end of Q4 2018 to 2.84% at the end of Q1 2019. A total of 3,040 sq. ft. of negative 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 4,297 sq. ft. of negative net absorption. One location gained occupancy and three lost. The Payless shoe store across from Fred Meyer was the largest vacancy, losing 2,780 sq. ft., and the only gainer was 1,286 sq. ft. at the Bend Factory Stores. The south 97 submarket finished at 5.67% vacancy, up from the previous quarter's 5.14%.

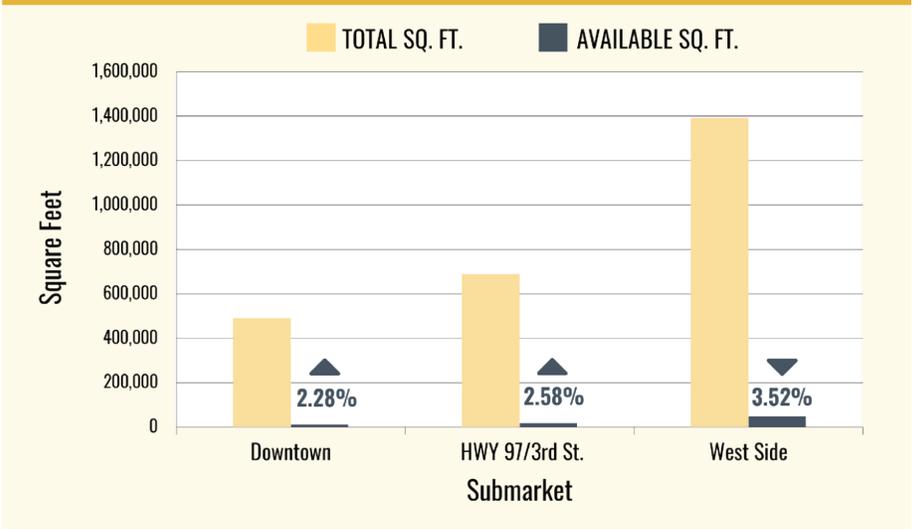
The central 97 submarket also lost ground, recording 5,194 sq. ft. of net negative absorption, with one lease signed and three spaces going vacant. The former Erickson's building on Greenwood Ave. gained 4,100 sq. ft. and the largest vacancy occurred at Revere Center, where 5,714 sq. ft. of vacancy was lost. The vacancy rate moved from 2.3% to 3.1% as a result.

The east side and north 97 submarkets also lost ground. In the north 97 submarket, 1,927 sq. ft. was lost, with one lease and one loss recorded. The Bend River Promenade lost 3,297 sq. ft. but Cascade Village Shopping Center welcomed Left Coast Burger to its retail mix, in 1,370 sq. ft.

In the east side submarket, 1,310 net sq. ft. went vacant, raising the vacancy rate to 1.0%, up from 0.8%. One small lease was signed and two small

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Bend Office Vacancy

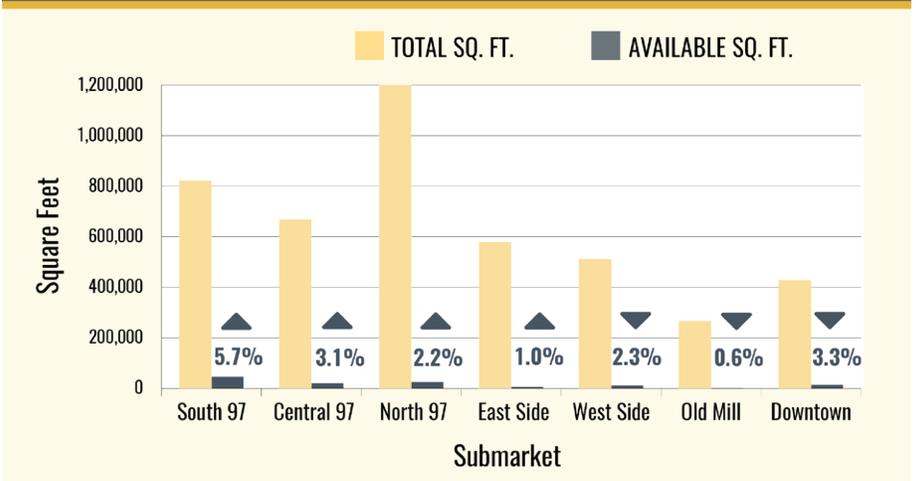


Bend Retail Net Absorption

BLDGS. OVER 3,000 SF

Market Area	No. Bldgs.	Total Sq. Ft.	Vac. % 1st Qtr.	1st Qtr. Absorption	Total 2019 Absorption	Total 2018
South 97	20	820,696	5.7%	(4,297)	(4,297)	(2,061)
Central 97	41	669,172	3.1%	(5,194)	(5,194)	2,518
North 97	28	1,200,712	2.2%	(1,927)	(1,927)	23,284
East Side	28	578,336	1.0%	(1,310)	(1,310)	961
West Side	53	510,341	2.3%	1,216	1,216	23,679
Old Mill District	19	265,502	0.6%	1,272	1,272	2,348
Downtown	65	427,383	3.3%	7,200	7,200	(16,394)
TOTAL	254	4,472,142	2.8%	(3,040)	(3,040)	34,335

Bend Retail Vacancy



INDUSTRIAL Market

BEND

Compass Commercial surveyed 311 buildings for the first quarter 2019 industrial report, totaling 4,344,396 square feet. The industrial market lost 18,600 sq. ft. of net absorption in Q1, for the second quarter in a row and the vacancy rate rose from Q4's 1.72% to 2.4%, still a healthy vacancy rate. There is now 103,103 sq. ft. of industrial space available for lease in Bend, compared to 73,833 sq. ft. in Q4. Two of the four submarkets recorded negative net absorption, and two were positive.

The southeast submarket recorded 22,303 sq. ft. of negative absorption, and the vacancy rate is now 3.86%, up from 2.5% in Q4. Five buildings recorded negative results with no gainers in the quarter. The largest vacancy was in the AAMCO building on 9th St., where 11,500 sq. ft. became available. There is now 64,218 sq. ft. available in the southeast submarket.

In the northeast submarket, 12,624 sq. ft. of net negative absorption was recorded in. Three buildings reported negative absorption and two were positive. The biggest loss was at the Cronin Building, where 20,000 sq. ft. came up for lease, and the largest lease was at the Edge Business Center on Sockeye Pl., which recorded 8,357 sq. ft. of new occupancy. The vacancy rate now stands at 1.74% in the northeast, compared to 1.1% in the previous quarter.

The central submarket gained 7,360 sq. ft. of positive absorption with two buildings recording positive change and none recording negative absorption. Blue Dog RV occupied a 6,160 sq. ft. building formerly housed by Murray & Holt Motors on 1st St. and Franklin Ave., lowering the vacancy rate to 0%, down from 2.2% in Q4.

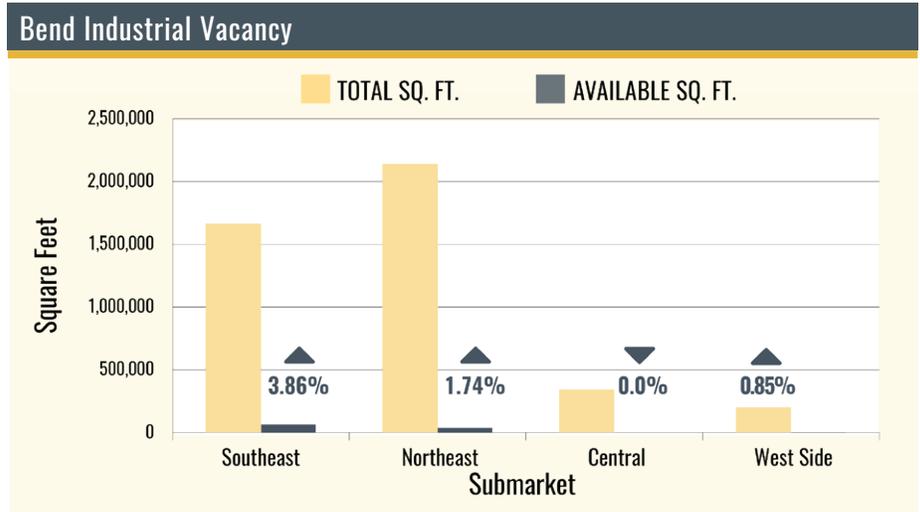
The west side submarket has 1,703 sq. ft. available for lease, resulting in a 0.85% vacancy rate after leasing 8,967 sq. ft. in the quarter.

REDMOND

There was positive absorption in the Q1 Redmond Industrial market once again, with the vacancy rate lowering from 1.9% to 1.4%, due to 18,051 sq. ft. of net leasing. Redmond's industrial sector now has 1,625,829 sq. ft. of total space, with just 22,620 sq. ft. available for lease in the 82 building industrial market. This is the lowest vacancy rate in Redmond since the fourth quarter of 2000 matching that vacancy rate of 1.4%, but there was less than 400,000 sq. ft. of space on the market and 5,400 sq. ft. available for lease. Five buildings recorded

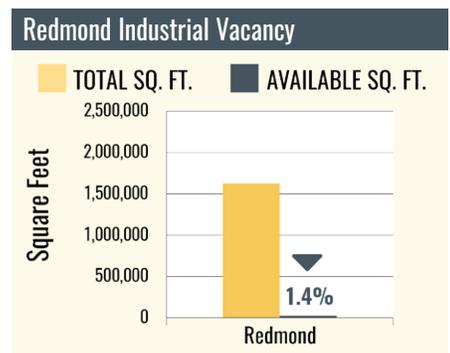


Bend Industrial Net Absorption						BLDGS. OVER 3,000 SF
Market Area	No. Bldgs.	Total Sq. Ft.	Vac. % 1st Qtr.	1st Qtr. Absorption	Total 2019 Absorption	Total 2018
Southeast	141	1,662,227	3.86%	(22,303)	(22,303)	15,339
Northeast	126	2,139,766	1.74%	(12,624)	(12,624)	97,236
Central	35	342,037	0.00%	7,360	7,360	(7,360)
West Side	9	200,366	0.85%	8,967	8,967	0
TOTAL	311	4,344,396	2.4%	(18,600)	(18,600)	105,215



Redmond Industrial Net Absorption						BLDGS. OVER 3,000 SF
Market Area	No. Bldgs.	Total Sq. Ft.	Vac. % 1st Qtr.	1st Qtr. Absorption	Total 2019 Absorption	Total 2018
Redmond	84	1,625,829	1.4%	18,051	18,051	30,808

positive absorption and two were negative in Q1. Thankfully, several new large industrial buildings totaling approximately 294,000 sq. ft. are on the drawing board for Redmond, as the remaining available space represents just a four month supply of leasing at the present rate.



Bend RETAIL Market | CONTINUED FROM PAGE 2

vacancies were noted. There is now 6,002 sq. ft. available in the east side submarket.

The west side submarket gained 1,216 sq. ft. of positive absorption in the quarter. The vacancy rate now stands at 2.3%, down from 2.6% in Q4. One building recorded positive absorption from two leases in NW Crossing, where pflücke Bavarian fusion grillhaus & biergarten signed a 2,623 sq. ft. lease, and one was

negative, the Fly & Field building on Century Dr., when Sagebrush Cycles vacated 2,280 sq. ft. as a result of their merger with Skjersaa's ski shop.

One lease was signed in the Old Mill District of 1,272 sq. ft. lowering the vacancy rate from 1.1% to 0.6%. There is now only one space of 1,650 sq. ft. available.

The Downtown submarket gained 7,200

sq. ft. of positive net absorption in Q1. The former Boomtown Building at 165 NW Greenwood Ave. welcomed Lone Pine Coffee and Unofficial Logging Co. to the iconic building, lowering the vacancy rate from 5.0% to 3.3%, and leaving 14,238 sq. ft. available for lease downtown.

There is currently 126,798 sq. ft. available for lease city-wide, up from 123,663 sq. ft. in Q4.

Notable TRANSACTIONS

Compass Commercial Real Estate Services negotiated the following notable transactions in the first quarter of 2019. 82 transactions (18 sales and 64 leases) were closed totaling \$27.6 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
Industrial	875 NE Kingwood Ave., Redmond	25,115 SF / 4.53 acres	\$3,800,000	Russell Huntamer & Dan Kemp / Seller
Industrial	2050 SW Deerhound Ave., Redmond	13,602 SF / 0.93 acre	\$2,300,000	Bruce Churchill / Seller & Buyer
Land	21380 NE Butler Market Rd., Bend	9.28 acres	Not disclosed	Adam Bledsoe & Bruce Churchill / Seller & Buyer
Land	2535 NE Studio Rd., Bend	2.73 acres	\$1,561,000	Terry O'Neil & Joel Thomas / Seller Graham Dent / Buyer
Office	35 NW Hawthorne Ave., Bend	2,875 SF / 0.14 acre	\$900,000	Russell Huntamer & Graham Dent / Seller Ron Ross & Terry O'Neil / Buyer

LEASES

TYPE	PROPERTY	SF LEASED	LESSEE	COMPASS COMMERCIAL REPRESENTED
Retail	165 NW Greenwood Ave., Bend	4,938 SF	Unofficial Logging Co.	Russell Huntamer & Ron Ross / Landlord
Industrial	20525 Robal Ln., Bend	12,000 SF	Oxarc, Inc.	Holley Jensen & Herb Arathoon / Landlord
Retail	165 NW Greenwood Ave., Bend	1,962 SF	Lone Pine Coffee Roasters	Russell Huntamer / Landlord & Tenant Ron Ross / Landlord
Office	920 SW Emkay Dr., Bend	3,326 SF	Central Oregon Pediatric Association (COPA)	Jay Lyons & Grant Schultz / Tenant
Retail	2747 NW Crossing Dr., Bend	2,623 SF	pflücke, Bavarian fusion grillhaus & biergarten	Pat Kesgard, Graham Dent & Kristie Schmitt / Landlord Howard Friedman / Tenant