

COMPASS POINTS

Commercial Real Estate Market Report

CENTRAL OREGON | Q4 2019

BEND BULLETIN BUILDING | 86,445 SF OFFICE & INDUSTRIAL | SOLD DECEMBER 2019

2019 SUMMARY / 2020 FORECAST

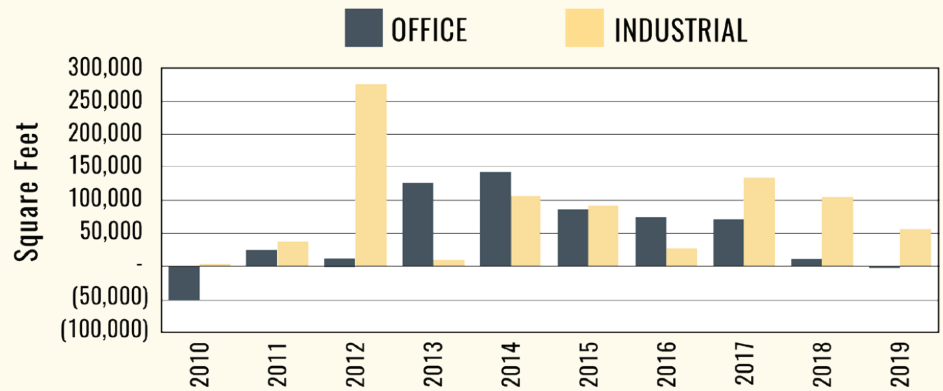
By Howard Friedman, CCIM

It's that time of year to take a look at how we forecast the previous year. Here is what we predicted a year ago for 2019:

"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."

The commercial market did prove to be robust again in 2019, and once again we set records at Compass Commercial for sales and leasing volume. Property values stayed high, and rents increased modestly, but we did not experience much rise in cap rates, seeing most in the 5% - 6% range with a few outliers on both ends of that scale. Talk of a mild recession seems to have been postponed for now.

Bend Office & Industrial Absorption by Year



SUMMARIZING THE 2019 MARKET

Bend's **office** market was fairly stagnant in 2019. Lease rates held steady once again, with spaces being leased for \$1.50 - \$2.50 per sq. ft. triple net (NNN) depending on location and quality. However, for the first time in three years

the office vacancy rate crept up slightly. At the end of 2018, the vacancy rate was 3.4%, and at the end of 2019 it was 4.02%. At the close of Q4 2019 there was 105,218 sq. ft. available for lease compared with 87,331 sq. ft. at the end of 2018.

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Bend OFFICE Market

Compass Commercial surveyed 209 buildings for the fourth quarter 2019 office report. The buildings in the sample totaled just over 2.61 million square feet. Positive net absorption of 11,005 sq. ft. was recorded during the quarter, but the vacancy rate rose slightly, due to the addition of a large office building to the survey, moving from 3.93% in Q3 to 4.02% in Q4. There is now 105,218 sq. ft. available for lease, up from 102,360 sq. ft. in Q3.

All three submarkets recorded positive net absorption in the period. Downtown gained 1,666 sq. ft. of net leasing, lowering the vacancy rate from 4.45% in Q3 to 4.11% in the last quarter of 2019. Four buildings recorded negative results

and one was positive in the quarter. There is currently 20,129 sq. ft. of available office space in the downtown area, compared to 21,795 sq. ft. in Q3.

In the Hwy 97 corridor, five buildings added occupancy and three were negative, for a net gain of 1,126 sq. ft. The vacancy rate fell from 3.53% to

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Bend Office Net Absorption					BLDGS. OVER 3,000 SF	
Market Area	No. Bldgs.	Total Sq. Ft.	Vac. % 4th Qtr.	4th Qtr. Absorption	Total 2019 Absorption	Total 2018
Downtown	49	490,261	4.1%	1,666	(12,014)	12,098
Hwy 97/3rd St.	56	688,917	3.4%	1,126	(11,078)	4,970
West Side	104	1,435,390	4.3%	8,213	21,300	(6,481)
TOTAL	209	2,614,568	4.0%	11,005	(1,792)	10,587

3RD ST MARKETPLACE | RETAIL FOR LEASE



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Bend OFFICE Market | CONTINUED FROM PAGE 1

3.37% as a result.

The west side submarket recorded positive net absorption of 8,213 sq. ft., but as previously mentioned, the addition to the survey of the Bend Bulletin Building (now known as the Cascade Tech Center) skewed the results, due to 31,530 sq. ft. of leasable office space added, with 15,835 sq. ft. of that available for lease. The vacancy rate rose from 3.94% to 4.31%. Four buildings reported positive net absorption and three were negative. Of note, the four-story 50,000 sq. ft. Crane Shed Commons building on Industrial Way is now completely leased. Currently there is 61,904 sq. ft. available on the west side, up from 56,254 sq. ft. in Q3.

Bend RETAIL Market

Compass Commercial surveyed 256 retail buildings totaling 4.5 million square feet for the fourth quarter of 2019. The citywide vacancy rate fell once again for the third quarter in a row, from 3.3% at the end of Q3 2019 to 2.94% at the end of the year.

Four of the seven retail submarkets in Bend recorded positive net absorption, two remained the same and just one was negative during the quarter.

The south 97 submarket recorded 489 sq. ft. of negative net absorption in Q4. Two buildings gained occupancy and four were down in Q4 and the submarket finished at 5.51% vacancy, up from 5.45% in the previous quarter.

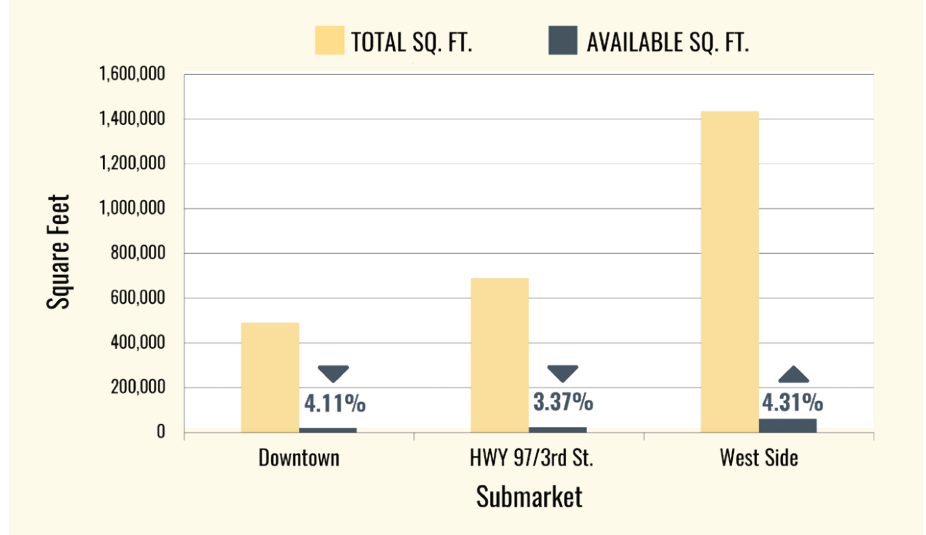
The central 97 submarket gained 4,082 sq. ft. of positive absorption, with four new leases noted and two vacancies in Q4. As a result, the vacancy rate moved from 4.7% in Q3 to 4.1% in Q4.

The north 97 submarket gained 1,868 sq. ft. of net absorption with one positive result and one negative. The 5,708 sq. ft. former McGrath's restaurant building at Bend River Promenade has been leased to an as yet unnamed tenant, according to reliable sources. More on that in Q1. The vacancy rate now stands at 1.8%, down from 2.0% in Q3. There is now 22,073 sq. ft. available in the north 97 submarket.

The east side and Old Mill District submarkets saw no change, keeping the vacancy rate at 2.0% in Q4

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Bend Office Vacancy

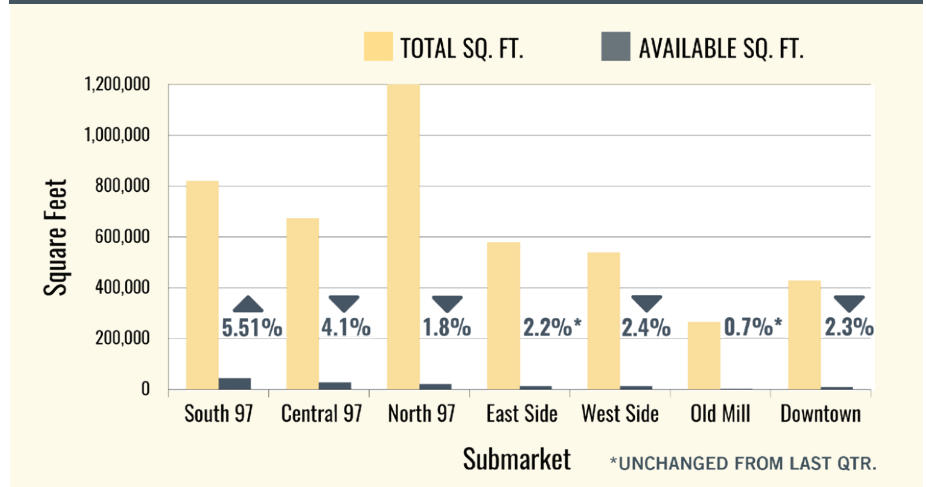


Bend Retail Net Absorption

BLDGS. OVER 3,000 SF

Market Area	No. Bldgs.	Total Sq. Ft.	Vac. % 4th Qtr.	4th Qtr. Absorption	Total 2019 Absorption	Total 2018
South 97	20	820,696	5.5%	(489)	(2,976)	(2,061)
Central 97	42	672,211	4.1%	4,082	(12,420)	2,518
North 97	28	1,200,712	1.8%	1,868	2,036	23,284
East Side	28	578,336	2.2%	0	(8,111)	961
West Side	54	539,059	2.4%	8,754	59	23,679
Old Mill District	19	265,502	0.7%	0	1,069	2,348
Downtown	65	427,383	2.3%	1,998	11,505	(16,394)
TOTAL	256	4,503,899	2.9%	16,213	(8,838)	34,335

Bend Retail Vacancy



INDUSTRIAL Market

BEND

Compass Commercial surveyed 315 buildings for the fourth quarter 2019 industrial report, totaling 4,477,864 square feet. The industrial market gained 791 sq. ft. of net positive absorption in Q4, and the vacancy rate fell slightly from 1.58% in Q3 to 1.55%. There is now 69,263 sq. ft. of industrial space available for lease in Bend, compared to 70,054 sq. ft. in Q3. Two of the four submarkets recorded negative net absorption, and two were positive.

The southeast submarket recorded 9,235 sq. ft. of positive net absorption, and the vacancy rate is now 2.45%, down from 3.0% in Q3. Six buildings adding occupancy and three adding vacancies. The largest lease was in the Hatch Building on SE 9th St., where an agricultural supply company leased 11,550 sq. ft., and the largest vacancy was on American Ln., where 12,986 sq. ft. is now available. There is now 40,688 sq. ft. available for lease, compared with 49,923 sq. ft. in Q3..

In the northeast submarket, 7,675 sq. ft. of net negative absorption was recorded. One building reported positive absorption and three were negative. The vacancy rate now stands at 1.2%, up from 0.84% with 25,575 sq. ft. available in the 2.1 million sq. ft. northeast submarket.

The central submarket also lost ground, with just one space of 3,000 sq. ft. going vacant, resulting in negative net absorption for Q4. The vacancy rate now stands at 0.88% after being 0.0% in Q3. There are 342,037 sq. ft. available in the 35-building central submarket.

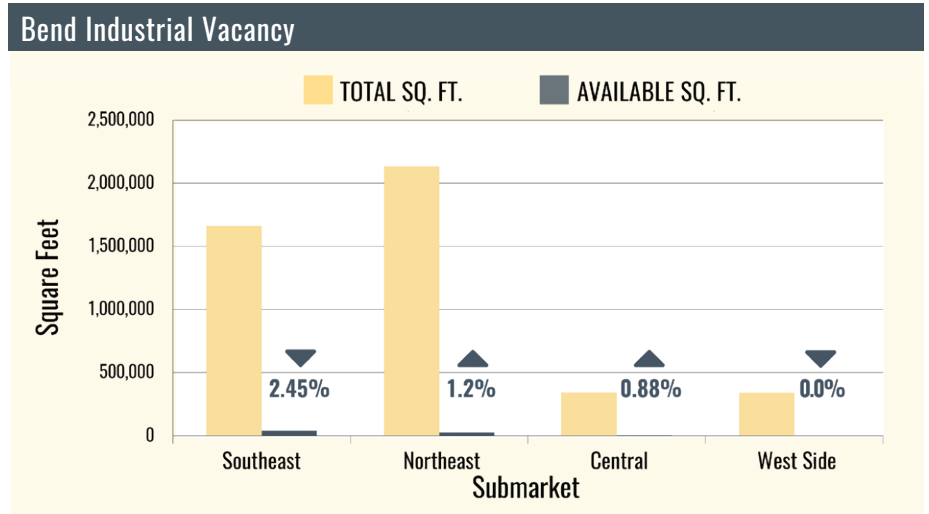
The west side submarket gained back the 2,231 sq. ft. of the negative net absorption it lost in Q3, resulting in a 0.0% vacancy rate. There are now 13 industrial buildings in that submarket, as the Cascade Tech Center added an additional 50,658 square feet of leasable industrial space to the mix. There is now 341,035 sq. ft. of space available in the west side submarket.

REDMOND

The Redmond Industrial market gained 31,123 square feet of positive net absorption in the fourth quarter of 2019 for a second straight gain in occupancy. The vacancy rate fell as a result, from 3.8% to just 1.9%. Out of Redmond's industrial sector of 1,637,179 sq. ft. total leasable space, there is now just 30,403 sq. ft. available for lease. Quick math shows that if Redmond has another vibrant leasing quarter like Q4 of 2019,

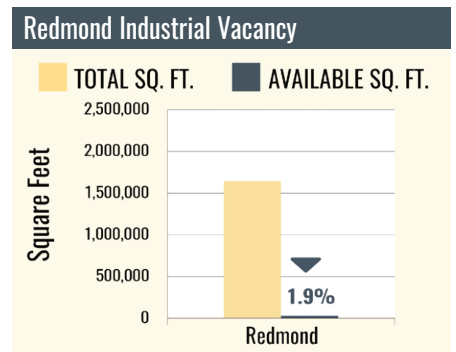


Market Area	No. Bldgs.	Total Sq. Ft.	Vac. % 4th Qtr.	4th Qtr. Absorption	Total 2019 Absorption	Total 2018
Southeast	141	1,662,276	2.45%	9,235	1,227	15,339
Northeast	126	2,132,516	1.20%	(7,675)	(1,017)	97,236
Central	35	342,037	0.88%	(3,000)	4,360	(7,360)
West Side	13	341,035	0.00%	2,231	51,690	0
TOTAL	315	4,477,864	1.5%	791	56,260	105,215



Market Area	No. Bldgs.	Total Sq. Ft.	Vac. % 4th Qtr.	4th Qtr. Absorption	Total 2019 Absorption	Total 2018
Redmond	86	1,637,179	1.9%	31,123	10,268	30,808

inventory will be almost zero. There are 86 buildings in the Redmond industrial market that we tally. Four buildings recorded positive absorption and none were negative in Q4.



2019 SUMMARY / 2020 FORECAST | CONTINUED FROM PAGE 1

Retail vacancies in Bend also rose from a rate of 2.77% at the end of 2018 to 2.94% in Q4 2019. Lease rates held strong again in 2019. Rents for second generation space remained in the \$1.50 - \$2.25 per sq. ft. per month NNN range with new construction asking \$2.50 - \$3.50 per sq. ft. or more, due to high land and construction prices.

Bend's overall **industrial** vacancy rate dropped again for the sixth year in a row, from 1.72% to just 1.55% at the end of 2019. Rental rates did increase slightly with asking rents in the \$0.85 - \$1.15 per sq. ft. per month NNN range in 2019.

And in **Redmond, industrial** vacancy rates stayed the same at a healthy 1.9%, despite a wave of new product built throughout the year, confirming Redmond's continued demand for industrial space. Rental rates also inched up a bit, with most in the \$0.65 - \$0.75 NNN range, closing the gap on Bend prices a bit more.

SUPPLY VS. DEMAND

The Bend **office** market experienced 1,792 sq. ft. of negative absorption in 2019, compared with 10,587 sq. ft. of positive absorption in 2018. There is now just over 2.61 million sq. ft. of office space that we tally.

The **industrial** market recorded another 56,260 sq. ft. of positive net absorption in 2019, compared with 105,215 sq. ft. in 2018. There is currently only 69,263 total sq. ft. available in the Bend industrial market. We should see several buildings hit the market this year that are being developed in the Carmen Lp./American Ln. area as well as NE 4th St., so that may ease demand.

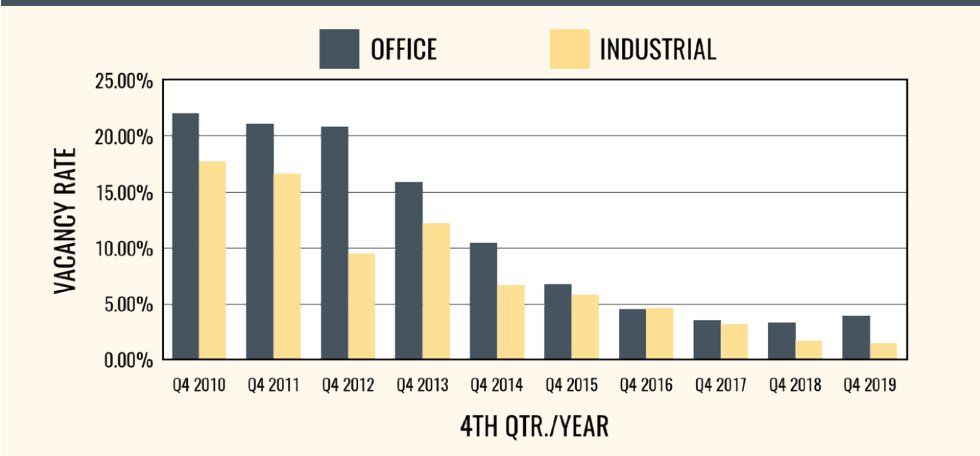
In the **retail** sector, we lost 8,838 sq. ft. of net absorption in 2019, compared with a gain of 34,335 sq. ft. in 2018. There is presently 132,596 sq. ft. available in the Bend retail market.

And in **Redmond** 10,268 sq. ft. of **industrial** space was absorbed in 2019, compared to 30,808 sq. ft. of positive absorption in 2018. There is currently 30,403 sq. ft. of industrial space available in the Redmond market.

WHAT'S AHEAD?

As mentioned earlier, prognosticators were predicting a slowdown in the latter half of 2019 and into 2020, but we have yet to see that happen. We believe 2020 will

Bend Office & Industrial Vacancy Rate by Year



start the decade out strong, evidenced by another big growth spurt in Bend in several areas that we will highlight below. Rents will be strong for new construction, which could raise existing buildings' rates as well, and values will remain at all-time highs. Cap rates should stabilize but remain historically low and, in a nutshell, we feel that Central Oregon will remain a great place to invest in.

OFFICE: Rental rates will remain strong in 2020 as supply continues to be tight in Bend. However, with a trend of more employees working remotely from home, demand for office space has lessened somewhat. And with new choices like the beautiful Haven co-working space in Deschutes Ridge Business Park, independent workers can avoid leasing traditional offices. As in 2019, there are very few new office construction projects on the books for the coming year, other than some projects being built for owner-users.

RETAIL: Central Oregon's retail market continues its strong growth and low vacancy rate. New projects are shaping up including Robal Road Village, Westside Yard in the former Ray's location, plans for new retail near JCPenney at Cascade Village, and projects on the books for 27th St. and Reed Market Rd. plus the impending rebuild of a mixed-use center at the former Murray and Holt site at 3rd St. and Franklin Ave. Add in that WinCo Foods will be backfilling the Shopko building, Fred Meyer is continuing plans for a Cooley Rd. outlet, Les Schwab is redeveloping 2.5 acres on 3rd St. to replace their Franklin Ave. store, the former site of Déjà Vu Interiors on Century Dr. is redeveloping into a family indoor sports complex complete with a restaurant

and a bar, the former Applebee's site is being reconstructed for a dentist, the former Duck Store is turning into a medical facility... well, you get the picture that retail is strong in Bend.

INDUSTRIAL: Robust industrial rents will continue in the Bend and Redmond markets. Redmond constructed over 200,000 sq. ft. of new industrial buildings this past year, and the majority of that has been leased. A new project on 4th St. in Bend will add over 127,000 sq. ft. to the mix at High Desert Industrial Park, where seven buildings are planned. And the Bend Bulletin Building now has 50,000 sq. ft. available for lease due to EO Media Group removing their printing presses.

MULTIFAMILY: Multifamily and affordable housing units are planned for both Redmond and Bend. Pahlisch Homes has plans for a mixed-use project at 15th St. and Reed Market Rd. that will offer 130 residential units plus office and retail space.

HOTEL: There are several hotels under construction or planned in Bend and Redmond. The former Bulletin site on Wall St. and Olney Ave. will add a hotel with a retail component and a few area hotels have also been upgraded or remodeled. The newest concept in the market is bringing the developers of the Jupiter Hotel and Doug Fir Lounge in Portland and the Hood River Hotel to Bend, where they will revamp the site near Franklin Ave. and 3rd St. into a trendy new lodge and eatery known as the Campfire Hotel.

Howard Friedman is a Partner and Principal Broker for Compass Commercial. He also serves as President of the Board of the Bethlehem Inn homeless shelter in Bend.

Bend RETAIL Market | CONTINUED FROM PAGE 2

with 12,803 sq. ft. available in the east side submarket, and 0.7% vacancy rate in the Old Mill with 1,853 sq. ft. available.

The west side submarket gained 8,754 sq. ft. of net positive absorption in the quarter. The vacancy rate now stands at 2.4%, down from 4.0% in Q3. Five buildings were

positive and three were negative on the west side, with 13,015 sq. ft. now available.

The downtown submarket also recorded positive net absorption of 1,998 sq. ft. in Q4, moving the vacancy rate from 2.8% to 2.3%. Currently there is 9,933 sq. ft. available in the downtown area. Just one building

noted a new vacancy at the Columbia River Bank Building and one new lease was signed at the O’Kane Building.

There is now 132,596 sq. ft. of retail space available city-wide, down from 148,809 sq. ft. in Q3.

Notable TRANSACTIONS

Compass Commercial Real Estate Services negotiated the following notable transactions in the fourth quarter of 2019. Our firm closed 85 deals consisting of 20 sales and 65 leases totaling \$55.2 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
Office	1777 SW Chandler Ave., Bend / Bend Bulletin Building	86,445 SF / 9.78 acres	\$13,150,000	Dan Kemp & Adam Bledsoe / Buyer Graham Dent & Gardner Williams in partnership w/CBRE Portland / Seller
Multifamily	366 SW M St., Madras / Cascade Ridge Apartments	64-Units / 5.11 Acres	\$5,675,000	Terry O’Neil & Ron Ross / Seller
Business	Swag Manufacturing, Inc. (Subsidiary of Traction Capital Partners, LLC), Bend		Undisclosed	Dan Kemp & Peter May / Seller
Land	18th St. & Empire Ave., Bend	6.60 acres	\$2,650,000	Graham Dent / Buyer
Industrial Land	Sockeye Pl., Bend	7.00 acres	\$2,342,003	Bruce Churchill / Buyer Pat Kesgard & Kristie Schmitt / Seller
Retail Land	SEC of 3rd St. & NE Clay Ave., Bend	1.55 Acres	\$2,182,856	Pat Kesgard & Kristie Schmitt / Seller

LEASES

TYPE	PROPERTY	SF LEASED	TENANT	COMPASS COMMERCIAL REPRESENTED
Retail	Former Applebee’s / 3197 N Hwy 97, Bend	3,500 SF	Aspen Dental Management, Inc.	Russell Huntamer, Tom Standish & Holley Jensen / Landlord
Retail	1025 SE Cleveland Square Lp., Bend	3,470 SF	Patience, LLC (DBA Jiffy Lube)	Dan Kemp / Tenant
Office	Deschutes Ridge / 1000 SW Disk Dr., Bend	7,619 SF	Lynch Conger, LLP	Pat Kesgard & Kristie Schmitt / Tenant Jay Lyons, Grant Schultz & Howard Friedman / Landlord
Industrial	20525 Robal Ln., Bend	9,500 SF	Direct Flooring Center	Herb Arathoon / Landlord
Office	1160 SW Simpson Ave., Bend	5,000 SF	Brown & Brown Insurance	Jay Lyons, Grant Schultz & Graham Dent / Landlord