

FOR LEASE: Industrial Space with Private Offices & Showroom | 693 SE Glenwood Dr., Bend | 6,278 SF | \$1.20/SF/Mo. NNN

CAPITAL GAINS TAX STRATEGIES FOR YOUR REAL ESTATE

Many of our clients own highly appreciated real estate assets. Capital gains taxation is often a huge disincentive for those that would otherwise prefer to dispose of those assets. The very simplified “back of the napkin” calculation of a capital gain is Sales Price net of certain closing costs - Adjusted Basis = Taxable Capital Gain.

Once the taxable gain is calculated, the tax due can be estimated. For Oregon taxpayers, an estimate of 28-35% of the Taxable Gain is often used. This would include the federal and state capital gains tax, depreciation recapture, and the ACA tax. Not only can this sum be daunting, but it usually pushes the balance of your other taxable income into higher brackets and causes the loss of certain deductions and other benefits, resulting in higher taxes still. And that’s not all. For those 65 and older the capital gain can cause a five-fold or more increase in your Medicare premiums. Ouch!!

What are your options?

1. Swap
2. Drop
3. Carry
4. Pay up

“SWAP UNTIL YOU DROP” is a whimsical reference to using a combination of the 1031 tax deferred exchange and the stepped-up basis provisions of the tax code.

SWAP refers to IRS Code 1031, which allows a taxpayer to defer capital gains with a like-kind property exchange. This is a complicated process but is very commonly used. Compass Commercial, in conjunction with your professional tax advisors, can discuss the pros and cons and help an investor execute this tax deferral strategy.

DROP refers to the death of the taxpayer. Stepped up basis provides that the adjusted basis of the property “steps up” to the property’s value at the time of the taxpayer’s death, essentially eliminating the prior capital gains for the heirs, including the 1031 deferred gains that have accrued. “Swap until you drop” is a very effective strategy for managing capital gains taxes. There is political pressure from the current administration to eliminate the stepped-up basis and to severely restrict the 1031 exchange. Altering either or both could inflict massive damage to the real estate and capital markets.

CARRY refers to the seller carrying the financing, or an installment sale. In that case, the proceeds are only taxable in the year received. A portion of the down payment and principal payments received over time are taxed at the capital gains rate. Depreciation recapture does need to be recognized in the year of the sale. Interest received is calculated at ordinary income rates. This spreads the tax hit over several years and can be more favorable than recognizing the entire gain in one year. Installment sales are a viable but underused strategy.

PAY UP Swallow hard and pay the tax bill. The positive side of this is you can save or invest whatever is left any way you want, real estate or otherwise. This is often referred to as going “down and out” or completely divesting of that real estate asset.

This is a basic discussion of capital gains taxation to provide a framework for planning. Typically, a taxpayer’s situation is more complicated with many other factors and circumstances at play. All taxpayers should consult with qualified and licensed tax professionals on all tax matters.

*Written by broker
Ron Ross*

CENTRAL OREGON

Commercial Real
Estate Market Report

COMPASS
COMMERCIAL

**REAL
ESTATE
SERVICES**



BEND OFFICE

3.94%
VACANCY

-19,609 SF
ABSORPTION

Compass Commercial surveyed 224 office buildings totaling 2.77 million square feet for the first quarter office report of 2023. The market experienced 19,609 SF of negative absorption in Q1 2023 with an increase in vacancy rate from 3.09% in Q4 2022 to 3.94% in Q1. This is the first uptick in vacancy over the last six quarters and is most likely a sign of the economy starting to take its toll on the office market. While we don't include sublease listings in the vacancy calculations, as of today, there is 60,988 SF of office space available for sublease. This inventory, added to the 109,147 SF of vacant office space, results in an availability rate of 6.14%. An increase in sublease listings is something to monitor moving forward.

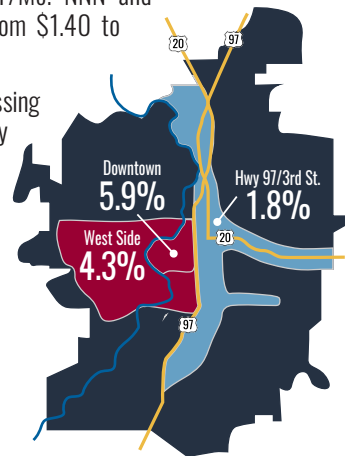
LEASING: Leasing demand is stable with solid activity across all three submarkets, evidenced by the vacancy rate declining for five consecutive quarters. This quarter, the Hwy 97/3rd Street submarket led the way with 10,517 SF of positive absorption, largely due to 7,473 SF being leased at 2500 NE Twin Knolls Drive. The Downtown and West Side submarkets experienced negative absorption of 10,787 SF and 19,339 SF respectively.

RENTS: Lease rates remain steady with the high end of the market ranging from \$2.00 to \$3.00/SF/Mo. NNN and more affordable space ranging from \$1.40 to \$2.00/SF/Mo. NNN.

CONSTRUCTION: The Shevlin Crossing development, an approximately 45,054 SF two-building Class A office project in NorthWest Crossing, is under construction with the shell of the first building nearly completed. There are no other speculative office developments under construction.

SALES: There were no notable office sales this quarter.

*Written by partner and broker
Jay Lyons, SIOR, CCIM*



BEND RETAIL

2.60%
VACANCY

8,739 SF
ABSORPTION

Compass Commercial surveyed over 4.63 million square feet of retail space across 266 buildings for the first quarter retail report of 2023. The market experienced another strong quarter to start off the year, with 8,739 SF of positive absorption, resulting in a slight drop in the citywide vacancy rate from 2.67% in Q4 2022 to 2.60% in Q1 2023. There is now 120,300 SF of available retail space in Bend for lease.

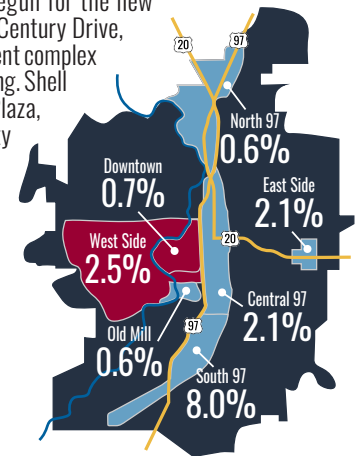
LEASING: Leasing in the retail sector remained steady through the first quarter of 2023, with six of the seven submarkets showing positive absorption and an overall decrease in the market's vacancy rate. The West Side was one of the few submarkets to experience negative absorption this quarter, which was accompanied by a corresponding bump in the West Side vacancy rate to 2.53%. The South 97 submarket saw a decrease in retail vacancies from 8.32% to 8.02%, due to a new lease signed with Play It Again Sports at the Bend Factory Stores for 7,290 SF. The Bend Endurance Academy leased the 13,000 SF former Patio World space at 222 Reed Market Road in the Central 97 submarket, decreasing the vacancy to 2.10%. Super Burrito leased 2,025 SF of space at 425 Windy Knolls Drive, which contributed to the East Side's 3,125 SF of positive absorption this quarter.

RENTS: Asking rental rates for Bend retail space continue to hold steady between \$1.15 and \$4.00/SF/Mo. NNN with the highest rates associated with drive-thru sites and new construction.

CONSTRUCTION: The Cascade Lakes Brewing building at Reed South is close to completion. Grading has begun for the new multifamily development at 515 SW Century Drive, which will feature a 129-unit apartment complex and an adjacent 1,625 SF retail building. Shell construction is complete at Pioneer Plaza, located at 1848 NW Wall Street. Fifty percent of this new project was pre-leased to Urban Waxx and 30 Minute Hiit. The remaining 3,016 SF of available retail and restaurant space bumped the Downtown vacancy rate from 0.00% to 0.68%.

SALES: The 5,925 SF building at 903 NW Wall Street sold for \$3,750,000 or \$632.91/SF with a 4% Cap Rate.

*Written by broker
Eli Harrison*



BEND OFFICE NET ABSORPTION

BLDGS. OVER 3,000 SF

MARKET AREA	NO. BLDGS.	TOTAL SF	VAC. RATE	1ST QTR. ABSORP. SF	TOTAL YTD ABSORP. SF
Downtown	52	504,150	5.90%	(10,787)	(10,787)
Hwy 97/3rd St.	54	677,717	1.76%	10,517	10,517
West Side	118	1,587,732	4.25%	(19,339)	(19,339)
TOTAL	224	2,769,599	3.94%	(19,609)	(19,609)

BEND RETAIL NET ABSORPTION

BLDGS. OVER 3,000 SF

MARKET AREA	NO. BLDGS.	TOTAL SF	VAC. RATE	1ST QTR. ABSORP. SF	TOTAL YTD ABSORP. SF
South 97	22	829,207	8.02%	2,443	2,443
Central 97	44	677,348	2.10%	2,541	2,541
North 97	28	1,254,493	0.63%	2,889	2,889
East Side	30	601,480	2.11%	3,125	3,125
West Side	56	562,129	2.53%	(5,504)	(5,504)
Old Mill District	19	265,502	0.64%	229	229
Downtown	67	440,415	0.68%	3,016	3,016
TOTAL	266	4,630,574	2.60%	8,739	8,739



BEND INDUSTRIAL



0.80%
VACANCY



-17,274 SF
ABSORPTION

Compass Commercial surveyed 318 Bend industrial buildings totaling 4.61 million square feet for the first quarter of 2023. The market experienced 17,274 SF of negative absorption in the quarter. At the end of Q1 2023, the overall vacancy rate stood at 0.80%, a slight increase from the 0.43% recorded in Q4 2022. There is now 37,039 SF of industrial space currently available in Bend.

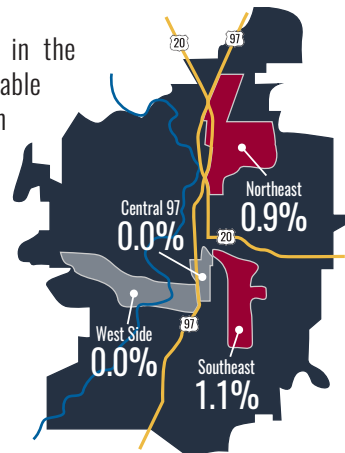
LEASING: Leasing demand remained strong during the quarter, but lack of inventory limited the number of new transactions, particularly the larger tenants who focused on the blocks of space in surrounding markets such as Redmond.

RENTS: The average asking rate for Bend industrial space is \$1.12/SF/Mo. NNN. Premier industrial space is commanding rates between \$1.25 and \$1.35/SF/Mo. NNN.

CONSTRUCTION: There is one speculative industrial project underway off of Cooley Road totaling 15,760 SF. The property is being offered for sale and for lease. In Tumalo, there's another speculative industrial project nearing completion totaling 26,400 SF and is slated to be completed in mid to late May 2023.

SALES: Sales activity slowed in the first quarter of 2022. One notable sale closed during the quarter. An industrial building located at 20794 High Desert Lane sold to an owner/user for \$276/SF. The slowdown is attributed to rising interest rates and lack of available inventory. Investor demand remains very high for industrial products in Bend.

*Written by partner and broker
Graham Dent, SIOR*



BEND IND. VACANCY RATES (Change since last quarter)
■ Increased ■ Decreased ■ No Change

BEND INDUSTRIAL NET ABSORPTION

BLDGS. OVER 3,000 SF

MARKET AREA	NO. BLDGS.	TOTAL SF	VAC. RATE	1ST QTR. ABSORP. SF	TOTAL YTD ABSORP. SF
Southeast	143	1,685,983	1.10%	(10,048)	(10,048)
Northeast	127	2,151,516	0.86%	(7,226)	(7,226)
Central	36	469,915	0.00%	0	0
West Side	12	303,106	0.00%	0	0
TOTAL	318	4,610,520	0.80%	(17,274)	(17,274)



RDM INDUSTRIAL



2.45%
VACANCY



13,672 SF
ABSORPTION

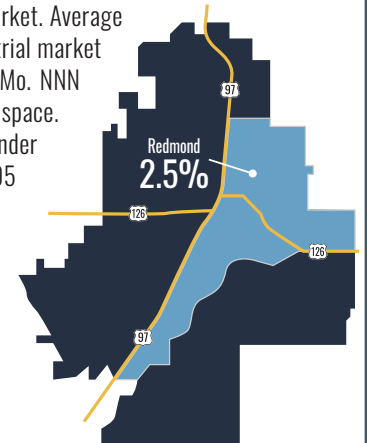
Compass Commercial surveyed 89 buildings totaling 1.72 million square feet for the first quarter Redmond industrial market report of 2023. In Q4 of 2022, we added the new Beacon Industrial Park located at 2405 SW 1st Street totaling 58,568 SF. At the end of Q1, 2023, this property only had 18,858 SF available, resulting in positive absorption of 13,672 SF. At the end of Q4 2022, there was 55,948 SF of industrial space available in Redmond, and there is now 42,276 SF of vacant space in Q1. As a result, the vacancy rate decreased from 3.25% in Q4 to 2.45% in Q1.

LEASING: Activity in the Redmond industrial market continues to show movement. The 42,276 SF currently available is largely due to the addition of the new Beacon Industrial Park, of which 20,968 SF was leased in Q1. We anticipate the remaining 18,200 SF will be absorbed over the next two quarters.

RENTS: The Redmond industrial market continues to be very strong with a slight increase at the top of the market. Average asking rates in the Redmond industrial market are between \$0.85 and \$1.25/SF/Mo. NNN depending on the condition of the space. Asking rates for new projects under construction will be between \$0.95 and \$1.25/SF/Mo. NNN.

CONSTRUCTION: There is currently 50,000 SF to 70,000 SF of industrial space in the pipeline for Q2 and Q3 2023. These industrial buildings are primarily located in southeast Redmond.

*Written by partner and broker
Pat Kesgard, CCIM*



RDM IND. VACANCY RATES (Change since last quarter)
■ Increased ■ Decreased ■ No Change

REDMOND INDUSTRIAL NET ABSORPTION

BLDGS. OVER 3,000 SF

MARKET AREA	NO. BLDGS.	TOTAL SF	VAC. RATE	1ST QTR. ABSORP. SF	TOTAL YTD ABSORP. SF
Redmond	89	1,722,495	2.45%	13,672	13,672

Positive Absorption = Space Leased | Negative Absorption = Space Vacated

FOR LEASE

High Visibility Retail Space
 63011 N Highway 97, Bend
 7,000 SF | \$1.45/SF/Mo. NNN



MULTIFAMILY REPORT | BALANCING SUPPLY & DEMAND

Achieving supply and demand equilibrium is always challenging. Just ask any small business owner (think restaurants). In the housing market, it is an ongoing sequence of market cycles. Bend is experiencing a severe housing shortage. Population growth has exceeded the regions' capacity to produce housing for the last decade. Home prices and rents have skyrocketed.

However, it was only about 14 years ago that there was a glut of housing. Entire neighborhoods sat vacant. Homes prices crashed. Rents plummeted. Apartment vacancies spiked. Builders and developers went broke and left town. Banks were trying to manage a growing inventory of foreclosed homes. How fast things can change, and how quickly we can forget.

No one wants to see that again. But how can the current acute shortage be addressed? At least a partial solution is at hand in the multifamily sector of the housing market. Measuring and forecasting housing supply and demand is an inexact science at best, but let's take a stab at it.

Bend has grown by just under 3% annually over the last decade. That is a strong rate of growth that has put a strain on housing, traffic, infrastructure and more. Some census experts are forecasting a modest slowing of this growth rate. A population influx of 2,000 to 3,000 per year would create demand for 400-500 new apartment units.

New multifamily deliveries have exceeded this number in the last few years. The vacancy rate is inching upward and rent growth last year was just 1.3%. Supply is catching up. There will likely be over 600

units coming online this year, and there are over 2,000 additional units in the pipeline that could be delivered by 2025. Even if Bend's growth does not slow and there is a demand for 600 to 700 units per year, there will likely be a surplus of multifamily housing by 2025. CoStar is predicting that vacancy rates could hit double digits and rent growth will be flat or declining for the next few years. The new multifamily development pipeline for both Bend and Redmond looks extremely robust for the foreseeable future.

RELIEF IS ON THE WAY! This should result in a much better housing environment for apartment residents.

It is not necessarily good news for housing providers, but investors and developers understand the ups and downs of market cycles. They have enjoyed a long cycle of rising rents and property values and should be well positioned to withstand the inevitable changing conditions. Rising interest rates and cap rates, and a more difficult lending environment will be additional headwinds in the short term. In the bigger picture, multifamily ownership in Bend, Oregon will always be a winning investment over the long haul providing much needed housing for a growing and vibrant community.

Call us for all your multifamily buying or selling needs or if you want a deeper dive into our market statistics and tracking of the supply and demand equation.

Written by broker Ron Ross, CCIM



MULTIFAMILY LISTINGS FOR SALE & RECENTLY CLOSED

Sign up for our Multifamily New Listing Alerts by going to
CompassCommercial.com/MFnews

FOR SALE



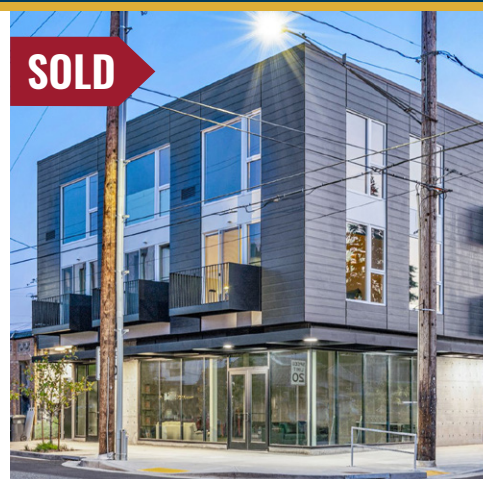
42-Units | \$10,777,000 | 4.24% Cap Rate
Spring Pines Apartments, Bend

SOLD



9-Unit Complex | Sold for \$3,900,000
1455 NW 8th Street, Bend

SOLD



19-Unit Apartments | Sold for \$5,900,000
Nehalem 13 Apartments, Portland



NEW LISTING ALERT

FOR SALE: FULLY LEASED MIXED-USE BLDG
with Significant Upside Potential
10,184 SF | \$1,500,000

Want to know when new listings
like this hit the market?

Sign up for New Listing Alerts at
CompassCommercial.com/Signup

413 W Hood Avenue, Sisters



NOTABLE TRANSACTIONS

Compass Commercial Real Estate Services negotiated the following notable transactions in the first quarter of 2023. For more details about our monthly transactions, please visit CompassCommercial.com/Transactions.



102
TRANSACTIONS



18
SALES



71
LEASES



\$54.6M
CONSIDERATION

	TYPE	PROPERTY	BLDG/LOT SIZE	PRICE	COMPASS COMMERCIAL REPRESENTED
SALE TRANSACTIONS	Land	105 NE Franklin Avenue, Bend	3.53 AC	\$5,100,000	BUYER: Jay Lyons & Grant Schultz
	Multifamily	1455 NW 8th Street, Bend	9-Units 0.28 AC	\$3,900,000	SELLER: Ron Ross, Terry O'Neil, Luke Ross & Dan Kemp BUYER: Ron Ross
	Office	442 SW Umatilla Avenue, Redmond	14,964 SF 1.56 AC	\$3,100,000	SELLER: Jay Lyons, Graham Dent & Grant Schultz
	Bus. Op.	Twin Lakes Resort 11500 S Century Drive, La Pine	20,255 AC	Undisclosed	SELLER & BUYER: Dan Kemp & Peter May
	Land	21455 E Highway 20, Bend	13.62 AC	\$2,383,500	SELLER: Dan Kemp & Peter May
	TYPE	PROPERTY	SF LEASED	LESSEE	COMPASS COMMERCIAL REPRESENTED
LEASE TRANSACTIONS	Office	395 SW Bluff Drive, Bend	9,734 SF	Price Fronk & Co.	TENANT: Bruce Churchill
	Retail	63455 N Highway 97, Bend	15,505 SF	O'Reilly's Auto Parts	LANDLORD: Russell Huntamer & Eli Harrison
	Retail	61334 S Highway 97, Bend	7,290 SF	Play It Again Sports	LANDLORD & TENANT: Russell Huntamer, Peter May & Eli Harrison
	Industrial	455 W Three Peaks Drive, Sisters	15,100 SF	Home Express Delivery Services, LLC	LANDLORD: Bruce Churchill, Russell Huntamer & Eli Harrison TENANT: Dan Kemp
	Office	20310 Empire Avenue, Bend	8,290 SF	Option Care Enterprises	LANDLORD: Jay Lyons, Grant Schultz & Luke Ross



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COMMERCIAL **REAL ESTATE SERVICES**

600 SW Columbia St., Ste. 6100 | Bend, OR 97702
541.383.2444 | www.CompassCommercial.com