Bend
Southeast Expansion Area
Market and Land Use Analysis

January 07, 2018

Prepared for:

City of Bend

CITY OF BEND
SOUTHEAST AREA PLAN

***Final* REPORT**

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Acknowledgments

For over 40 years ECONorthwest has helped its clients make sound decisions based on rigorous economic, planning, and financial analysis. For more information about ECONorthwest: www.econw.com.

ECONorthwest prepared this report for the City of Bend. It received substantial assistance from Angelo Planning Group, City of Bend Staff, and numerous Bend community members, business owners, property owners, and other stakeholders.

That assistance notwithstanding, ECONorthwest is responsible for the content of this report. The staff at ECONorthwest prepared this report based on their general knowledge of real estate economics and on information derived from government agencies, private statistical services, the reports of others, interviews of individuals, or other sources believed to be reliable. ECONorthwest has not independently verified the accuracy of all such information and makes no representation regarding its accuracy or completeness. Any statements nonfactual in nature constitute the authors' current opinions, which may change as more information becomes available.

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Table of Contents

1 EXECUTIVE SUMMARY 3

1.1 DEVELOPMENT OPPORTUNITIES AND CONSTRAINTS 4
1.2 SUMMARY: REAL ESTATE MARKET OUTLOOK 7
1.3 FINDINGS ABOUT LAND USE TYPES 9
1.4 MARKET POTENTIAL FOR SPECIFIC DEVELOPMENT TYPES 10
1.5 IMPLICATIONS FOR THE SOUTHEAST EXPANSION AREA PLAN 14

2 INTRODUCTION 17

2.1 PURPOSE AND BACKGROUND 17
2.2 DATA, METHODS, AND STAKEHOLDER INTERVIEWS 19

3 MARKET AREA ANALYSIS 21

3.1 DEMOGRAPHIC TRENDS 21
3.2 ECONOMIC TRENDS 24

4 REAL ESTATE ANALYSIS 28

4.1 COMMERCIAL REAL ESTATE TRENDS 28
4.2 RESIDENTIAL REAL ESTATE TRENDS 47

5 CONCLUSIONS FOR MARKET POTENTIAL 57

5.1 REAL ESTATE MARKET OUTLOOK 58
5.2 IMPLICATIONS FOR SOUTHEAST EXPANSION AREA LAND USE DESIGNATIONS 60

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1 Executive Summary

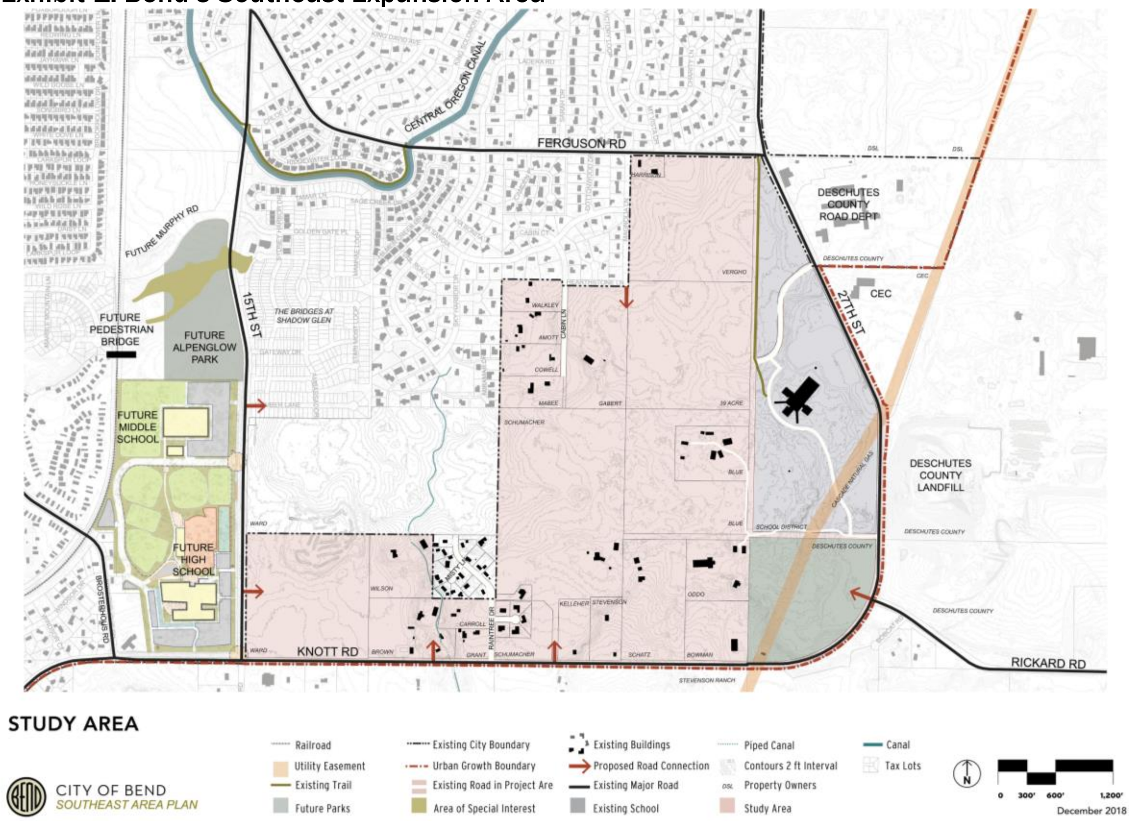
"The goal of this plan is to encourage the development of a complete community (a place where people can live, work, shop and play) in the southeast area of Bend."
CITY OF BEND, SOUTHEAST EXPANSION AREA PROJECT WEBSITE

ECONorthwest is a subcontractor to Angelo Planning Group (APG) on a City of Bend contract to evaluate the market potential for the Southeast Area Plan. The project area, known as the Southeast Expansion Area, or "The Elbow," consists of 479 acres that lie outside of the City limits in the southeast corner of the Urban Growth Boundary (UGB). It is planned to be a significant area of development for the City in the next decade and beyond.

The City would like to see the Southeast Expansion Area redevelop as a mixed-use employment and housing hub that can serve the needs of existing and future residents and employers. Phased development of the area will require a substantial investment in transportation and utility infrastructure, new public facilities such as parks and schools, and the coordinated action of many public and private partners, including 27 separate property owners. This analysis supports decision-making regarding development opportunities. Its purpose is to:

1. Outline the development opportunities and constraints that the City and its partners need to address to achieve the Comprehensive Plan goals for the expansion area.
2. Help stakeholders understand the form and scale of development that is likely to be possible in the expansion area given market conditions and trends.

Exhibit 1. Bend's Southeast Expansion Area



Source: City of Bend, Walker Macy

1.1 Development Opportunities and Constraints

This section presents an overview of some of the opportunities and constraints that participating partners will need to address in order to implement the City's goals for the expansion area. Citywide and local market trends suggest that the Southeast Expansion Area is well-positioned to develop into a complete community, provided that planning for the area can address and overcome infrastructure and other barriers to development.

Opportunities that Support Future Development

Citywide
Bend is well-positioned for economic growth, given the following growth factors: ▪ **Rapid population growth.** Since 2000, the population in Bend grew by 67 percent and is forecast to continue growing at an average annual growth rate of 2.5 percent. By 2040, the City is forecast to reach 154,000 people. ▪ **Quality of life.** Bend is attractive, located in a scenic, high-desert environment with ample access to outdoor recreation. ▪ **Accessibility.** Bend is reachable by major state highways and has good commercial air service. Accessibility will continue to improve as existing efforts to improve infrastructure systems are on track to accommodate increased usage.

- **Active real estate market.** Growth in Bend's real estate market is steady; residential development is increasing and most commercial real estate sectors are seeing low vacancies and increasing rents.
- **Job growth.** The number of jobs in Bend has increased by 58 percent since the year 2000. Local business are expanding and workers and independent contractors continue to move to the City—many state that they are attracted to the area given its high quality of life and plentiful outdoor amenities.

Southeast Expansion Area

The Southeast Expansion Area is well-positioned to become a community hub.

- **The Southeast Expansion Area is one of Bend's "release valve" expansion areas that has good development potential because infrastructure is more readily provided than in other expansion areas.** Given development pressures affecting the entire Bend community, the Southeast Expansion Area is primed for new development of all kinds, but—due primarily to its geographic location, topography, and planned infrastructure and community amenities—the area is especially ready for future residential development.
- **Employment land is scarce in Bend.** Bend's tight supply of easily developable industrial land means that there are currently few locations for business expansions or relocations. The Southeast Expansion Area provides an opportunity to capture future business growth; especially for mid-sized industrial users, e.g. breweries, small manufacturers, "makers" or craft industrial users, artisans, small inventory warehouses, etc.
- **Potential for a vibrant new "Complete Community" hub.** The lack of community and commercial services in southeast Bend creates an opportunity for a "complete community" hub to serve new and adjacent existing neighborhoods. As envisioned by Bend's Comprehensive Plan[1], complete communities provide a range of housing types, and many essential services and amenities needed for daily living, all connected by walking/biking paths and circulator streets. This concept for the area will also help achieve other City goals related to climate change and transportation options.
- **The foundation of Bend's economy is in small businesses.** Independent contractors, telecommuters, and small niche companies make up a sizeable portion of Bend's economy and many of these small companies are currently expanding. Planned mixed employment zones and commercial and industrial areas will provide opportunities for the flexible space demands of these small, but important, businesses.
- **Planned community anchors create opportunities.** Planned and funded new schools and parks in and adjacent to the Southeast Expansion Area will create momentum for new development and eventually provide community activity centers. These "anchor" locations provide opportunities and focus for capital investments and future area linkages.

Constraints that Limit Redevelopment

Citywide

Bend is one of the fastest growing cities in the country and is facing several growth-related challenges:

- **Lagging housing supply constrains economic development.** Despite an increased number of local housing starts, the housing supply is not keeping pace with the demands of Bend's

[1] City of Bend Comprehensive Plan, Chapter 11: Growth Management, Page 4

ever-growing population. Businesses are being held back because many prospective employees, at all income levels, are unable to find places to live.

- **Tight housing market is decreasing housing affordability for many Bend residents.** Affordable housing is increasingly out of reach for many Bend residents. The imbalance in the housing market—a result of housing development lagging behind housing demand—is raising the cost of housing at all price levels.
- **There are few easily buildable, serviced, large-scale industrial development sites remaining within the City.** The Bend area lacks easily unlocked large-scale industrial development sites. Large sites in expansion areas identified for future industrial development—such as Juniper Ridge and the DSL Area—all face infrastructure-related challenges, to varying degrees.

Southeast Expansion Area

There are several challenges that need to be addressed for the Southeast Expansion Area to develop and thrive:

- **Infrastructure constraints.** The biggest issue facing the City as it explores development in the Southeast Expansion Area is figuring out a cost-effective way to develop the necessary infrastructure in appropriate phases that spreads the cost burden across property owners and does not impede development.
    - **Integration with existing neighborhoods.** Connectivity to adjacent neighborhoods is limited due to the need to build out the transportation network in the area.
    - **Transportation and Access.** While the area has access to major state highways, it needs new roads and internal connectivity that can support a mix of commercial and residential units.
- **Policies to encourage a range of housing types and densities.** Meeting the demands of Bend's growing (and aging) population in the area will require a greater mix of housing types and forms than the market has delivered in southeast Bend in recent years. Further, enabling targeted affordable and workforce housing will be an additional challenge. The City has policies and regulations intended to guide a wide range of housing types, but realizing these developments in the Southeast Expansion Area will take concerted planning and partnerships.
- **Negative perceptions about the distant location of the area.** Prospective developers will need to overcome the stigma about the area's peripheral location. Stakeholders talked about how businesses see it as "way out there." In the current cycle, businesses are generally more attracted to the core and west side areas of Bend.
- **Zoning mismatch with development interest.** Stakeholders have a range of views of the plan zone designations. The City should continue to listen to stakeholders and keep an open mind about refinements to the adopted plan designations, consistent with overall policy objectives in the Comprehensive Plan.

1.2 Summary: Real Estate Market Outlook

Residential Real Estate

The City of Bend has seen increasing population growth and economic expansion since the Great Recession. Bend continues to be among the fastest-growing cities in the United States. These trends have translated to increased housing demand, which has driven up prices for housing above those in other cities in the region and has sparked renewed housing development activity. Like Bend's past trends, many of the City's new residents are older, with no children living at home. However, despite a demographic shift towards smaller households, most new construction remains single-family detached housing. Exhibit 2 provides a brief summary of residential market trends.

Exhibit 2. Bend Region Residential Market Trends

	Market Trends	Deliveries	Demand Drivers
Single-Family	Home prices continue to rise year over year. Housing starts are not keeping pace with housing demand.	After seeing a major slowdown in housing starts during the recession, Bend has seen year over year increases in single-family housing construction.	The primary demand driver is Bend's rapid population growth. Bend continues to see an influx of new residents, many of whom arrive with equity from sales of homes in more expensive housing markets.
Multifamily	Multifamily rents have steadily increased year over year since the recession. Multifamily vacancy has fluctuated over the same time period, but has recently started to tighten up. Bend area multifamily vacancy now hovers around 4 percent—a sign of a relatively tight rental market.	There were few multifamily housing deliveries to the Bend market since the recession until 2016. Since then deliveries have jumped to over 500 units per year. The vast majority of these units are rental units (as opposed to for-sale condominiums).	Bend multifamily rents are still relatively affordable compared to other metro regions in the west, but the overall lag in housing construction—for both rental and ownership housing products—is putting increasing pressure on the multifamily market. Rents are steadily rising as a result.

Source: ECONorthwest, CoStar, U.S. Census

Commercial/Industrial Real Estate

Bend's commercial real estate markets have responded to the rapidly accelerating recovery and expansion of the region's economy. Most markets are seeing shrinking vacancies and increasing rents—a sign of a strengthening real estate market.

Exhibit 3 provides a summary of recent commercial market trends.

Exhibit 3. Bend Region Commercial Real Estate Market Trends

	Market Trends	Deliveries	Demand Drivers
Industrial and Flex	Generally, rents have been on the rise and vacancies have been declining.	Multiple new industrial and flex buildings have been delivered to the Bend market since the recession. In the past decade new industrial development has been focused in the north and central areas of Bend.	Many businesses are expanding but there have been few new businesses moving to the Bend area. Recent leases show a demand for primarily smaller spaces (under 10,000 square feet), with the exception of build-to-suit projects, which tend to be larger (15,000 to 50,000 or more square feet).
Office	Vacancies have fluctuated widely over time and by subarea—the west side of Bend has historically had the highest office vacancies, whereas downtown and 3rd St have had the lowest. Rents have been on a steady rise since 2013.	There have been fewer office deliveries than other commercial real estate markets. The majority of Bend's office space was constructed before 2009. Recent deliveries have been relatively small sized projects of less than 10,000 square feet.	Office market trends are indicative of Bend's diffuse business market—most Bend companies have fewer than nine employees.
Retail	Rents have risen to 10-year highs and vacancies have fallen.	Since 2014, 178,000 square feet of new retail space has been delivered. Much of this retail space has been near Bend's core, and in the northern and western portions of the city.	Bend's retail market has made strong gains since the recession. The local population's relatively high wealth and the thriving tourist economy contribute to a growing retail scene.

Source: ECONorthwest, and CoStar

1.3 Findings about Land Use Types

Based on conversations with local stakeholders and findings from our research into real estate market trends, the Southeast Expansion Area is poised to accommodate a range of new development types. However, each new development type faces a set of market and physical development challenges. Exhibit 4 provides an overview of the general land use types proposed for the Southeast Expansion Area.

Exhibit 4. Land Use Type Potential Summary

Land Use Type	Plan Zone Designations	Research Findings and Stakeholder Input about this Development Type
Commercial		
Office	CG, ME	▪ Challenges to commercial development include high land costs, inadequate utility and transportation infrastructure, high building costs, fees, and lack of other commercial uses to drive traffic.
Industrial	IG, IL	▪ There is no more land that is easy to develop in Bend, despite local business interest in expansions.
Retail	CG, CL, ME	▪ Retail will be necessary to support housing development in the area, but on its own, it is not likely to be successful given the area's location and transportation access. ▪ Housing development will drive the need for retail in this area. ▪ There is an opportunity for a village-style retail hub if the area can attract enough people.
Residential		
Single-Family	RL, RM, RS	▪ Concentrating new housing near schools makes sense, but housing will also need to be located near commercial services. ▪ Rents are increasing, housing is limited, and land is scarce. Residential development needs to occur quickly.
Multifamily	RM, RS, RH	▪ Existing apartments are filling up quickly. ▪ Affordable and workforce housing should be part of the housing mix. ▪ Flexible zoning can allow a mix of higher density residential with employment uses. ▪ Construction costs are high relative to local market desires/demands, complicating efforts to attract financing to multifamily projects.

Source: ECONorthwest interviews with stakeholders

1.4 Market Potential for Specific Development Types

At the highest level, this analysis supports what Bend residents intuitively know: the City's macroeconomic situation is one of growth. Data show that the population is growing rapidly and it is expected to continue to do so in the future. Bend's economy also continues to expand, driven by population growth as workers from elsewhere are drawn to Bend's high quality of life.

The City of Bend Comprehensive Plan provides policy direction for the future of the Southeast Expansion Area. Policy 11-76 of the Plan succinctly describes the goal for future growth to achieve in this UGB expansion area:

"[The Southeast Expansion Area]… is intended to provide for employment uses to take advantage of good transportation access on Knott Road and 27th and existing city streets (and future improved access with the Murphy Extension) with a mix of residential uses providing a compatible transition from the employment lands to existing neighborhoods to the west. This mix of uses is also intended to increase the completeness of the existing low density neighborhoods.[2]"

Overall, our research shows that trends are headed in a positive direction for the planned land uses in the Southeast Expansion Area, and that the overall mix of uses is responsive to market conditions. That said, intentional phasing, investment in infrastructure, and planning for mixes of uses will be critical to successful implementation of the vision for the Southeast Area Plan. Over the course of the area's build-out market conditions are likely to shift, and near-term opportunities may need support to ensure that the long-term vision is achieved. *More detailed discussion is provided in the Conclusion Section of this report (Page 57).*

[2] City of Bend Comprehensive Plan, Chapter 11: Growth Management, Page 32

A Note about The Market Potential Estimates

These market potential estimates were created through a reconciliation of our Bend area market research, our discussions with local stakeholders, and our experience working on similar estimates in other regions.

The timeframes used in these estimates are related to the timing of infrastructure development and pre-development planning for the Southeast Expansion Area. That is, each timeframe is in relation to the initiation—the starting point—of infrastructure and land development in the area. These timeframes are not related to a current day starting point. This is an important distinction. There is substantial work that needs to take place to plan and implement a successful infrastructure plan before development can be initiated.

Market Potential Definitions

High	High market interest. Limited policy support or subsidy needed; that is, the market is likely to develop these uses with little public support.
Medium	Limited to prime locations where development is most likely to occur. Some development in this category are likely to require partnerships and intentional policy focus, e.g. regulations and incentives to promote missing middle housing
Low	Development will require public subsidy and targeted policy focus, e.g. strategic plans, dedicated funding, or specific programs to support these uses.

Market Potential for Commercial Land Uses

Retail

Exhibit 5. Southeast Expansion Area: Market Potential for Retail Uses

Development Type	Plan Zone Designations	Market Potential		
		Near-Term (0-5 years)	Mid-Term (5-10 years)	Long-Term (10-20 years)
Destination Retail	CG	Medium	High	High
Neighborhood Retail/Services	CG, ME	Medium	High	High
Boutique Retail	CG, ME	Low	Low	Medium
Restaurants/Cafes/ Brewpubs	CG, ME	Low	Medium	High
Grocery Stores	CG, ME	Low	Low	Medium

Source: ECONorthwest.

Office

Exhibit 6. Southeast Expansion Area: Market Potential for Office Uses

Development Type	Plan Zone Designations	Market Potential		
		Near-Term (0-5 years)	Mid-Term (5-10 years)	Long-Term (10-20 years)
Live-Work Units	ME	Low	Low	Low
Home-Offices	ME, RH, RM, RS	Medium	Medium	High
Neighborhood Services (Tax services, Dental offices, etc.	CG, ME	Medium	Medium	High
Corporate Offices	CG, ME	Low	Low	Medium

Source: ECONorthwest.

Industrial

Exhibit 7. Southeast Expansion Area: Market Potential for Industrial Uses

Development Type	Plan Zone Designations	Market Potential		
		Near-Term (0-5 years)	Mid-Term (5-10 years)	Long-Term (10-20 years)
Warehouse	IG, IL	High	High	High
Manufacturing	IG, IL	Medium	Medium	High
Distribution	IG, IL	Low	Low	Low
Flex	IG, IL, ME	Medium	High	High

Source: ECONorthwest.

Market Potential for Residential Land Uses

Exhibit 8. Southeast Expansion Area: Market Potential for Residential Land Uses

Development Type	Plan Zone Designations	Market Potential		
		Near-Term (0-5 years)	Mid-Term (5-10 years)	Long-Term (10-20 years)
Single-Family Example: detached single family homes	RS	High	High	High
Multifamily Example: a 20 unit apartment building	RH, RM, RS	Medium	Medium	High
Multifamily Mixed Use Example: a five story building with residential units over a commercial first floor	RH, ME	Low	Medium	Medium
Missing Middle Housing Example: townhomes or a cottage housing cluster	RM, RH	Medium	Medium	High
Affordable Housing* Example: Subsidized low income housing	RS, RM, RH	Low	Low	Low

Source: ECONorthwest. *Note: Affordable housing is a non-market use. Across all timeframes, affordable housing will require targeted strategy and actions to be achievable.

1.5 Implications for the Southeast Expansion Area Plan

There is market support for the land use designations proposed for the Southeast Expansion Area. Our research indicates that there is market support for the land use designations identified by the City for the Southeast Expansion Area. The market potential for each of these land uses varies from use to use and over the 20-year development timeframe.

> **Implication**: The City's vision for a complete community, as implemented through the land use designations, is possible to achieve over the development timeframe, but will require focused attention and investment for successful implementation. Some development types (lower density residential, for example) will require little public subsidy or targeted policy. Others, such as affordable multifamily housing, will require focused action and targeted incentive packages. Understanding that each land use does not begin at the same starting line will help the City guide policies, actions, and incentives to encourage desired land uses and to achieve Southeast Expansion Area policy goals.

Housing development will lead. Given population growth and demand for housing, residential development is likely to be the leading development type in the first phase of development; commercial and employment uses will be a crucial component of the Southeast Expansion Area but will serve to create a complete community and neighborhood amenities that drive housing sales / rents.

> **Implication**: The City should seek to phase infrastructure in a way that provides key connections in the area to support housing, which will likely be developed first, while providing connections to employment sites and mixed-use sites. Residential development in the SE 15th Opportunity Area, adjacent to the Southeast Expansion Area, will go a long way towards "jump-starting" other development by adding roads, water, and sewer infrastructure that can serve adjacent residentially designated land in the Southeast Expansion Area.
>
> Crucial to the success of housing development are new parallel public and private investments in retail, schools, and parks. Housing by itself does not create a sense of place; it needs supportive uses and amenities to attract residents and become a complete community.

Achieving diverse housing types will require intentional action. Without policy and financial support and incentives, multifamily rental or ownership housing, and cottage or missing middle housing types may be limited and/or may not be part of early development phases. While some of these housing types are in high demand across the City, without targeted planning and policy support, developers may trend toward largely single-family development patterns.

Implication: The City will need to actively plan for select portions of the Southeast Expansion Area to accommodate focused multifamily and/or missing-middle housing types, including accommodations for parking and nearby retail and civic amenities (e.g. parks, trails, etc.). Moreover, the City must continue its efforts to align housing policies with development incentives. Guidelines and regulations can regulate housing sizes, types, and densities; but more focused partnerships and targeted incentives are also necessary to achieve new housing development.

The City will need to take the lead in a proactive infrastructure funding and phasing plan. Some land uses in the Southeast Expansion Area are likely to develop before others but may not always be aligned with the most cost-effective infrastructure investments. Further, some property owners may be more prepared to develop their properties than others. Therefore, infrastructure must be sequenced in a way that successfully supports upcoming development but leverages existing or previous infrastructure investments.

Implications: The City is well-positioned to organize and lead Southeast Expansion Area stakeholders to an achievable and balanced infrastructure development plan. The City should take the lead to develop an infrastructure funding plan that has buy-in from a broad range of stakeholders including property owners and representatives from adjacent neighborhoods, community institutions, and prospective employers. The process of developing that infrastructure plan should be transparent, and seek to balance costs across partners.

Small businesses present opportunities for future economic growth in Bend. The foundation of Bend's economy is in many small businesses. Independent contractors, telecommuters, and small niche firms are common Bend business types. Many of these companies have been quite successful, and in recent years business expansions have been accelerating. The path to success for the Southeast Expansion Area will, in part, rely on supporting these small but crucially important businesses.

Implications: The City should seek policies and plan designations that support development types that allow for flexible spaces and varied uses. Mixed use zones are a start, but ultimately, it will take ongoing engagement and coordination with the local business community to ensure that the Southeast Expansion Area provides the sites and spaces demanded by future businesses.

Bend has a strong and urgent need for more affordable housing. The Bend housing market is increasingly expensive, creating increasing challenges for lower income households. There is and will continue to be demand for affordable housing to serve a range of households of various income levels across the community, including in the Southeast Expansion Area.

> **Implication:** For affordable housing to be successfully developed in the Southeast Expansion Area, the City should consider developing a targeted affordable housing plan. The plan would include a range of policy and incentive measures to guide and encourage affordable housing development. Policy measures in this plan could include targets for the number of units in the area and the depth of affordability of those units. Incentive measures could include land-banking, partnerships, and targeted financial incentives.

2 Introduction

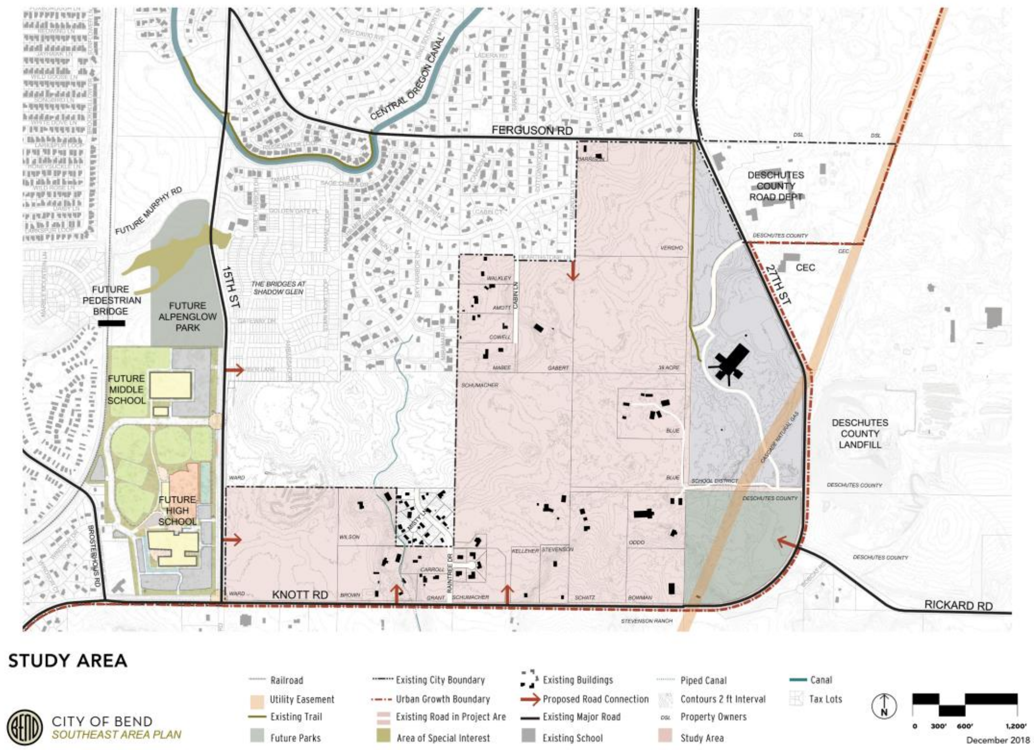
ECONorthwest is assisting a multi-disciplinary team led by Angelo Planning Group (APG) to develop an area plan for the Southeast Expansion Area, a.k.a the "Elbow," in the City of Bend, Oregon. This assessment examines demographic and real estate market trends to identify market support for various land uses allowed by the adopted comprehensive plan designations.

2.1 Purpose and Background

The purpose of this analysis is to identify and refine viable land uses for the Southeast Expansion Area. This report evaluates the market viability of various development types that are anticipated to locate in the expansion area and will also inform future discussions about the mix of uses in the area.

The Southeast Expansion Area, defined in the City of Bend's 2016 Urban Growth Boundary (UGB) expansion as "The Elbow," consists of 479 acres located outside the City limits in the southeast corner of the UGB. The area's developable land is divided into 31 parcels with 27 separate property owners. The area is bounded by Knott Road to the south, SE 27th Street to the east, and the current City limits to the west and north. The area includes High Desert Park, an undeveloped but designated City park; High Desert Middle School; several pockets of homes; and a few businesses. Exhibit 9 depicts the Southeast Expansion Area.

Exhibit 9. The Southeast Expansion Area



Source: The City of Bend, Walker Macy

The City of Bend's goal for the Southeast Expansion Area is *"to encourage the development of a complete community (a place where people can live, work, shop and play) in the southeast area of Bend.*[3]*"* The City's Comprehensive Plan indicates the types of complementary uses possible for the site. They include: "a mix of residential, commercial and industrial uses, including 122 gross acres of residential plan designations, 67 gross acres of commercial plan designations, 76 gross acres of industrial designations, 103 gross acres of mixed employment plan designations, and 75 gross acres of public facilities (excluding existing right of way)."[4]

To support the City's development goals, ECONorthwest defined the following objectives for this market analysis:

- Build from the base of land use policies that have been initiated for the Southeast Expansion Area to provide more clarity on the form and types of uses that the regulatory environment and the market together will allow and encourage.

[3] https://www.bendoregon.gov/government/departments/growth-management/land-use-planning/southeast-area-plan

[4] City of Bend. (2016). Bend Comprehensive Plan, page 132.

- Inform decision-makers on policy changes or amendments that would better align regulations with current and anticipated future market trends.
- Identify barriers that might hinder the realization of Southeast Expansion Area land use designations.
- Identify land use opportunities that further the vision and goals for the Southeast Expansion Area.
- Identify actions that the City of Bend can take to encourage successful development and community benefit outcomes in the Southeast Expansion Area.

With the key objectives of the market analysis in mind, the following questions guide the study's research:

- Given the current and projected future growth of the Bend community, and the Southeast Expansion Area's locational attributes, what land uses are likely to be in future demand in the Southeast Expansion Area?
- There is a lot of emphasis on industrial/commercial uses in the Southeast Expansion Area. What do local market trends and recent changes in business methods and needs tell us about what type and form of industrial/commercial properties to expect to be attracted to the area?
- Which specific market segments (e.g. housing, manufacturing, retail) will drive development in the Southeast Expansion Area, and which are more likely to be supportive uses?
- The Southeast Expansion Area will contain a range of different uses. Are there examples in the greater Northwest region of other newly developed areas that have successfully combined typically divergent land uses? And if so, how have local actors planned for and successfully managed these areas?
- For each market sector, at what rate can development be expected to unfold in the Southeast Expansion Area?

2.2 Data, Methods, and Stakeholder Interviews

In this study we drew from a variety of data sources to compile an understanding of the Bend Market. Source citations can be found on each page with quantitative data. We also relied on stakeholder interviews to fill in the gaps between data, and tell the local, qualitative story of the Bend area. We conducted these interviews in the summer and early fall of 2018. The interviewees represented property owners, economic development professionals, and local real estate brokers.

Interview summary points and quotes are included both within sections, and at times in call-out boxes in the summary pages for each section. Mixing the qualitative input from locals with on-the-ground knowledge and perspectives is crucial to understanding the entire story of Bend's market. Although we use direct quotes, to protect the anonymity of each respondent, we have not attributed any of them to individuals.

The following individuals were interviewed by ECONorthwest between July and October of 2018.

Exhibit 10. Stakeholder Interview List

Interviewee	Affiliation
Dixon Ward	Southeast Expansion Area Property Owner
Steve Wilson	Real Estate Broker and Developer
Brian Fratzky	Real Estate Broker and Developer
Jeff Reed	Real Estate Developer and Southeast Expansion Area Property Owner
Katy Brooks	Bend Chamber of Commerce
Greg Blackmore	Consultant and Developer

3 Market Area Analysis

In this section, we examine the demographic and economic market trends that will influence and inform future land uses in the Southeast Expansion Area.

3.1 Demographic Trends

Demographic Trend Summary

As of 2017, Bend's population was 86,765 people and has grown by 67 percent since 2000. Bend's population is expected to continue to grow at an average annual growth rate of 2.5 percent, according to Portland State University[5]. At this growth rate, Bend is forecast to grow by about 67,000 people by 2040. Bend is predominantly growing due to new people moving to the area (more than natural growth from births exceeding deaths). Migrants accounted for 84 percent of the new population in Deschutes County from 2000 to 2016.

Bend is also seeing demographic changes that will have implications for future housing demand. Since the year 2000:

- Bend's population aged 60 or older grew by 33 percent.
- Residents identifying as Hispanic or Latino increased by 206 percent, and the share of Bend's population that is Hispanic or Latino increased from five percent of the population to nine percent.
- The income characteristics of Bend households are changing. There are proportionally more wealthy households than there were in past decades. About 23 percent of Bend's households earn more than $100,000 per year, up from nine percent in 2000. In this same period, the *share* of lower income households decreased. However, the total number of low income households in Bend increased over this time period. The total number of households earning less than $25,000 per year increased from 5,623 households in 2000 to almost 7,000 by the latest U.S. Census Estimates.

Stakeholder Interview Findings:

- "Bend is on the map! People want to live in Bend, but it is increasingly becoming less affordable."
- "The Southeast Expansion Area is not a destination now, but it could one day serve as a community hub."

[5] Source: Population Research Center and PSU

Bend Demographic Trends[6]

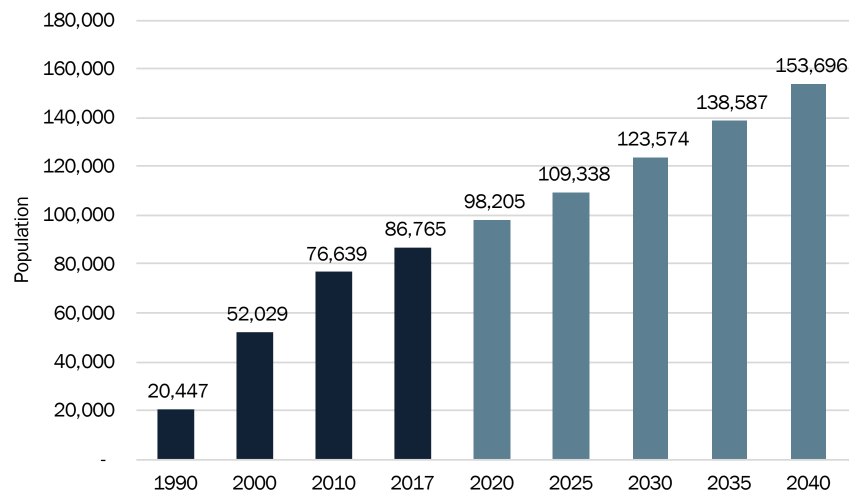
Demographic trends show how communities have grown and how they will shape future growth. The following summarizes key findings from our analysis.

Population in Bend grew by 67 percent from 2000 to 2017.

From 2020 to 2040, Bend's population is forecast to grow another 57 percent.

Exhibit 11. Population Growth and Forecasted Population, Bend UGB, 1990 through 2040

Source: Population Research Center and PSU.

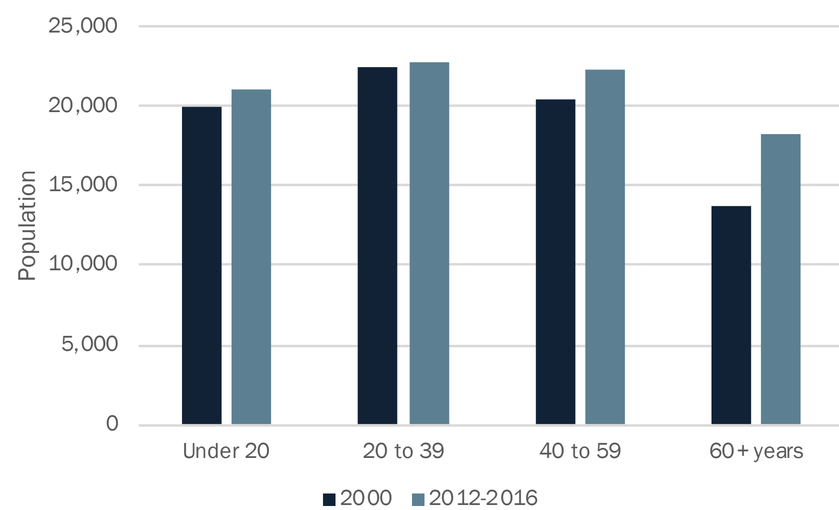


Bend's population is aging. From 2000 to 2016, the population aged 60 or older increased by 33 percent.

Comparatively, those aged under 20 grew by six percent, those aged 20 to 39 grew by one percent, and those aged 40 to 59 grew by nine percent.

Exhibit 12. Age Distribution, Bend, 2000 to 2012-2016

Source: U.S. Decennial Census, 2000, Table P012. American Community Survey, 2012-2016, Table B01001.



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[6] The American Community Survey pools data over five-year periods, which increases its statistical accuracy for smaller geographies with too few households to provide reliable one-year estimates.

A majority of population growth in Deschutes County is due to in-migration.

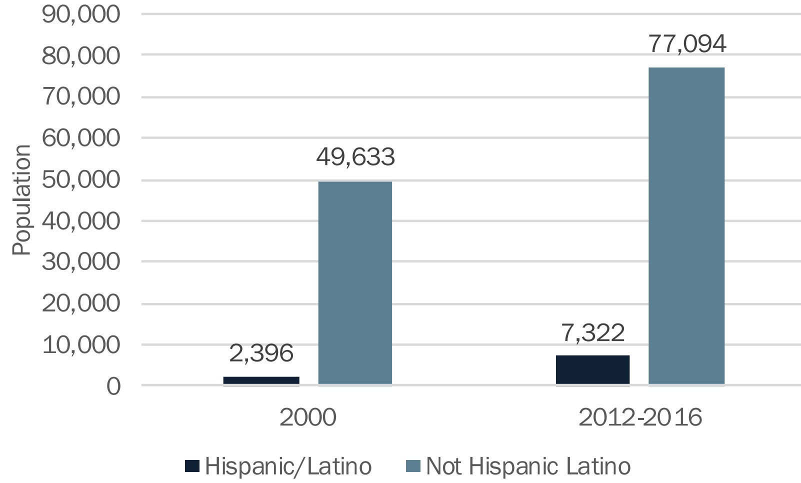
Exhibit 13. Migrant Share of New Population, Deschutes County, 2000 to 2016
Source: Portland State University Population Research Center.

Deschutes County	**61,268** New Population	**51,344** New Population From Migration	**84%** Proportion of Growth due to Migration
Oregon	**654,951** New Population	**420,150** New Migrant Population	**64%** Migrant Share of Growth

Bend's population became more ethnically diverse between 2000 and 2016.

The population identifying as Hispanic/Latino increased by 206 percent while the rest of the population increased by 55 percent.

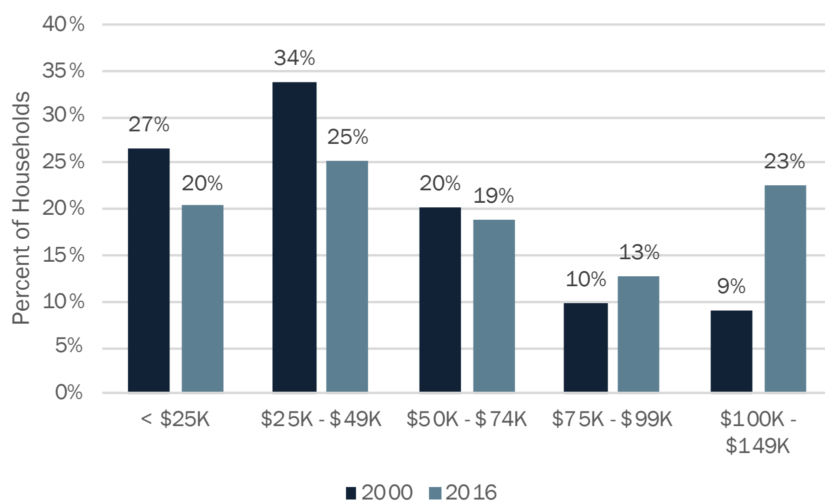
Exhibit 14. Ethnic Composition, Bend, 2000 to 2012-2016
Source: U.S. Decennial Census, 2000, Table P008. American Community Survey, 2012-2016, Table B03002.



As of 2016, about 54 percent of Bend households made $50,000 per year or more, compared to 39 percent of households in 2000.

The median household income in Bend was $55,625 in 2016, compared to $40,610 in 2000.

Exhibit 15. Household Income Distribution, Bend, 2012-2016
Source: U.S. Census, 2000 Decennial Census, SF3, Table DP-3 and ACS, 2012-2016, Table B19001.



3.2 Economic Trends

Economic Trend Summary

Bend's economy has seen strong growth since the Great Recession. At 3.6 percent, the City has one of the lowest unemployment rates in the state of Oregon[7]. Job growth has been substantial; since 2000, the number of jobs in Bend has grown by 58 percent[8]. Over the next decade, Bend is projected to see the most gains in employment in office/service, retail, and industrial jobs.

The Southeast Expansion Area is one of the largest undeveloped areas within Bend's Urban Growth Boundary. The City should account for the following economic trends when planning for the area:

- **Small businesses present opportunities for economic growth in Bend**. In 2013, the average size for a private business in Deschutes County was 8.5 employees per business, compared to the State average of 11.2 employees per private business.[9] Independent contractors, remote workers, and small start-ups are a sizable business sector in Bend's economy. Expansion area planning should consider the needs of these often-overlooked businesses.
- **With its mild climate and popular local outdoor amenities, Bend will continue to attract workers at all skill levels that are seeking a high quality of life location**. Bend is a highly desirable place to live, especially for those who enjoy outdoor activities. Maintaining and leveraging this employment population growth will require a continued focus on developing high-quality and attractive complete communities.

Stakeholder Interview Findings:

- Stakeholders opined that Bend is more resilient to market cycles than other cities due to the city's constant growth, and entrepreneurial nature of small businesses.
- "We have a higher number of people that work from home."
- "Demand is coming from small business. We're a city of nine person companies."
- "Lots of companies are expanding [in Bend]; not many are relocating [to Bend]."
- "Our tech sector wants to grow but they can't find enough skilled workers in the area. A couple companies have started small offices in Portland to fulfill their need for employees."
- Multiple stakeholders mentioned that many local companies rely on the Portland area distribution space and logistics support, instead of storing and shipping products from Bend.

In 2005, the City of Bend created a list of target industries to strengthen and widen the City's economic base[10]. Many of these industries have a strong role to play in the future development of the Southeast Expansion Area.

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[7] Source: Bureau of Labor and Statistic

[8] Source: U.S. Decennial Census, 2000, Table DP-3. ACS, 2012-2016, Table S2405.

[9] US Bureau of Labor Statistics Quarterly Census of Employment and Wages

[10] City of Bend Economic Sector Targeting Report, 2005

Bend's Target Industries[11]

- **Higher Education, Health Care, and Hospitality –** According to the City of Bend, the mix of future uses in the Southeast Expansion Area is intended to "increase the level of completeness of the existing low density neighborhoods.[12]" Fostering growth in Bend's education and healthcare sectors will not only support residential growth in the area, but also create jobs in some of Bend's fastest growing industries.[13] The construction on a new high school is expected to be complete by 2021 with plans for a middle school and elementary school in the area (in addition to the middle school currently on site)[14]. These schools will become important community anchors for Southeast Expansion Area residents.

  Despite their recent growth, the healthcare and hospitality sectors are likely to play a more supportive role in the area.

- **Secondary Wood Products and Renewable Energy Resources** – The Bend City Council emphasized the importance of "Traded sector" industries in its 2005 Targeting Report, which refers to industries or businesses that sell their services or products beyond the local market area. Encouraging growth in Bend's Secondary Wood Products and Renewable Energy Resources industries will allow Bend to stay competitive in the broader regional economy. Several plan designations in the Southeast Expansion Area are appropriate for these uses—plus the area's easy access creates an attractive location for traded sector companies.

- **Aviation and Aerospace, Recreational Equipment, Specialty Manufacturing, and Information Technology** – These traded sector industries have been rapidly growing in Bend. Locally grown companies like Ruffwear and Hydroflask got their start only a few years ago, and now are nationally recognized brands with expanding product ranges. The Southeast Expansion Area could play a large role in supporting these, and other, local and growing businesses.

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[11] For further discussion see the City of Bend's latest Economic Opportunity Analysis (EOA), Page 29.

[12] City of Bend Comprehensive Plan, Chapter 11: Growth Management, Page 32.

[13] US Census 2012-2016 ACS and City of Bend Economic Opportunities Analysis (2016)

[14] Bend LaPine School District

Economic Trends

Economic trends show how economies are evolving and what that means for businesses and employees. The following data summarizes key findings from our analysis.

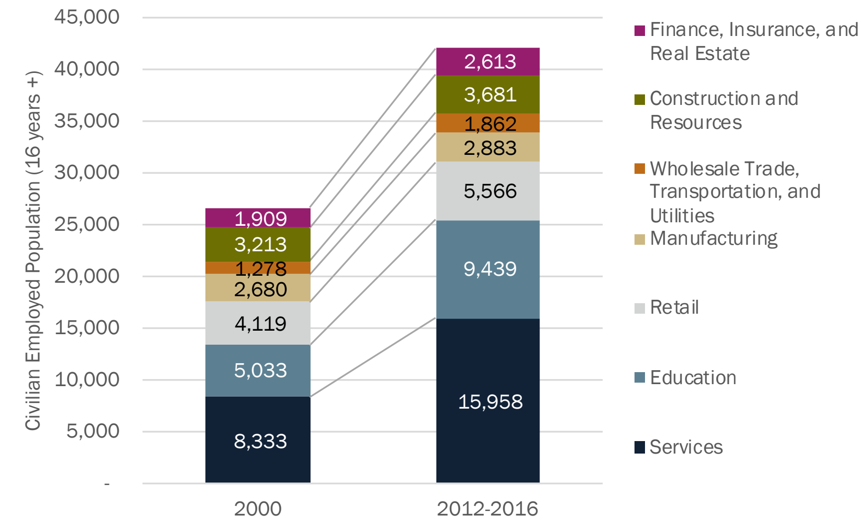
The number of jobs increased by 58 percent from 2000 to 2016.

From 2000 to 2016, the jobs to person ratio stayed relatively static at 0.50.

The services industry saw the largest percent increase from 2000 to 2016, growing by 92 percent. The manufacturing industry saw the smallest percent increase, growing by only 8 percent.

Exhibit 16. Industry by occupation for the civilian employed population 16 years and over, Bend, 2000 to 2012-2016

Source: U.S. Decennial Census, 2000, Table DP-3. ACS, 2012-2016, Table S2405.

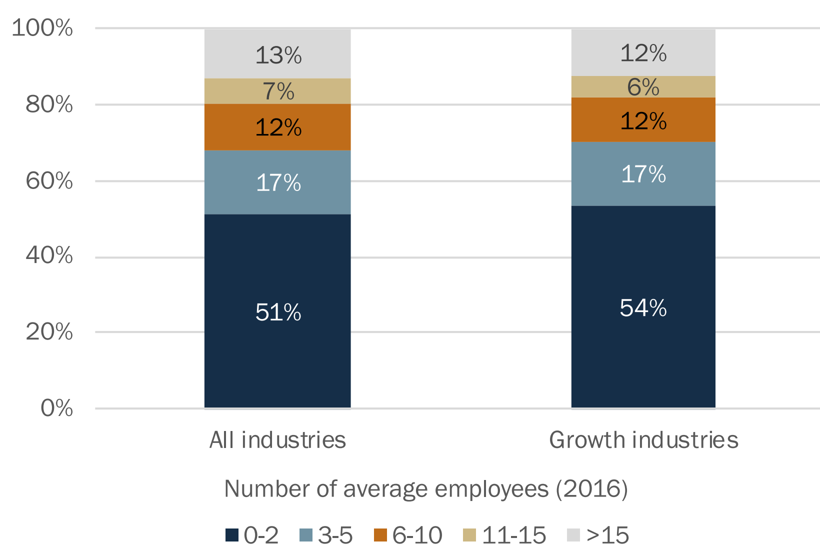


The majority of businesses (51 percent) in Bend had an average of 0-2 employees in 2016.

The distribution of business sizes was about the same for businesses in Bend's five fastest growing industries (services, education, retail, wholesale trade, and finance and insurance.) 54 percent of these businesses had an average of one or two employees in 2016.

Exhibit 17. Business Size Distribution, Bend, 2016

Source: Bureau of Labor Statistics, Quarterly Census of Employment and Wages Data

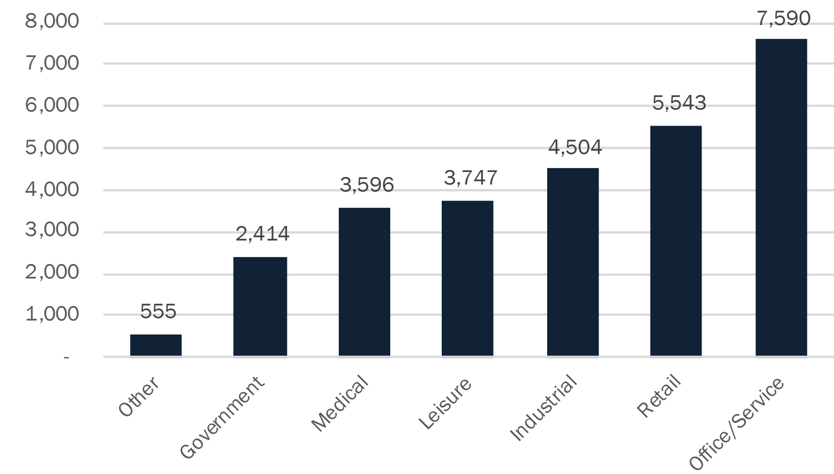


In 2008, 45,840 people were employed in Bend (including shift workers).

Bend's employment forecast for 2028 shows employment growing by 61 percent (73,789 employees in 2028).

Exhibit 18. Forecasted New Employees, Bend, 2014 through 2028

Source: City of Bend. (2016). Bend Economic Opportunities Analysis, Bend's Growth to 2028.

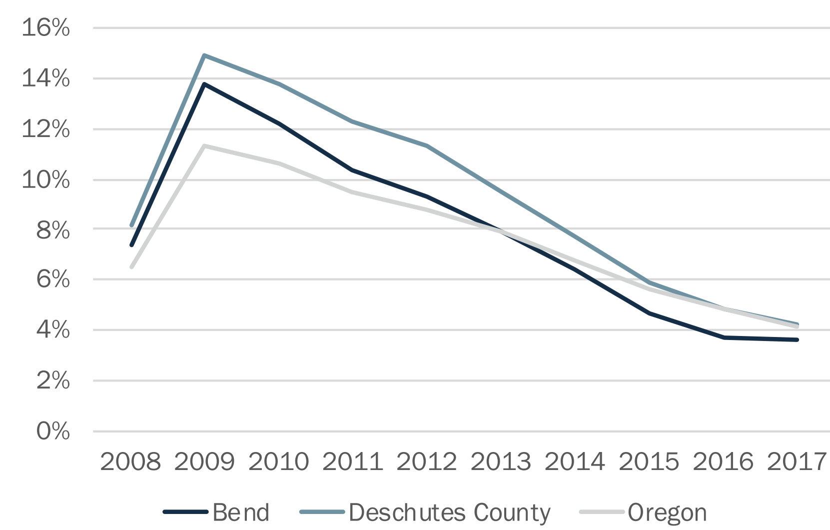


Bend's unemployment rate dropped below the state's in 2013 and has remained below state levels since that point.

In 2017, Bend's unemployment rate was 3.6 percent. In comparison, unemployment in Deschutes County was at 4.2 percent, and unemployment in Oregon was at 4.1 percent.

Exhibit 19. Unemployment Rate, Bend, Deschutes County, Oregon, 2008 to 2017

Source: Bureau of Labor and Statistics



4 Real Estate Analysis

The market for new development in the Southeast Expansion Area is divided into *commercial* and *residential* real estate sectors.

- Commercial real estate is any non-residential property used for commercial profit-making purposes. It includes office, industrial, flex space, retail, and hotel development types.
- Residential real estate includes any product type that is developed for people to live in. It includes rental and ownership housing, including apartments, condominiums, single-family homes, townhomes, manufactured homes, and student housing.

4.1 Commercial Real Estate Trends

This section details Bend's commercial real estate conditions and identifies market drivers and trends that will influence the market appeal and viability of commercial uses in the Southeast Expansion Area.

Industrial and Flex Space: Industrial rents have risen, and vacancy rates have declined since 2010. However, there has been sporadic levels of construction since the Great Recession. Bend's flex real estate market follows a similar pattern, with vacancy rates declining since 2008 and rents per square foot reaching peak levels in 2018.

Office: Rents per square foot for office dipped in 2007 but began to rise again in 2013. Vacancy rates fluctuated sharply over the same period. The majority of office space was developed prior to 2009, but construction have increased slightly since 2014. Bend features a large amount of small businesses (under nine employees) and those that are looking for flexible workspaces.

Retail: The retail market has gained strength in the past few years. Retail rents per square foot rose to nearly $22 per square foot in third quarter of 2018. Vacancy rates fell sharply after 2013 from 7 percent to 2 percent. Since 2014, about 178,000 square feet of retail space have been developed.

Stakeholder Interview Findings:

- Commercial businesses considering development will look at other places first—the West Side has more draw.
- Some stakeholders see great opportunity and want the City to plan for that growth: "Southeast Bend will see the greatest amount of growth in the next 25 years."
- Challenges to commercial development include high land costs, inadequate utility and transportation infrastructure, zoning challenges, high building costs, SDC costs (real or perceived), and lack of other commercial uses to drive traffic.
- There is little easily developable industrial land in Bend, even though there are plenty of businesses expanding.
- Industrial development could be an opportunity in this area. Bend is seeing more examples of blended industrial/commercial development. These could include manufacturing, cannabis, and food/beverage options.

  Housing development will drive the need for retail and, to some extent, office space in this area. There is an opportunity for a village-style retail hub if there are enough people.

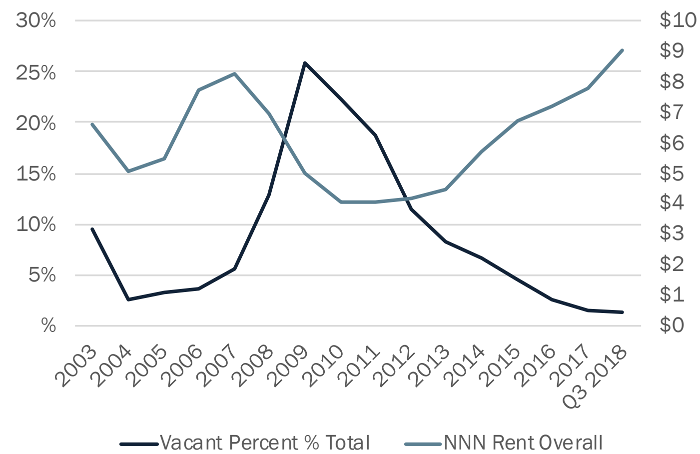
Industrial/Office Trends (Employment Areas)

The industrial real estate market includes buildings where raw materials and products are assembled, processed, and warehoused. These buildings tend to be large, often equipped with specialized machinery, and generally yield lower average rents per square foot than buildings in other commercial markets. Exhibit 20 and Exhibit 21 below show rent, vacancy, and absorption and delivery trends in the Bend industrial real estate market.

Since 2010, industrial rents per square foot have been on the rise and vacancy rates have been in decline. In the third quarter of 2018, industrial rents reached a high of $9 per square foot and vacancy rates dropped to about 1 percent.

Exhibit 20. Industrial Rent per Square Foot and Vacancy Rate, Bend, 2003 to 2018[15]

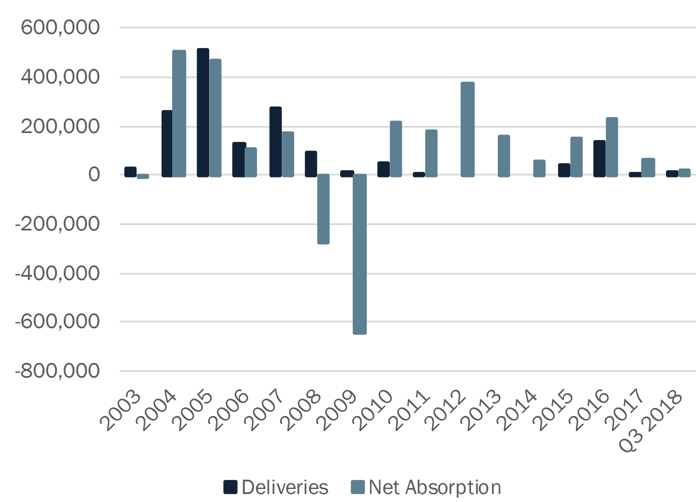
Source: Costar.



In 2017 and 2018, deliveries and net absorption in Bend's industrial real estate market were close to zero. The majority of Bend's industrial deliveries (77 percent of total sq. ft.) occurred prior to the Great Recession.

Exhibit 21. Industrial Deliveries and Absorption (square feet), Bend, 2003-2018

Source: Costar.

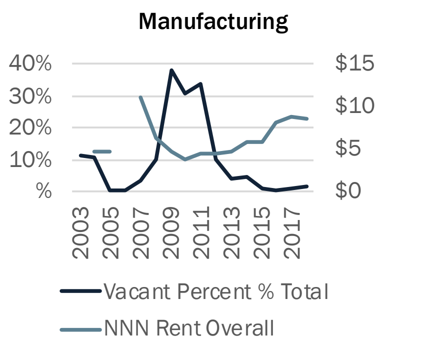


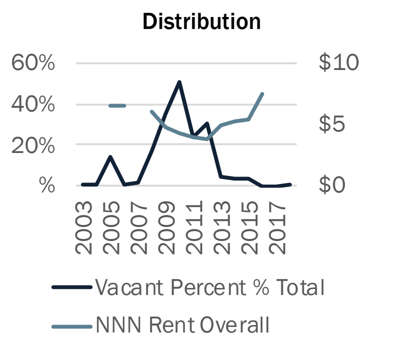
[15] NNN or "Triple Net Rents" refer to commercial real estate leases where the tenant is responsible for all space related expenses, e.g. utilities, property tax, janitorial services, etc.

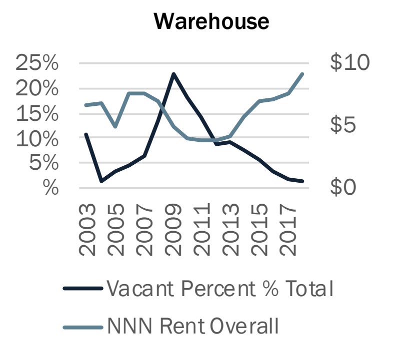
INDUSTRIAL SUBMARKET

The industrial real estate market contains three main submarkets: manufacturing, warehousing, and distributing. Buildings in the manufacturing submarket process raw materials and intermediate products and may also contain office space. Warehouses and distribution centers are large buildings used for storing and distributing inventory.

Rent per Square Foot and Vacancy Rate, Bend, 2003 to 2018[16]





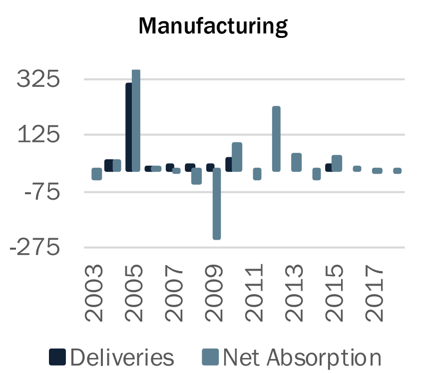


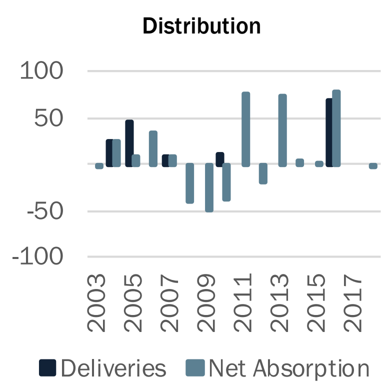
From 2003 to 2018, Bend had about 30 buildings in its manufacturing submarket. Vacancy rates peaked during the Great Recession at 31 percent and have since fallen to just over 1 percent. Conversely, rents per square foot have been on the rise since 2010, reaching nearly $9 per square foot in the third quarter of 2018.

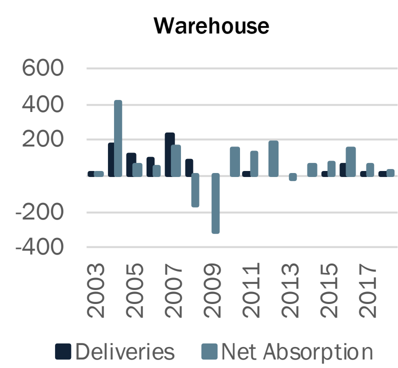
By the third quarter of 2018, Bend had 14 buildings in its industrial distribution submarket. Vacancy rates for this submarket peaked in 2010 at 51 percent. Since then, vacancy rates have fallen to less than 1 percent and rents per square foot have risen to nearly $8 per square foot.

The majority of Bend's industrial buildings are classified as warehouses. There were 241 warehouses in the third quarter of 2018. Vacancy rates peaked in 2009 at 23 percent and fell to less than 2 percent in 2018. Rents per square foot rose from a low of about $4 in 2011 to over $9 in 2018.

Deliveries and Absorption (in thousands of square feet), Bend, 2003 to 2018







Nearly 70 percent of Bend's manufacturing square footage was delivered in 2005. Net absorption was high over the same period but fell during the recession. Following the downturn, net absorption peaked at around 217,000 square feet in 2012 but has remained relatively low since that point.

Nearly 70,000 sq. ft. was delivered in the distribution submarket in 2015 after a long period in which the market had little to no deliveries. Net absorption fell in response to the Recession and has remained volatile since that time.

Around 86 percent of square footage deliveries in Bend's warehouse submarket occurred prior to 2009 and about 113,000 sq. ft. of warehouse space has been delivered since then. Net absorption has remained positive and relatively stable since 2014 at an annual average of nearly 75,000 sq. ft.

[16]Source: CoStar. A couple charts have gaps in the data series'. This is due to gaps in the datasets.

TRANSACTIONS

From 2017 to 2018, CoStar (a real-estate database) reported Bend as having a total of 44 transactions in its industrial real estate market. The selected leases below show a characteristic sample of recent industrial leasing activity.

Select New Industrial Leases (2017-2018)[17]

Image source: www.loopnet.com

20576-20580 NE Painters Street

Lease Information:
Tenant: Oregon Windshield
Rent per sq. ft: $12.36/mg (starting)
Sq. Ft. leased: 560
Sign date: Oct. 8, 2018

Building information:
Use type: manufacturing
Year built: 1989
Amenities: fenced lot
Rentable building area: 13,360 sq. ft.
Parking spaces: 8

1177 SE 9th Street

Lease Information:
Tenant: Machk Industries, LLC
Rent per sq. ft.: $9.60/nnn (starting)
Sq. ft. leased: 2,100
Sign date: April 21, 2018

Building information:
Use type: warehouse
Year built: 2005
Rentable building area: 10,500 sq. ft.
Parking spaces: 22

63032 Lower Meadow Drive

Lease Information:
Tenant: Auto work
Rent per sq. ft.: $10.20/nnn (starting)
Sq. ft. leased: 3,000
Sign date: April 6, 2018

Building information:
Use type: warehouse
Year built: 2007
Amenities: AC, fenced lot
Rentable building area: 12,000 sq. ft.
Parking spaces: 31

1560 NE 1st Street

Lease Information:
Tenant: Vent Pro
Rent per sq. ft.: $9.00/mg (starting)
Sq. ft. leased: 1,340
Sign date: March 5, 2018

Building information:
Use type: warehouse
Year built: 1974
Rentable building area: 17,640 sq. ft.

Image source: 42floors.com

62885 Mercury Place

Lease information:
Tenant: JH Cosmetics
Rent per sq. ft.: $12.24/nnn (asking)
Sq ft. leased: 15,000
Sign date: Feb. 19, 2018

Building information:
Use type: warehouse
Year built: 1990
Amenities: mezzanine
Rentable building area: 15,000 sq. ft.

[17] Unless otherwise noted, images, lease, and building information from CoStar.

CHARACTERISTICS OF NEW STRUCTURES

The table below includes a selection of recently constructed industrial buildings in Bend. As of mid-2018, all buildings were fully leased and ranged in size from 8,400 square feet to 69,367 square feet. CoStar provided estimated rents[18] for the new buildings that ranged from $5-6 per square foot to $7-9 per square foot on a triple net basis.

New Industrial Buildings

399 SW Shevlin Hixon Drive - Deschutes Brewery Warehouse Expansion
Year built: 2016
Estimated rent: $5-7 per sq. ft.

399 SW Shevlin Hixon Dr. is a fully leased warehouse with 38,541 sq. ft. of rentable building area. Located in Bend's Old Mill District, the building is currently occupied by Deschutes Brewery.

20750 Brinson Blvd – FedEx
Year built: 2016
Estimated rent: $5-6 per sq. ft.

The FedEx building is a fully leased distribution center with 69,367 sq. ft. of rentable building area and 18 parking spaces.

1020 SE Paiute Way
Year built: 2015
Estimated rent: $7-9 per sq. ft.

1020 SE Paiute Way is a fully leased warehouse with 8,400 sq. ft. of rentable building area and 25 parking spaces.

20760-20772 Carmen Loop
Year built: 2016
Estimated rent: $7-9 per sq. ft.

20760-20772 Carmen Loop is a fully leased warehouse with 8,400 sq. ft. of rentable building area and 15 parking spaces.

62890 Peerless Court
Year built: 2015
Estimated rent: $7-9 per sq. ft.

62890 Peerless Ct. is fully leased and has 9,946 sq. ft. of rentable building area and 19 parking spaces.

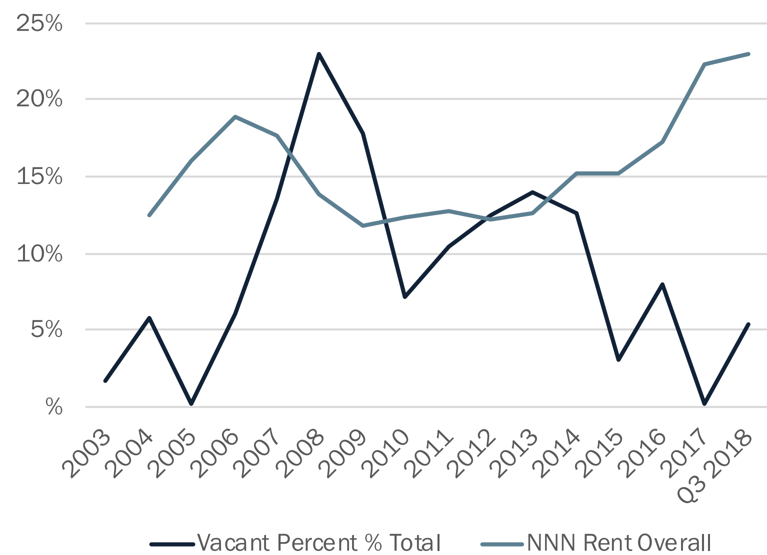
[18] CoStar estimates building rents based on the asking rent for the most recent tenant move-ins.

Flex Space

The flex real estate market includes buildings that offer flexible spaces that can accommodate a range of office, warehouse, or another type of commercial use such as research and development, medical, industrial, quasi-retail, or others. Exhibit 22 and Exhibit 23 below show rent, vacancy, and absorption and delivery trends in the Bend flex real estate market.

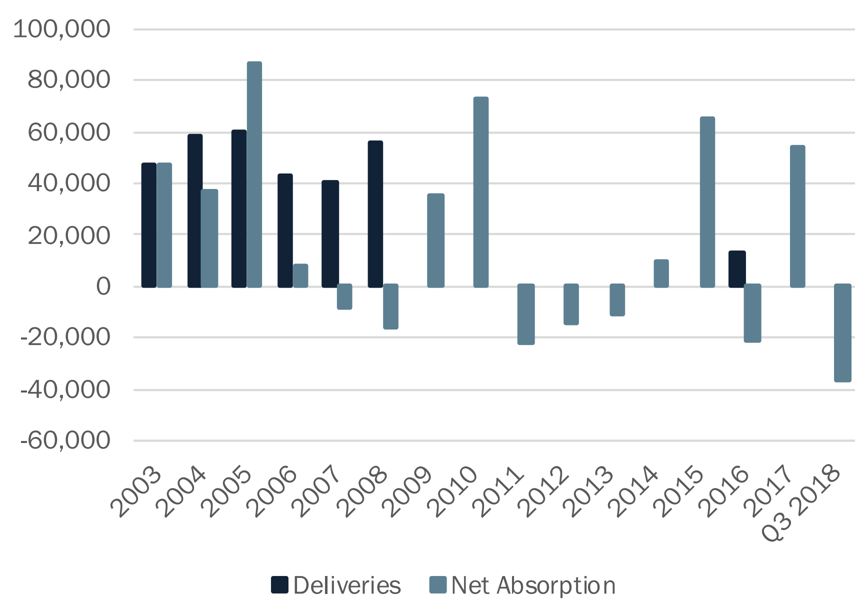
Bend's flex real estate market is relatively small, leading to data volatility. However, vacancy rates have been on a downward trend since 2008 and rents per square foot climbed to a high of about $15 in the third quarter of 2018.

Exhibit 22. Flex Rent per Square Foot and Vacancy Rate, Bend, 2003 to 2018
Source: Costar.



There have been only 13,500 sq. ft. of flex space delivered since 2008, which accounts for less than 5 percent of the total square feet available in the market. Net absorption has also been volatile, falling from around 54,000 sq. ft. in 2017 to around -36,000 sq. ft. in the third quarter of 2018.

Exhibit 23. Flex Deliveries and Absorption (square feet), Bend, 2003-2018
Source: Costar.



TRANSACTIONS

CoStar listed 15 flex leases that were signed within the last year. We have included a sample of three of those leases here. The amount of space leased varied from 944 square feet to 12,172 square feet in these buildings. The most recently leased flex buildings were older, with the newest built in 2001.

Select New Flex Leases in 2018[19]

63003 NE Plateau Drive
Lease information:
Tenant: Cush Core
Rent per sq. ft.: $9.00/nnn (starting)
Sq. ft. leased: 12,172
Sign date: July 30, 2018

Building information:
Use type: Light manufacturing
Year built: 2001
Rentable building area: 12,172 sq. ft.
Parking spaces: 23

20340 Empire Avenue
Lease information:
Tenant: Consider it Done Flooring
Rent per sq. ft.: $9.00/nnn (starting)
Sq. ft. leased: 1,668
Sign date: April 3, 2018

Building information:
Year built: 1981
Rentable building area: 9,335 sq. ft.
Parking spaces: 10

Image source: www.google.com/maps/

435 NE Alden Avenue
Lease information:
Tenant: Crawford Electric
Rent per sq. ft. $15.84/negotiable (starting)
Sq. ft. leased: 944
Sign date: February 15, 2018

Building information:
Year built: 1968
Rentable building area: 944

[19] Unless otherwise noted, images, lease, and building information from CoStar.

CHARACTERISTICS OF NEW FLEX STRUCTURES

Newer flex buildings built in Bend vary widely in terms of use, form, and size. However, little construction has occurred in the flex real estate market with only one new flex building added in 2016. The other most recently constructed flex buildings were built in 2008.

As with the industrial market, the size of the buildings varied widely from 1,808 square feet to 16,800 square feet. The most recently constructed flex buildings were all fully leased as of mid-2018.

New Flex Buildings

213 SW Columbia St - Bend Data Center
Year built: 2016
Estimated rent: $1-2 per sq. ft.

The Bend Data Center is fully leased with 13,500 sq. ft. of rentable building area and 15 parking spaces.

56 SE Bridgeford Blvd
Year built: 2008
Estimated rent: $9-11 per sq. ft.

56 SE Bridgeford Blvd is fully leased with 1,808 sq. ft. of rentable building area and 8 parking spaces.

20802 Sockeye Pl - Building 3 -Edge Business Center
Year built: 2008
Rent: $9 per sq. ft.

The fully leased Edge Business Center has 16,800 sq. ft. of rentable building area and 2 parking spaces.

Office

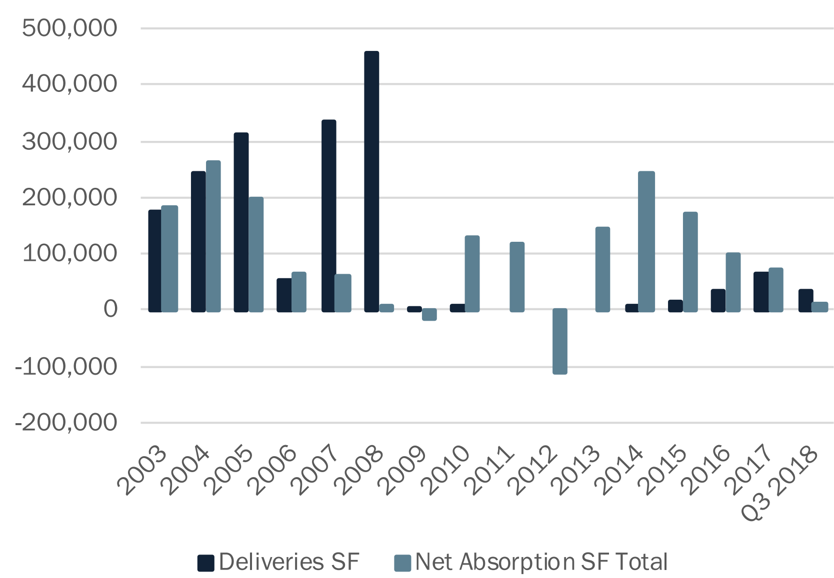
Buildings in the office real estate market are built to house employees. Buildings in this market are designed for comfort and to optimize workflow. Office buildings generally command higher rents per square foot than industrial and flex buildings. Exhibit 24 and Exhibit 25 below show rent, vacancy, and absorption and delivery trends in the Bend office real estate market.

Rents per square foot in the Bend office real estate market dipped in 2007 but began to rise again in 2013. Vacancy rates fluctuated sharply over the same period. In the third quarter of 2018, office rent per square foot reached $21 and vacancy rates fell to about 3 percent.

Exhibit 24. Office Rent per Square Foot and Vacancy Rate, Bend, 2003 to 2018
Source: Costar.

The majority of office space was delivered prior to 2009, but deliveries have been on an upward trend since 2014, with nearly 65,000 sq. ft. of office space delivered in 2017. Net absorption has been declining since 2014 with about 12,000 sq. ft. of office space absorbed in the third quarter of 2018.

Exhibit 25. Office Deliveries and Absorption (square feet), Bend, 2003-2018
Source: Costar.



OFFICE LEASE TRANSACTIONS

The most recent office lease transactions show a wide range of office building ages and types.

New Office Leases in Past Year[20]

20706 High Desert Lane

Lease Information:
Tenant: Nanometrics
Rent per sq. ft.: $12.00/nnn (asking)
Sq. Ft. leased: 12,650
Sign date: Aug. 1, 2018

Building Information:
Year built: 2005
Rentable building area: 12,650 sq. ft.
Parking spaces: 30

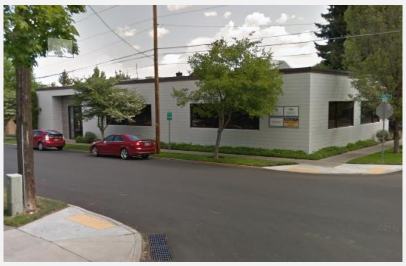


Image source: www.google.com/maps/

700 NW Hill Street

Lease Information:
Tenant: Phillip H. Garrow LLC, Attorney at Law
Rent per sq. ft.: $24.36/fs (asking)
Sq. ft. leased: 1,320
Sign date: July 11, 2018

Building Information:
Year built: 2005
Rentable building area: 12,650 sq. ft.
Parking spaces: 30

2330 NE Division Street

Lease Information:
Tenant: Traci Benjamin-Guerrero
Rent per sq. ft.: $11.40/nnn (starting)
Sq. ft. leased: 760
Sign date: May 31, 2018

Building Information:
Year built: 1988
Rentable building area: 14,420 sq. ft.
Parking spaces: 63

20370 Empire Avenue

Lease Information:
Tenant: Camp Victory Personal Training
Rent per sq. ft.: $13.20/nnn (starting)
Sq. ft. leased: 1,464
Sign date: April 12, 2018

Building Information:
Year built: 1981
Rentable building area: 8,723 sq. ft.
Parking spaces: 37

Image source: www.loopnet.com

525 NE Greenwood Avenue

Lease Information:
Tenant: Eagle Wealth Management
Rent per sq. ft.: $21.00/nnn (asking)
Sq. ft. leased: 1,391
Sign date: June 4, 2018

Building Information:
Year built: 1935
Rentable building area: 1,658 sq. ft.

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[20] Unless otherwise noted, images, lease, and building information from CoStar.

CHARACTERISTICS OF NEW STRUCTURES

The Bend office buildings listed below were constructed within the last five years. Bend's new office buildings tended to be higher-end and, as one would expect, command the highest office rents in the region.

2762 NW Crossing Dr.
Year built: 2014
Estimated rent: $26-32 per sq. ft.

2762 NW Crossing Dr. has 6,413 sq. ft. of rentable building area and 20 parking spaces. The property is located on the western edge of Bend and is fully leased. Some current tenants include: Harcourts the Garner Group, and Hidden Hills Construction Company.

721 SW Industrial Way - Crane Shed Commons
Year built: 2017
Rent: $27.55 per sq. ft.

As of the third quarter of 2018, the Crane Shed Commons was 81 percent leased. The property has 50,000 sq. ft. of rentable building area available.

1835 NW Pence Ln - Pence Medical Center
Year built: 2017
Estimated rent: $22-27 per sq. ft.

Pence Medical Center is fully leased with 9,445 sq. ft. of rentable building area and 14 parking spaces. The property is located in western Bend.

2357 NE Conners Ave - The Janis Building
Year built: 2016
Rent: $28.80 per sq. ft.

The Janis Building consists of medical offices and was 50 percent leased as of the third quarter of 2018. The Janis Building has 17,400 sq. ft. of rentable building area, 73 parking spaces, and is currently occupied by Bend Ophthalmology.

2155 NW Shevlin Park Rd - Shevlin Health & Wellness Center
Year built: 2016
Estimated rent: $22-27 per sq. ft.

Shevlin Health & Wellness Center has 5,100 sq. ft. of rentable medical office area, 30 parking spaces, and is fully leased. Central Oregon Eyecare currently rents the space.

Industrial and Commercial Site Considerations

The Southeast Expansion Area is being planned to accommodate a variety of industrial and commercial uses. However, due to physical site limitations and varied site by site future transportation access, some portions of the expansion area will be better positioned than others for these uses.

Many industrial uses, for example, tend to require large, rectangular lots (50 acres or larger) with less than 5 percent slope[21]. Other industrial uses—like many of those that are currently in demand in the current market—are smaller and require much less land. These developments require sites of 20 acres or less and many are suitable for sites of only a few acres in size. Office and commercial uses generally require smaller lots with 10-15 percent slopes or less. Exhibit 22 below summarizes site considerations for the City's Target Industries, as identified by Bend's recent Economic Opportunities Analysis.

Exhibit 26. Site Characteristics for Target Industries

Source: City of Bend. (2016). Economic Opportunities Analysis, Bend's Growth to 2028.

Site Category	Target Industries	Typical Site Size (Acres)	Topography	Land Use Buffers	Prefers Street Visibility	Suitability Level for Southeast Expansion Area
Large Industrial and Flex[22]	Renewable Energy, Information Technology	50 to 250	0% to 5% slope	Compatible with industrial or agricultural uses	No	Low
Medium Industrial and Flex	Specialty Manufacturing, Aviation - Aerospace, Secondary Wood Products, Recreation Equipment, Renewable Energy, Information Technology	10 to 75	0% to 5% slope	Compatible with industrial or agricultural uses	No	Medium
Small Industrial	Specialty Manufacturing, Aviation - Aerospace, Secondary Wood Products, Recreation Equipment, Renewable Energy, Information Technology	Less than 10	Less than 10% slope	Compatible with some commercial, industrial, or agricultural uses	No	High
Large Commercial / Office	Higher Education	10 to 50	Less than 10% slope	Compatible with commercial and mixed uses	Yes	High

[21] It should be noted that the City of Bend has designated two other UGB expansion areas for large lot industrial projects. These are: (1) the Juniper Ridge area, and (2) The DSL Properties. For further discussion see: The City of Bend Comprehensive Plan, Chapter 11, Growth Management, Pages 22-23

[22] Ibid.

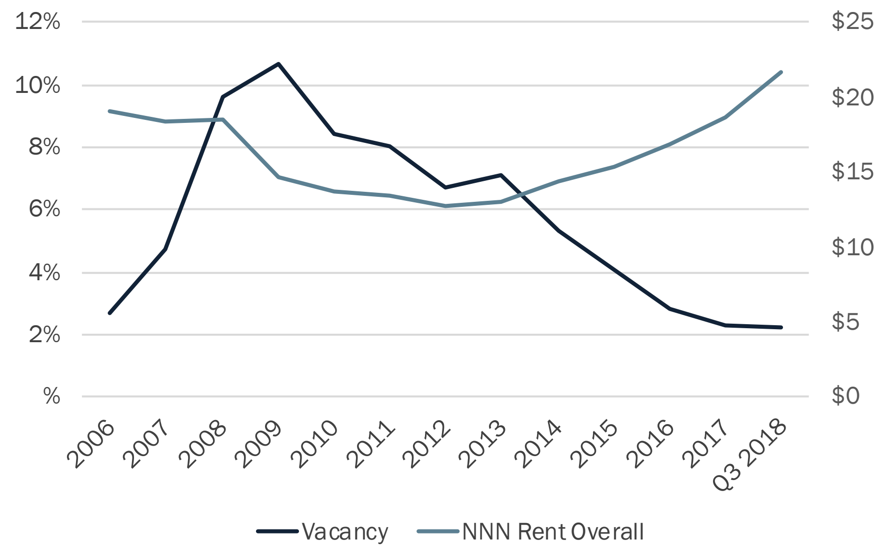
Site Category	Target Industries	Typical Site Size (Acres)	Topography	Land Use Buffers	Prefers Street Visibility	Suitability Level for Southeast Expansion Area
Medium Commercial / Office	Information Technology, Large medical offices, Hospitality, Higher Education	5 to 20	Less than 15% slope	Compatible with commercial and mixed uses	Yes	High
Small Commercial / Office	Small medical offices	Less than 2	Less than 15% slope	Compatible with commercial, mixed uses, and residential	Yes	High

Retail Trends

Buildings in the retail real estate market are configured to sell, display, and advertise products to the general public. Retail buildings are designed to be attractive and tend to be located in high-traffic, high-visibility areas. Exhibit 27 and Exhibit 28 below show rent, vacancy, and absorption and delivery trends in the Bend retail real estate market.

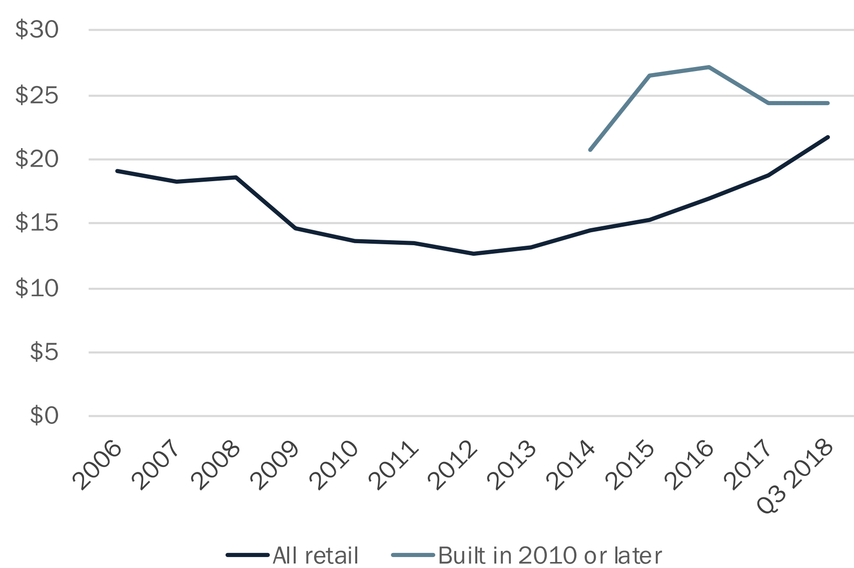
Retail rents per square foot rose to nearly $22 per square foot in the third quarter of 2018. Vacancy rates fell sharply after 2013 from 7 percent to 2 percent.

Exhibit 27. Retail Rent per Square Foot and Vacancy Rate, Bend, 2006 to 2018
Source: Costar.



Between 2014 and 2018, newer buildings (built in 2010 or later) in Bend's retail market rented $7 higher per square foot than the market average.

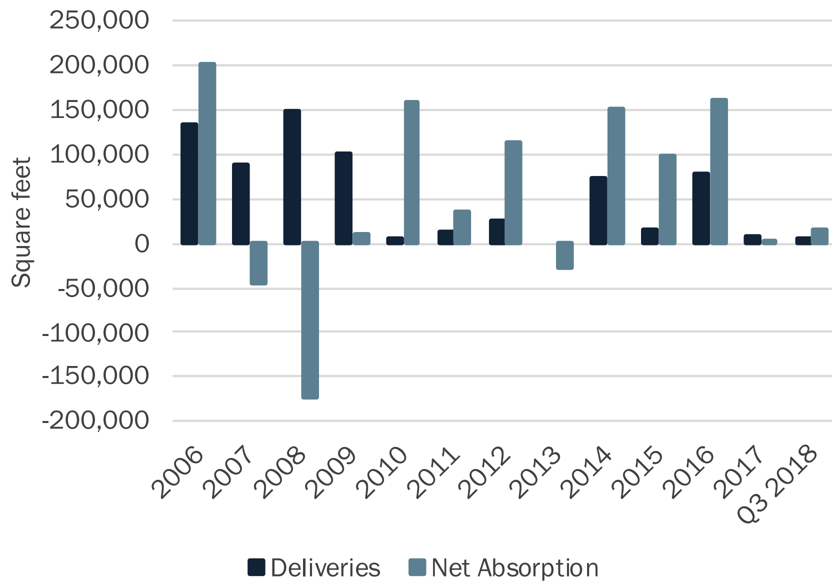
Exhibit 28. Retail Rent per Square Foot Newer Buildings versus All Buildings, Bend, 2006-2018
Source: Costar.



Since 2014, about 178,000 sq. ft. of retail space have been delivered to Bend. This accounts for about 26 percent of all retail space deliveries (sq. ft.) since 2006.

Exhibit 29. Retail Deliveries and Absorption (square feet), Bend, 2006 to 2018

Source: Costar.



TRANSACTIONS

Most retail leases occurring within the past year were taken out in buildings that were ten or more years old. Retail space leased ranged from 731 square feet to 10,663 square feet.

Selected New Retail Leases in 2018[23]

1441 SW Chandler Avenue
Lease information:
Tenant: Cascade Lakes
Rent per sq. ft.: 18.00 nnn/(asking)
Sq. ft. leased: 1,026
Date signed: Oct. 1, 2018

Building information:
Year built: 2003
Rentable building area: 14,513 sq. ft.
Parking spaces: 0

Woodside Plaza, 1465 SW Knoll Avenue
Lease information:
Tenant: The Monterrey Company
Rent per sq. ft.: $22.20/nnn (starting)
Sq. ft. leased: 731
Sign date: Sept. 11, 2018

Building information:
Year built: 2006
Rentable building area: 4,357 sq. ft.
Parking spaces: 12

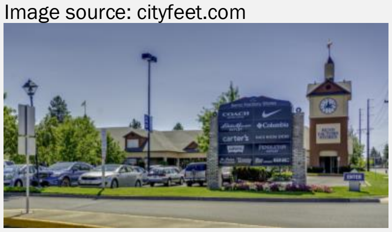
The Forum Shopping Center
2680 NE US 20 Hwy
Lease information:
Tenant: N/A
Rent per sq. ft.: $28.08/nnn (starting)
Sq. ft. leased: 1358
Sign date: June 22, 2018

Building information:
Year built: 1997
Rentable building area: 6,486 sq. ft.
Parking spaces: 1,237

Image source: cityfeet.com

Brookswood Meadow Plaza, 19530-19570 Amber Meadow Dr.
Lease information:
Tenant: Creative Wellness Studio
Rent per sq. ft.: $17.50/nnn (starting)
Sq. ft. leased: 1,254
Sign date: May 23, 2018

Building information:
Year built: 2009
Rentable building area: 16,068 sq. ft.



Bend Factory Stores, 61344 S Hwy 97
Lease information:
Tenant: Fusion Fitness
Rent per sq. ft.: $17.50/negotiable (asking)
Sq. ft. leased: 10,663
Sign date: March 14, 2018

Building information:
Year built: 1992
Rentable building area: 88,265 sq. ft.
Parking spaces: 439

Bend Town Center, 740 NE 3rd St
Lease information:
Tenant: 3rd Street Beverage
Rent per sq. ft.: $12.00/nnn (starting)
Sq. ft. leased: 10,400
Sign date: Nov. 17, 2018

Image source: visitcentraloregon.com

Building information:
Year built: 1965
Rentable building area: 100,000 sq. ft.
Parking spaces: 350

[23] Unless otherwise noted, images, lease, and building information from CoStar.

CHARACTERISTICS OF NEW STRUCTURES

Of the retail buildings built in the last six years and listed below, the highest CoStar estimated rent was $23-28 per square foot and the lowest was $13-16 per square foot (on various lease structures). Building sizes ranged from 3,375 square feet to 26,000 square feet.

631 NW Federal St.
Year built: 2017
Estimated rent: $13-16 per sq. ft.

631 NW Federal St., or Galveston Terrace, is a fully leased mixed-use retail and office building with 3,375 sq. ft. of rentable building area. Located in Bend's west side, the property is adjacent to 10 Barrel Brewing and other restaurants. The site is highly visible in a heavily trafficked area.

706 NE Greenwood Ave
Year built: 2015
Estimated rent: $23-38 per sq. ft.

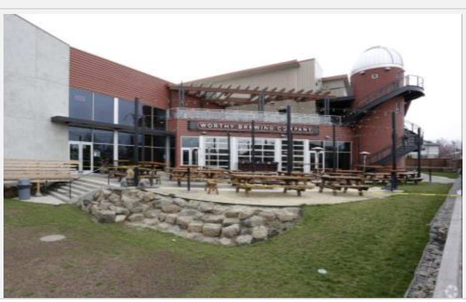
The site has 4,328 sq. ft. of rentable building area and 18 parking spaces. As of the third quarter of 2018, the property was fully leased. Some current tenants include: Backporch Coffee Roasters, Emerald City Smoothie, Ark Animal Hospital, and Parilla Grill.

The Shops at Boyd Acres 20566 NE Gloucester Ln
Year built: 2015
Estimated rent: $16-20 per sq. ft.

The shops at Boyd Acres is a fully-leased retail property with 4,817 sq. ft. of rentable building area and 8 parking spaces. Located along US Hwy 20, the property's location is highly visible and well-trafficked.

1975 NE 20 Hwy
Year built: 2016
Estimated rent: $14-17 per sq. ft.

Kendall Volkswagen of Bend currently occupies 100 percent the 15,866 sq. ft. of retail space available at 1975 NE 20 Hwy. The property is freeway visible and located in a cluster with multiple other auto dealers.



Worthy Brewing, 495 NE Bellevue Drive
Year built: 2012
Estimated rent: $15-18 per sq. ft.

The site is currently occupied by Worthy Brewing, offers 26,000 sq. ft. of rentable building area.

Retail Site Considerations

One of the most important decisions retail store owners make is *where* to locate their business. Location determines the accessibility of the store, customers' interest in entering the store, and, for many types of retail, the sales potential of the establishment. In addition to geographical accessibility, a retail owner must ensure that the location is one that is saturated with potential customers. There are a number of factors that act as strong predictors of preferences within a community. By identifying the preferences and tendencies of consumers, a retail owner will be able to predict the success of their store.

Technological advances have changed consumer behavior and retail success dramatically. The growth of e-commerce makes it even more challenging for traditional brick-and-mortar stores to survive. This can create unwillingness for local, "mom and pop" type shops to open their doors in certain communities. Understanding how community members tend to use technology (willingness to order items online or find better prices elsewhere) and their access to technology (smartphones, internet) is crucial to measuring the success of a given store.

Geographic location and the households that together form the community, impact the survival of a retail store. If a store's products are not aligned with the preferences of its potential customers, the store will fail. A significant amount of data collection and analysis must be performed before deciding to open a store in a new location. A summary of criteria considered when evaluating a potential establishment's viability in a given area includes[24]:

- **Population Size and Characteristics.** Total size and density, age distribution, average educational level, total disposable income, per capita disposable income, occupation distribution, percentage of residents owning a home
- **Availability of Labor.** Management, management trainees, clerical
- **Closeness to Sources of Supply.** Delivery costs, timeliness, number of manufacturers, number of wholesalers, availability and reliability of product lines
- **Economic Base.** dominant industry, extent of diversification, growth projections, freedom from economic and seasonal fluctuations, availability of credit and financial facilities
- **Competitive Situation.** Number and size of existing competition, evaluation of competitor strength/weaknesses, short-run and long-run outlook, level of saturation

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[24] Trading-Area Analysis (2008). https://www.slideshare.net/akira9515/tradingarea-analysis-presentation

- **Availability of Store Locations.** Number and type of store locations, access to transportation, owning versus leasing opportunities, zoning restrictions, costs
- **Regulations.** Taxes, licensing, operations, minimum wages, zoning

To illustrate this point, ECONorthwest assembled a range of generic commercial uses and standardized factors that owners may consider when weighing whether a given location will detract or enhance their businesses' viability. This helps to explain why some areas have an easier or more difficult time attracting particular uses in their neighborhood or community.

Exhibit 30. Factors Influencing the Location of Retail Uses
Source: ECONorthwest compiled generic determinants from a range of sources for illustrative purposes only.

Retail Types	Population Factors	Locational Factors
Mid-Small Grocery Store (10,000 to 40,000 sq. ft.)	6,000 to 8,000 people per store	Clustered near other retail uses; High Visibility and Access
Supermarket (50,000 to 100,000 sq. ft)	10,000 people within 8 to 10-minute drive	Formulated for suburban shopping centers
Coffee Shop	15,000 to 20,000 people per store	Convenient access for pedestrians and drivers
Movie Theater	8,000 to 9,000 people per screen	Located at least 4 to 5 miles from another theater (film zone)

Retail businesses in the Southeast Expansion Area will rely upon customers from existing neighborhoods and future residents of the area. While retail is unlikely to lead development of the area, it will play an important supportive role to housing in the initial phases of development. That is, retail provides demanded services, products, and amenities that residents demand close to their homes.

4.2 Residential Real Estate Trends

This section provides an assessment of *residential real estate trends* for Bend's single-family and multifamily housing markets. It addresses factors such as housing mix, housing tenure, vacancy, new housing development (particularly for multifamily uses), residential sales, and rental costs.

Summary of Residential Real Estate Trends

Bend is an attractive place to live. Since 2010, around 2,300 new households formed in Bend. In this same period, family households with children decreased and household sizes grew smaller. About 70 percent of all households are one or two-person households, a 13 percent increase from 2000.

Today, the majority of housing in Bend is single-family detached housing (74 percent), though the share of single-family detached housing has decreased from 77 percent in 2000. Bend's existing housing mix may limit options for non-family households and family households without children, which account for 72 percent of Bend's household mix.

Despite the high demand for housing, single-family home vacancy rates have increased since 2000 from 6 to 9 percent in the 2012-2016 period, and multifamily vacancy rates have remained around 4 percent, on average, since 2000. However, the single-family vacancy trend could be the result of many Bend homes being out of reach for many Bend residents. Home sales prices along with multifamily rents have been climbing steadily in recent years. Just in the past year the median home sale price in Bend has risen by 16 percent[25].

Multifamily rents have also been on the rise. Multifamily rents per square foot increased from $0.87 in 2000 to $1.32 in the third quarter of 2018, signaling the desirability of housing in Bend.

Stakeholder Interview Findings:

- Design the Southeast Expansion Area so people can live and work in the district.
- The Southeast Expansion Area has fewer locational advantages than Bend's west side. It is further away from downtown and outdoor amenities. New residential development will need to address this with connectivity and an appropriate mix of land uses.
- Concentrating new housing near schools makes sense, but housing will also need to be located near commercial services.
- People come to Bend to get out of larger cities. Balancing residential efficiency with housing preferences is key. Residents want yards.
- Affordable housing and workforce housing (for households earning < 80% of MFI) is needed, and demand is greater than supply.
- Rents are increasing, housing is limited, and land is scarce. Residential development needs to occur quickly.

[25] Source: Central Oregon Association of REALTORS. Median home sale price from the first quarter of 2017 to the third quarter of 2018.

The increasing housing costs in Bend are putting more and more pressure on lower income households. The City has real affordable housing challenges. Bend has a deficit of housing—by about 3,500 units—for households with the lowest incomes (those earning less than $25,000 per year). Further, about 30 percent of Bend's population earns 50 percent of Median Family Income or less ($34,800 or less).

Future development will need to account for Bend's changing household composition and the ability of households to pay for housing. To accommodate new growth and changing household compositions, the City of Bend estimates that it will need a residential density of about 7.2 dwelling units per net acre citywide. This is a 26 percent increase over Bend's historical densities of 5.7 dwelling units per acre. To acknowledge this need, the City adopted recommendations for a more diverse planned housing mix. The mix gets closer to a balance between single-family detached homes and multifamily and single-family attached homes.[26]

To meet the needs of current and future residents, Bend will need to continue its focus on providing opportunities for compact and more affordable housing types (e.g. single-family attached housing, missing middle housing, and apartments) as well as subsidized affordable housing.

[26] City of Bend. (August 31, 2016). Bend Housing Needs Analysis, Bend's Growth to 2028.

Household Trends

In the city of Bend 2,278 new households have formed since 2010.

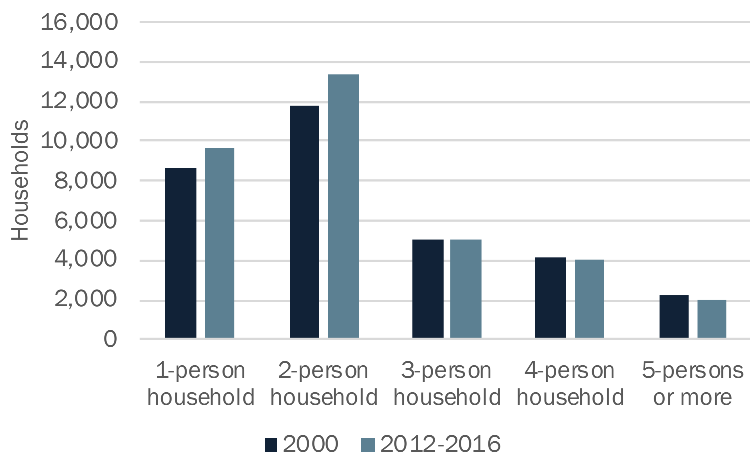
Exhibit 31. Household Formations, 2010 and 2012-2016
Source: U.S. Census Bureau, 2010 Decennial Census, SF1 Table QT-P11 and 2012-2016 ACS, Table S1101.

31,790	34,068	2,278
Households 2010	Households 2012-16	New Households 2000 to 2012-2016

Almost 70 percent of Bend's households are one- or two-person households.

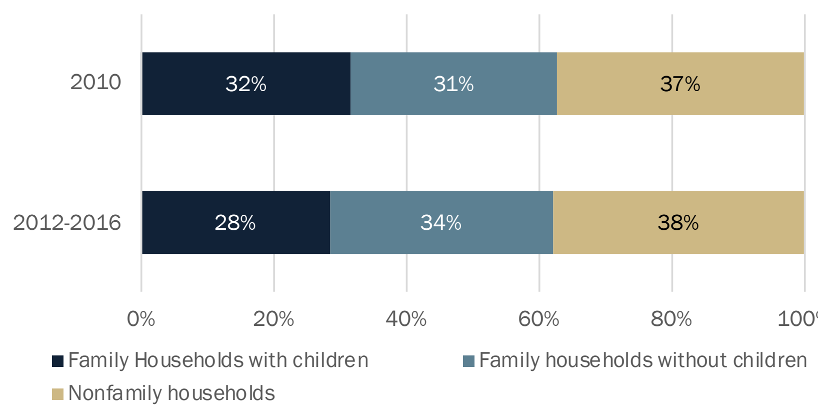
As of 2016, 28 percent of households in Bend were 1-person households, 39 percent were 2-person, 15 percent were 3-person, 12 percent were 4-person, and 6 percent were 5-person or more households.

Exhibit 32. Household Size, Bend, 2010 to 2012-2016
Source: U.S. Census Bureau, 2010 Decennial Census, SF1 Table QT-P11 and 2012-2016 ACS, Table B25009.



About 38 percent of households in Bend are non-family households. Of the 62 percent of family households, 28 percent have children.

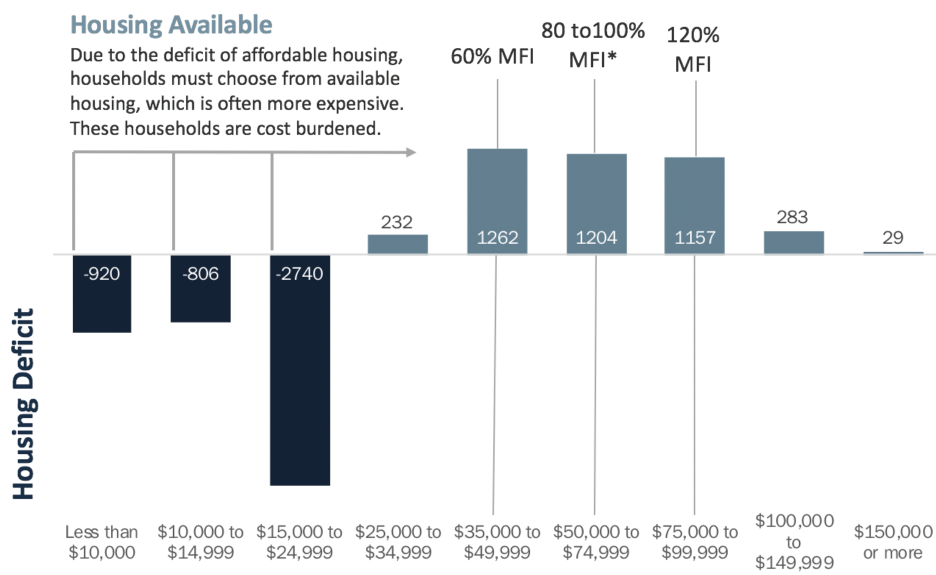
Exhibit 33. Household Composition, Bend 2010 to 2012-2016
Source: U.S. Census Bureau, 2010 Decennial Census, SF1 Table P20 2012-2016 ACS, Table DP02.



Housing Affordability Trends

Bend's housing market data illustrates the increasing housing affordability issue faced by many in the community. Most apparent, there is a deficit of housing in Bend for households with the lowest incomes—those households earning less than $25,000 annually.

Exhibit 34. Affordable Housing Costs and Units by Income Level, Bend, 2016
Source: U.S. Department of HUD, Median Family Income (MFI), Deschutes County, 2017. U.S. Census Bureau, 2012-2016, ACS Table B19001, B25075, and B25063. Note: MFI in Deschutes County was $64,000 in 2017.



The following Exhibit cross references the number of households and their incomes with the type of suitable financially attainable housing product types. The data shows demand for a diversity of housing types citywide.

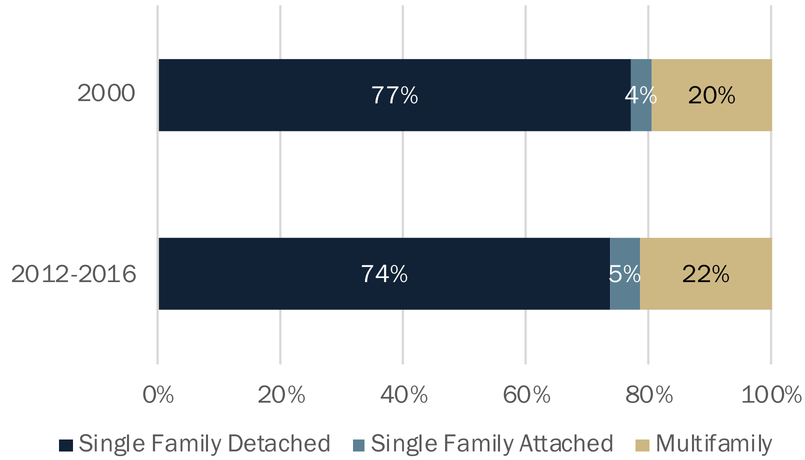
Exhibit 35. Financially Attainable Housing Products, Bend, 2018
Source: U.S. Census, ACS 2012-2016, Table B19001. HUD Median Family Income, Deschutes County ($69,600), 2018.

Market Segment by Income	Income Range	Number of households	Percent of Households	Financially Attainable Products	
				Owner-occupied	Renter-occupied
High (120% or more of MFI)	$83,520 or more	10,607	31%	All housing types; higher prices	All housing types; higher prices
Upper Middle (80%-120% of MFI)	$55,680 to $83,520	6,452	19%	All housing types; lower values	All housing types; lower values
Lower Middle (50%-80% of MFI)	$34,800 to $55,680	6,500	19%	Single-family attached; condominiums; duplexes; manufactured on lots	Single-family attached; detatched; manufactured on lots; apartments
Lower (30%-50% of less of MFI)	$20,880 to $34,800	5,309	16%	Manufactured in parks	Apartments; manufactured in parks; duplexes
Very Low (Less than 30% of MFI)	Less than $20,880	5,200	15%	None	Apartments; new and used government assisted housing

Single-Family and Multifamily Housing Trends

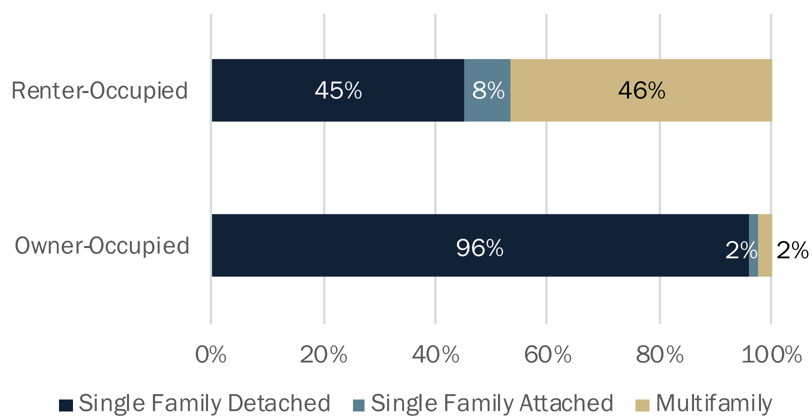
From 2000 to 2016, the share of single-family detached housing decreased slightly while the share of multifamily housing increased slightly.

Exhibit 36. Change in Housing Mix, Bend, 2000 and 2012-2016
Source: U.S. Census Bureau, 2000 Decennial Census, SF3 Table H030, and 2012-2016 ACS Table B25024.



Almost all homeowners (96 percent) live in single-family detached housing, while only 45 percent of renters live in single-family detached housing.

Exhibit 37. Housing Units by Type and Tenure, Bend, 2012-2016
Source: U.S. Census Bureau, 2012-2016 ACS Table B25032.



As of 2016, 9 percent of Bend's housing stock was vacant.

Exhibit 38. Percent of Housing Units that are Vacant, 2000, 2010, 2012-2016
Source: U.S. Census Bureau, 2000 Decennial Census SF1 Table QT-H1, 2010 Decennial Census SF1 Table QT-H1, 2012-16 ACS Table B25002.

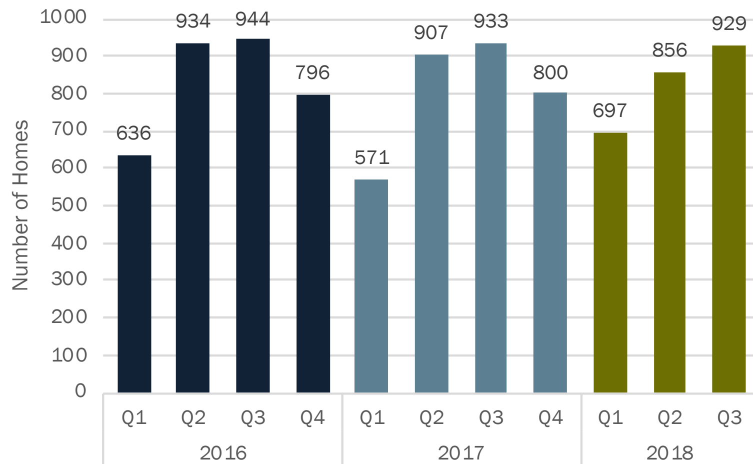
6%	**12%**	**9%**
Vacancy 2000	Vacancy 2010	Vacancy 2012-16

Single-Family Development

Home sales remain steady. By the third quarter of 2018, 2,482 homes sold in Bend. In 2017, about 3,210 homes sold in Bend and in 2016 3,310 homes sold in Bend.

Exhibit 39. Home Sales Volume, Bend, 2016, 2017, and 2018

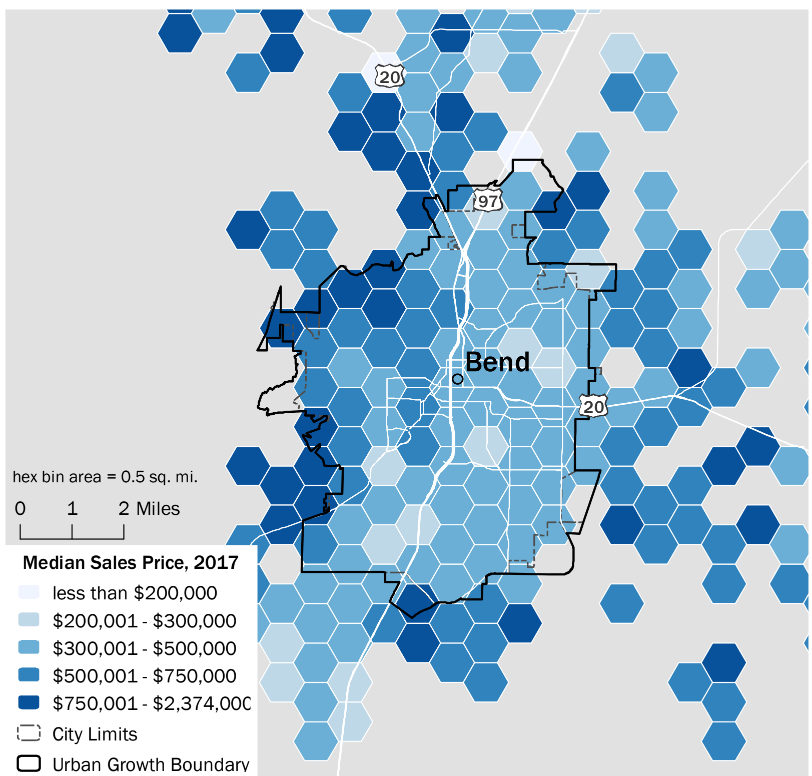
Source: Costar. Central Oregon Association of REALTORS, 2017 Report. Data includes residential sales of single-family homes, manufactured homes, mobile homes, condos, deed share, townhomes, and timeshares.



Median home sale prices range widely across the Bend area. The highest priced homes are located in areas to the west, and those outside of the City's Urban Growth Boundary

Exhibit 40. Median Sale Price, Bend, 2017

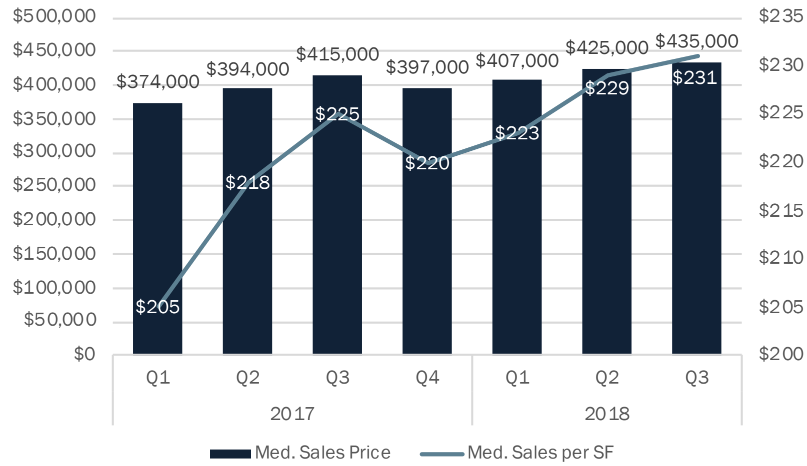
Source: Costar. Central Oregon Association of REALTORS, 2017 Report.



The median sale price for a home in the third quarter of 2018 was $435,000 or about $231/sq. ft. From the third quarter of 2017 to the third quarter of 2018, the median sale price for a home increased by about $20,000 or about five percent.

Exhibit 41. Median Sales Price and Median Sales per SF, Bend, 2017 and 2018

Source: Central Oregon Association of REALTORS, 2018 Report. Data includes residential sales of single-family homes, manufactured homes, mobile homes, condos, deed share, townhomes, and timeshares.



Multifamily Development

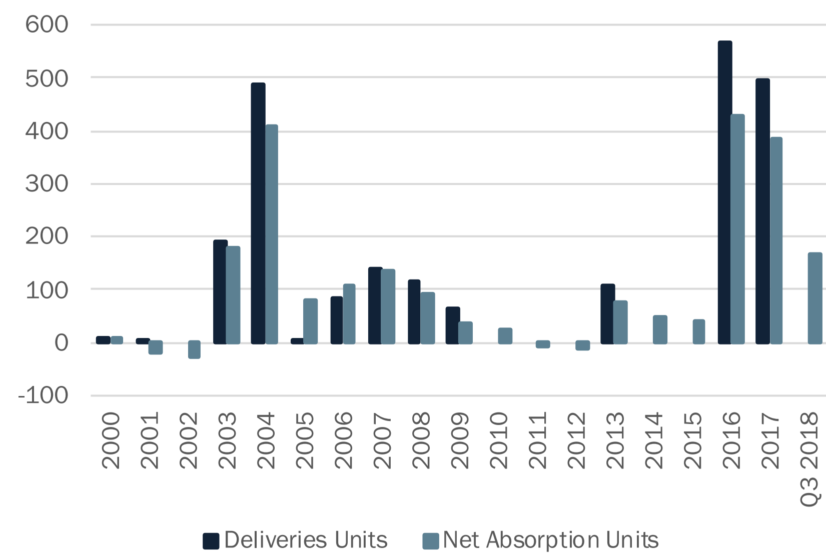
Since 2000, asking rent for multifamily units increased. In this same time, vacancy rates remained volatile, but relatively constant (on average) at around 4 percent.

Multifamily rents in Bend increased from $0.87 per square foot in 2000 to $1.33 per square foot in the third quarter of 2018.

Exhibit 42. Multifamily Rent and Vacancy, Bend, 2000 to 2018 Q3
Source: Costar.

Bend received more multifamily units in 2016 and 2017 than it did in 2000 through 2008 combined. Unit absorption remained positive since 2013.

Exhibit 43. Multifamily Deliveries and Absorption, Bend, 2000 to 2018 Q3[27]
Source: Costar.



27 "Delivered" refers to housing units that have been newly constructed and are available for occupation in the market.

CHARACTERISTICS OF NEW MULTIFAMILY DEVELOPMENTS[28]

Image Source: http://pacificcrestaffordablehousing.org/

Azimuth 314
NW Shevlin Park Rd. & NW Cross Dr., Bend
Currently Under Construction – Opening Fall 2018

- Low-Rise, Affordable Housing
- 50 units
- 1-bedroom (50) and 2-bedroom (50%) units

- Average Asking Rent per unit: N/A
- Average SF per unit: 590 SF

Image Source: https://www.seasonsapthomes.com/Gallery.aspx#mosaic-gallery-0-11

Seasons at Farmington Reserve
61560 Aaron Way, Bend
Year built: 2017

- Garden Style, Market Rate Housing
- 228 units
- 1-bedroom (63%) and 2-bedroom (37%) units

- Average Asking Rent per unit: $1,489
- Average SF per unit: 916 SF

Image Source: https://rangeapartments.com/

Range
3001 NW Clearwater Dr., Bend
Year built: 2017

- Garden Style, Market Rate Housing
- 132 units
- 1-bedroom (83%) and 2-bedroom (17%) units

- Average Asking Rent per unit: $1,401
- Average SF per unit: 692 SF

Image Source: https://www.thealexanderbend.com/

The Alexander
1125 NE Watt Way, Bend
Currently Under Construction – Opening Spring 2019

- Low-Rise, Market Rate Housing (for Seniors)
- 136 units
- 1-bedroom units (100%)

- Average Asking Rent per unit: N/A
- Average SF per unit: 684 SF

[28] Unless otherwise noted, images, lease, and building information from CoStar.

Residential Development Considerations

Bend is facing an increasing challenge to support the development of affordable homes for households with the lowest incomes, but there is demand for housing of all types of homes at most price points. Recent population trends suggest increasing demand for smaller homes, attached housing, and multifamily projects.

The City of Bend should take intentional steps to plan and incentivize a range of housing types in the Southeast Expansion Area to meet the needs of its future residents.

Exhibit 44. Implications for Housing Products, Affected by Demographic Trends
Source: City of Bend. (August 31, 2016). Bend Housing Needs Analysis, Bend's Growth to 2028. Images from Bend's Envision Tomorrow Residential Buildings Presentation (August 4, 2014) and Danielson Grove cottages in Kirkland.

... for Millennials

An influx of Millennials will increase need for affordable housing for renters and homeowners such as: small single-family dwellings, cottages, accessory dwelling units, duplexes, townhomes, garden apartments, and apartments.

The size of dwelling units will vary depending on household size, from single-person households to households with children. Millennials are likely to choose housing in areas closer to services and activities, such as downtown Bend and nearby neighborhoods.

...for Baby Boomers

Baby Boomers will make a range of housing choices as they age, from continuing to remain in their homes as long as possible, to downsizing to smaller dwellings, to moving into group housing (e.g., assisted living facilities or nursing homes) as their health fails.

As Baby Boomers age, they will need: small single-family dwellings, cottages, accessory dwelling units, townhomes, apartments, and condominiums. Baby Boomers who move are likely to choose housing in areas with nearby shopping, health care and other services, such as neighborhoods with integrated services or in downtown Bend.

...for Multigenerational Households

Multigenerational households will need affordable housing that can accommodate their larger households.

Growth in this cohort will increase need for affordable housing for renters and homeowners such as: single-family dwellings (both smaller and larger sized dwellings), duplexes, larger townhomes, garden apartments, and apartments.

Ownership opportunities for multigenerational households will focus on moderate-cost ownership opportunities, such as single-family dwellings on a small lot or in a more suburban location, duplexes, and townhomes.

5 Conclusions for Market Potential

At the highest level, this analysis supports what Bend residents intuitively know: the City's macroeconomic situation is one of growth. Data show that the population is growing rapidly and it is expected to continue to do so in the future. Bend's economy also continues to expand, driven by population growth as workers from elsewhere are drawn to Bend's high quality of life.

In this section, we summarize our findings from this analysis, and describe the implications of those findings for the proposed land use designations in the Southeast Expansion Area.

5.1 Real Estate Market Outlook

Commercial/Industrial Real Estate

Bend's commercial real estate markets have responded to the rapidly accelerating recovery and expansion of the region's economy. Most markets are seeing shrinking vacancies and increasing rents—a sign of a strengthening real estate market. Exhibit 45 provides a summary of commercial market trends.

Exhibit 45. Bend Region Commercial Real Estate Market Trends

	Market Trends	Deliveries	Demand Drivers
Industrial and Flex	Generally, rents have been on the rise and vacancies have been declining.	Multiple new industrial and flex buildings have been delivered to the Bend market since the recession.	Many businesses are expanding but there have been few new businesses moving to the Bend area. Recent leases show a demand for primarily smaller spaces (under 10,000 square feet), with the exception of build-to-suit projects, which tend to be larger (15,000 to 50,000 or more square feet).
Office	Vacancies have declined steadily since 2012 and have leveled off since that time. Rents have been on a steady rise since 2013.	There have been fewer deliveries than in other commercial real estate markets sectors. The majority of Bend's office space was constructed before 2009. Recent deliveries have been relatively small sized projects of less than 10,000 square feet.	Office market trends are indicative of Bend's diffuse business market—most Bend companies have fewer than nine employees.
Retail	Rents have risen to 10-year highs and vacancies have fallen considerably.	Since 2014, 178,000 square feet of new retail space has been delivered. Much of this retail space has been near Bend's core, and in the northern and western portions of the city.	Bend's retail market has made strong gains since the recession. The local population's relatively high wealth and the thriving tourist economy contribute to a growing retail scene.

Source: ECONorthwest, and CoStar

Residential Real Estate

The City of Bend has seen increasing population growth and economic expansion since the Great Recession. Bend continues to be among the fastest-growing cities in the United States. These population growth trends have translated to increased housing demand, which has driven up prices for housing above those in other cities in the region and has sparked renewed housing development activity. Like Bend's past trends, many of the City's new residents are older, with no children living at home. However, despite a demographic shift towards smaller households, most new construction remains single-family detached housing. Exhibit 46 provides a brief summary of residential market trends.

Exhibit 46. Bend Region Residential Market Trends

	Market Trends	Deliveries	Demand Drivers
Single-Family Example: Single family detached homes	Home prices continue to rise year over year. Housing starts are not keeping pace with housing demand.	After seeing a major slowdown in housing starts during the recession, Bend has seen year over year increases in single-family housing construction.	The primary demand driver is Bend's rapid population growth. Bend continues to see an influx of new residents, many of whom arrive with equity from sales of homes in more expensive housing markets.
Multifamily Example: Apartment buildings	Multifamily rents have steadily increased year over year since the recession. Multifamily vacancy has fluctuated over the same time period, but has recently started to tighten up. Bend area multifamily vacancy now hovers around 4 percent—a sign of a relatively tight rental market.	There were few multifamily housing deliveries to the Bend market since the recession until 2016. Since then deliveries have jumped to over 500 units per year. The vast majority of these units are rental units (as opposed to for-sale condominiums).	Bend multifamily rents are still relatively affordable compared to other metro regions in the west, but the overall lag in housing construction—for both rental and ownership housing products—is putting increasing pressure on the multifamily market. Rents are steadily rising as a result.

Source: ECONorthwest, CoStar, U.S. Census

5.2 Implications for Southeast Expansion Area Land Use Designations

The City of Bend Comprehensive Plan provides policy direction for the future of the Southeast Expansion Area. Policy 11-76 of the Plan succinctly describes the goal for future growth to achieve in this UGB expansion area:

"[The Southeast Expansion Area]… is intended to provide for employment uses to take advantage of good transportation access on Knott Road and 27th and existing city streets (and future improved access with the Murphy Extension) with a mix of residential uses providing a compatible transition from the employment lands to existing neighborhoods to the west. This mix of uses is also intended to increase the completeness of the existing low-density neighborhoods.[29]"

The mention of "completeness" is intentional. As noted in several places in Bend's Comprehensive Plan, the City sees "Complete Communities" as a key ingredient to guide future land use decisions. The Plan describes Complete Communities as, *"…having varied housing options and many of the essential services and amenities needed for daily living, including quality public schools, parks and open spaces, shops and services, all within a convenient walking and biking distance. Complete communities should also have convenient access to public transportation and employment areas.[30]"*

The Land Use Plan Designations for the Southeast Expansion Area are designed to achieve the Complete Community goal with a mix of uses. The Land Use Plan Designations for the Southeast Expansion area are as follows:

Exhibit 47. Southeast Expansion Area Land Use Designations (Acreages)

Land Use	Area (Acres)	Portion of Sub-Total (Percent)	Development Potential (2028)	Development Potential (2040)	Alternative Metric
Residential	122	25%	819 Housing Units	882 Housing Units	820 Housing Units
RS	77	16%	47% Multi-family Units		47% Multi-family Units
RM	36	8%	36% Single-Family Detached		17% Single-Family Attached
RH	9	2%	17% Single-Family Attached		
Commercial	67	14%			
Industrial	76	16%			
Mixed Employment	103	22%	2,274 Jobs	2,277 Jobs	
Public Facilities	75	16%			
Other	36	8%			
Developable Land Subtotal	**479**				

Source: City of Bend (Note: Right of Way (ROW) is not included in the summation of areas. Residential uses are also permitted as a limited use in Commercial and Mixed Employment areas.)

[29] City of Bend Comprehensive Plan, Chapter 11: Growth Management, Page 32

[30] Ibid. Page 4

Realizing development of *any* land uses in the Southeast Expansion Area will require substantial infrastructure investment, and decisions regarding where and when that infrastructure investment is made. Our discussion of implications describes how the market will respond once a successful infrastructure plan has been implemented.

Overall, our research shows that trends are headed in a positive direction for the planned land uses in the Southeast Expansion Area, and that the overall mix of uses is responsive to market conditions. That said, intentional phasing, investment in infrastructure, and planning for mixes of uses will be critical to successful implementation of the vision for the Southeast Area Plan. Over the course of the area's build-out market conditions are likely to shift, and near-term opportunities may need support to ensure that the long-term vision is achieved.

A Note about The Market Potential Estimates

These market potential estimates were created through a reconciliation of our Bend area market research, our discussions with local stakeholders, and our experience working on similar estimates in other regions.

The timeframes used in these estimates are related to the timing of infrastructure development and pre-development planning for the Southeast Expansion Area. That is, each timeframe is in relation to the initiation—the starting point—of infrastructure and land development in the area. These timeframes are not related to a current day starting point. This is an important distinction. There is substantial work that needs to take place to plan and implement a successful infrastructure plan before development can be initiated.

Market Potential Definitions

High	High market interest. Limited policy support or subsidy needed; that is, the market is likely to develop these uses with little public support.
Medium	Limited to prime locations where development is most likely to occur. Some development in this category are likely to require partnerships and intentional policy focus, e.g. regulations and incentives to promote missing middle housing
Low	Development will require public subsidy and targeted policy focus, e.g. strategic plans, dedicated funding, or specific programs to support these uses.

Commercial Land Uses

Retail

Retail uses respond to the needs and demands of the local population. Some retail development types have larger population catchment areas than others. Others rely upon adjacencies with other popular destinations. Due to macro-economic trends, emerging technology, and the rapid increase of online shopping, the retail real estate market nationwide is in a transformational period, complicating long-range estimates. Nevertheless, people continue to shop at stores and go to restaurants, and there will be a need for retail real estate in the future.

The market potential in the Southeast Expansion Area for retail is heavily reliant upon future residential development in the area, and the location, type, and quality of retail establishments that will come to occupy the area.

In the near-term, retail of all types will be a challenging land use to develop.

- Existing low-density neighborhoods provide a limited number of shoppers for new retail outlets, and perceptions of the Southeast Expansion Area are generally that it is distant from commercial centers of Bend. Once transportation infrastructure is in place, the market potential for destination retail will increase.
- Residential and neighborhood scale retail (such as hair salons, coffee shops) are mutually supportive, and should be planned together. Appropriately-scaled retail drives residential rents and sales prices, and retail cannot be successful without an appropriate number of nearby households.
- Types of retail that rely upon a critical mass of population in a surrounding geography (grocery stores), or amenity rich walkable environments like Bend's downtown (boutique retail) will be challenging retail development types for the Southeast Expansion Area until it is close to final build-out.

Exhibit 48. Southeast Expansion Area: Market Potential for Retail Uses

Development Type	Plan Zone Designations	Market Potential		
		Near-Term (0-5 years)	Mid-Term (5-10 years)	Long-Term (10-20 years)
Destination Retail	CG	Medium	High	High
Neighborhood Retail/Services	CG, ME	Medium	High	High
Boutique Retail	CG, ME	Low	Low	Medium
Restaurants/Cafes/ Brewpubs	CG, ME	Low	Medium	High
Grocery Stores	CG, ME	Low	Low	Medium

Source: ECONorthwest.

Office

Depending on the specific development type, office real estate can either act as a supportive use (neighborhood services) or can be an anchor use that attracts other uses to it (corporate offices). Like many cities of its size, Bend has a concentration of corporate offices in a select few areas. Office uses that provide neighborhood services are much more spread out across the city. These neighborhood office uses include such businesses as veterinarian clinics, small law offices, and tax preparation services, among others.

Because of its location away from other concentrations of office users, the Southeast Expansion Area is unlikely to attract corporate offices until later phases of development. To do so any earlier would likely require a targeted recruitment strategy and development incentives.

Neighborhood services—accountant offices, dental offices, etc.—act in a similar fashion to neighborhood retail. That is, they support and rely upon surrounding residential uses. This office development type will have limited market potential until close to full build-out.

Exhibit 49. Southeast Expansion Area: Market Potential for Office Uses

Development Type	Plan Zone Designations	Market Potential		
		Near-Term (0-5 years)	Mid-Term (5-10 years)	Long-Term (10-20 years)
Live-Work Units	ME	Low	Low	Medium
Home-Offices	ME, RH, RM, RS	Medium	Medium	High
Neighborhood Services (Tax services, Dental offices, etc	CG, ME	Medium	Medium	High
Corporate Offices	CG, ME	Low	Low	Medium

Source: ECONorthwest.

Industrial

Industrial real estate ranges from small auto-shops to large factories and distribution facilities. As was discussed earlier in this report, the Southeast Expansion Area has not been designated for large lot industrial properties and recent market trends are showing an increasing demand for smaller and more flexible industrial development types. With those assumptions and trends in mind, industrial development has an overall higher market potential than some other real estate sectors.

Appropriately sized warehouses, manufacturing, and flex development types have a positive but limited market potential in the near-term. The market potential for these development types will increase as transportation infrastructure reaches full build-out. Warehouses and manufacturing buildings are relatively inexpensive building types. If land costs are competitive and there is adequate transportation access, these types of developments are usually quick to respond to market demand.

Flex industrial space, a development type that—as the name suggests—can nimbly provide a flexible blend of office and industrial space to meet the needs of individual tenants, will also become an attractive industrial use type early on. The range of small businesses in Bend, from small technology companies to outdoor gear startups, are a good fit for flex industrial space.

In most cases, distribution industrial developments require large lots for cross-dock facilities, truck parking and turn-around, as well as immediate interstate highway access. There are other locations in Bend that are generally better suited for this development type than the Southeast Expansion Area.

Exhibit 50. Southeast Expansion Area: Market Potential for Industrial Uses

Development Type	Plan Zone Designations	Market Potential		
		Near-Term (0-5 years)	Mid-Term (5-10 years)	Long-Term (10-20 years)
Warehouse	IG, IL	High	High	High
Manufacturing	IG, IL	Medium	Medium	High
Distribution	IG, IL	Low	Low	Low
Flex	IG, IL, ME	Medium	High	High

Source: ECONorthwest.

Residential Land Uses

Generally, the primary driver for residential real estate is population growth. Bend's historic and projected future population growth rate is higher than most cities in the United States. The continued influx of people to Bend will drive the residential market for the foreseeable future.

While the households that make up Bend's population and its new residents is varied in terms of size and incomes, population trends indicate that Bend households are getting smaller (fewer children) and wealthier. At the same time, there is a growing demand for housing for lower income households. Meeting the future needs of Bend's households will require a wide range of new unit types.

To respond to Bend's recent population growth, the local residential real estate market has expanded more rapidly than other real estate sectors. Single family home development has been steadily increasing and multifamily development has recently started to pick up.

The City of Bend has designated 25 percent of the land in the Southeast Expansion Area exclusively for residential uses. The mixed employment zone, which is not included in that residential tally, also allows residential as a limited use.

The future market potential for residential land uses in the Southeast Expansion Area strong, but varies by residential development type.

- Single-family home development, due to its generally high demand and relatively low development costs, is the most likely to be successful.
- "Garden-style" wood frame multi-family housing, a relatively inexpensive to build development type could be achievable in the near to mid-term depending the location, adjacent or nearby amenities, and the quality of the project itself. In the long-term, once the Southeast

Expansion Area is more built-out with community amenities in place, and transportation infrastructure linking the area to other parts of the City, the market potential for this type of multi-family housing increases.

- Smaller scale multi-family housing such as townhomes, duplexes, and other "missing middle" development types are likely to be achievable in limited situations initially, but market potential will continue to grow as the Southeast Expansion Area becomes more of a recognizable neighborhood.
- Mixed-use multifamily housing—typically a building with residential units over a first floor of commercial spaces—will face tough challenges in the near-term, but development viability will increase in later development phases. Mixed-use multifamily development is an expensive and complex development type. While there are select cases of this development type under-construction in Bend today, they are located in highly desirable areas where they can command the highest area rents. To achieve mixed-use multifamily development in the near-term and likely well into future timeframes, will require strategic partnerships, and a package of incentives or subsidies.
- Affordable housing, which is defined as housing that is sold or leased at rates lower than market rates, will—as it does in most if not all situations—require targeted implementation strategies and actions. The City of Bend already has a strong affordable housing program. To realize affordable housing development in the Southeast Expansion Area, the City will need to use many of its available tools and incentives.

Exhibit 51. Southeast Expansion Area: Market Potential for Residential Land Uses

Development Type	Plan Zone Designations	Market Potential		
		Near-Term (0-5 years)	Mid-Term (5-10 years)	Long-Term (10-20 years)
Single-Family	RS	High	High	High
Multi-family	RH, RM	Medium	Medium	High
Multi-family Mixed Use	RH, ME	Low	Low	Medium
Duplexes, Townhomes/Missing Middle Housing	RS, RM, RH	Medium	Medium	High
Affordable Housing*	RS, RM, RH	Low	Low	Low

Source: ECONorthwest. *Note: Affordable housing is a non-market use. Across all timeframes, affordable housing will require targeted strategy and actions to be achievable.

Appendix A. Bend's Housing Market

ECONorthwest works with the Central Oregon Association of Realtors (COAR) to create quarterly and annual single-family home market reports. To support this market analysis, we have included two recent report summaries for the Bend market— (1) the 2018 Third Quarter Bend Report, and (2) the 2017 Bend Market Overview Report.

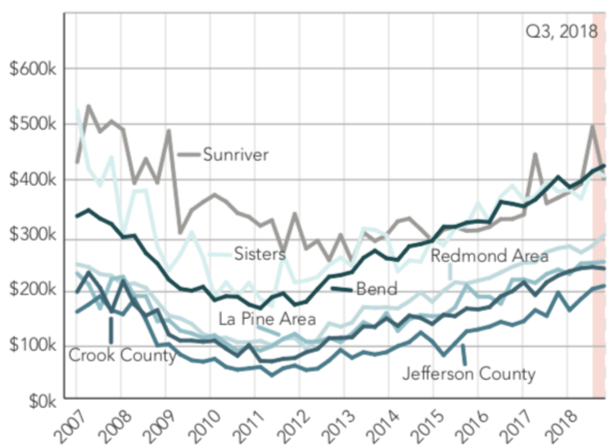
Bend Third Quarter Report, 2018

The Central Oregon housing market continued to see home price appreciation across most of the region in the third quarter of 2018. Other data points—days on market, sales volume, etc.—varied from city to city. Altogether, the region continues on a stable path forward through 2018.

Here are some of the economic highlights from the third quarter of 2018:

- **Bend:** Bend recently updated the comprehensive and zoning plans to match, removing the need for property owners to pay for compliance. Bend has also approved planning funds for the UGB expansion area known as the Elbow in SE Bend.
- **La Pine:** In early 2019, La Pine will begin $25 million in infrastructure improvements to connect two neighborhoods to the city's water system. The project will bring water and sewer to 275 developed homes and undeveloped lots.
- **Madras:** The Madras Municipal Airport has received more than $2.5 million in federal grants to help with much needed repairs and upgrades. (Cont. on next page)

Submarket Comparison—Median Home Sold Prices, Quarterly, 2007–2018



About the data used in this report:

To produce this report, ECONorthwest compiled and organized data from COAR's MLS database. All questions related to data accuracy and verification should be directed to COAR.

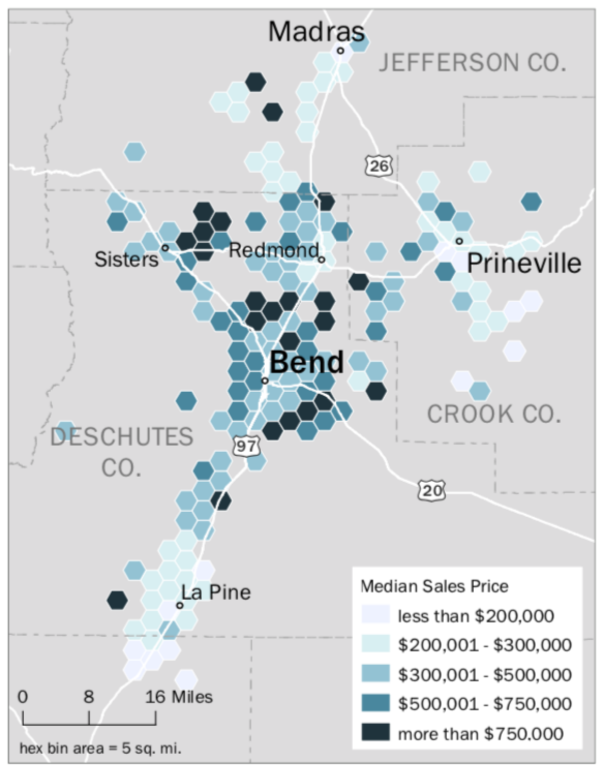
Median Sales Price and Median Sales Volume by Submarket

	Price	Volume
Bend	$435,000	929
Crook County	$249,950	126
Jefferson County	$218,500	81
La Pine/Three Rivers South	$262,000	176
Redmond/Terrebonne/ Crooked River Ranch	$309,701	402
Sisters	$416,824	86
Sunriver	$412,000	89

For All Submarkets

	Current vs. Prev. QTR	Current QTR vs. Same QTR Last Year
Units Sold	↑ 8.44%	↓ -0.74%
Med. Price	↑ 1.1%	↑ 8.35%

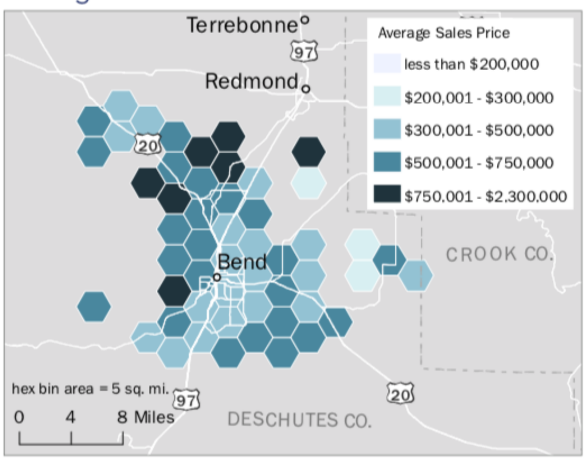
Median Regional Sales Price



Bend Overview, 2017

Homes in Bend continue to be in high demand and fetch some of the highest prices in all of Central Oregon. Bend saw growth in home sale prices in 2017, while sales volume remained on par with 2016. Both number of homes sold and days on market were similar to 2016. Average home prices increased each quarter over 2017, but with only slight increases on a per square foot basis. The price premium for new homes sales in Bend was minimal, showing the strong demand for all homes in the submarket. In 2017, 24 percent of all home sales in the Bend submarket were all cash sales.

Average Sales Price



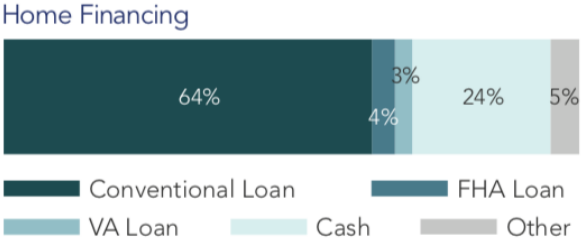
Home Pricing

Existing	New	New Construction Premium
$466,358	$468,904	0.45%

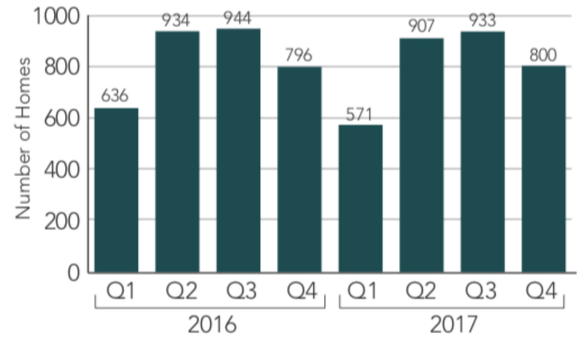
New Construction Sales

New Units Sold	New Units as a % of Total Units
717	22.33%

Home Financing



Sales Volume

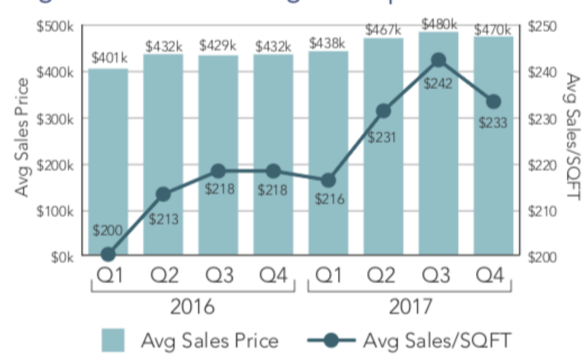


		Current vs. Prev. QTR
For Sale	↑	39.63%
Sold	↓	-14.26%

Avg. DOM & Sales Price vs. Listing Price

		Current vs. Prev. QTR		Current vs. Prev. Year
DOM	↑	8.6%	↓	-7.07%
Sold/Orig LP Diff. %	↓	-0.31%	↓	-0.03%

Avg. Sales Price & Average Sales per SQFT



		Current vs. Prev. QTR		Current vs. Prev. Year
Avg. Price	↓	-2.07%	↑	9.71%