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# **CENTER FOR REAL ESTATE**

## **Quarterly Report**

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Volume 7, Number 2

Spring 2013

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## SUMMARY AND EDITORIAL

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ERIC FRUITS

Editor and Adjunct Professor, Portland State University

In this issue of the *Quarterly Report*, **Michael Silvey** provides an “inside baseball” anatomy of a public-private partnership between private developers and government entities. He describes the potential benefits of the partnerships as well as potential pitfalls to watch for from both the private side and the public side.

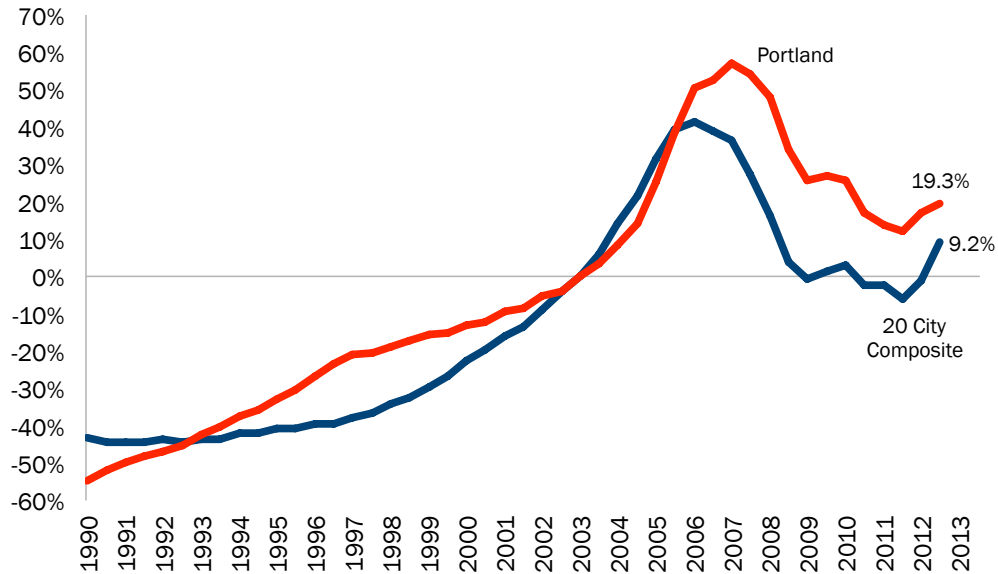
As reported in the residential section of this issue, Oregon’s housing market appears to have rebounded from a deep drop and slow recovery. The Oregon Office of Economic Analysis recently released its quarterly forecast of the state economy (available for download at [www.oregon.gov/DAS/OEA/docs/economic/forecast0513.pdf](http://www.oregon.gov/DAS/OEA/docs/economic/forecast0513.pdf)). The state’s economists report that “The housing rebound is now in full swing with sales, starts and prices all increasing at strong rates.”

Nevertheless, many reports of a housing recovery seem to use the word “fragile” to describe the recovery. The figure below shows two things: (1) Portland lagged the rest of the country into the housing boom, and (2) Portland did not see as much of a bust as the rest of the country. As a result, since 2003, Portland housing prices appear to have generally fared better than other major metropolitan areas.

■ Eric Fruits, Ph.D. is editor of the *Center for Real Estate Quarterly Report* and an adjunct professor at Portland State University. He is a managing economist with Nathan Associates Inc., where he directs the firm’s Pacific Northwest practice. Any errors or omissions are the author’s responsibility. Any opinions expressed are those of the author solely and do not represent the opinions of any other person or entity.

## Portland housing market is outperforming U.S.

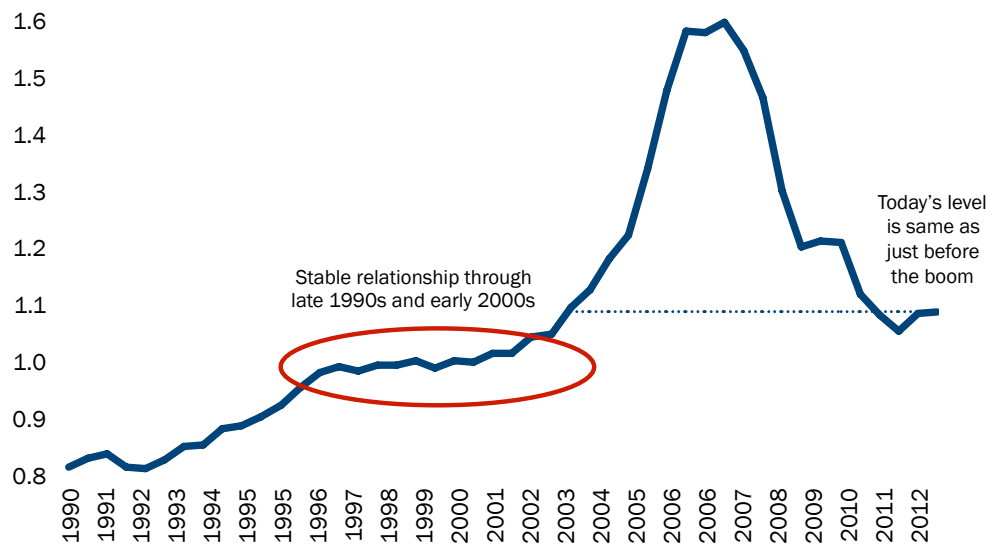
Case-Shiller Index, base year = 2003



Source: Standard & Poor's Case-Shiller Index

## A housing market out-of-whack? ... Or in-whack?

Price-to-rent ratio, base year = 2003



Source: Standard & Poor's Case-Shiller Index and Bureau of Labor Statistics

While most would agree that from 2003 to 2007, housing markets looked very bubble like, the figure above raises the question of whether the subsequent bust was a correction or an overcorrection. One way to evaluate that question is to look at the relationship between home prices and rental prices. The figure above shows that through the late 1990s and early 2000s, the Portland market had a relatively stable relationship between home prices and rental rates. During the housing boom, home prices rapidly outpaced rents. The subsequent bust brought the relationship back in-line. Today, we are at about the same level as just before the housing boom, suggesting that perhaps we have settled back to where housing prices “should” be.

From 1987 (the first year Case-Shiller calculated a home price index for Portland) to 2003 (the year before home prices began to skyrocket), home prices in Portland grew at an average rate of just below 6 percent a year. The first figure on the previous page shows that home prices today are far off the long-run trend—so far off that we may never be able to fully return to the earlier growth path.

On the optimistic side, Lawrence Yun, the National Association of Realtors’ predicts that median existing-home price should increase about 8 percent this year and 5 percent in 2014. On the more pessimistic side, the *Wall Street Journal* reports that Mark Hanson, a housing consultant based in Menlo Park, California predicts further declines. Hanson argues that the housing market faces a “wall of headwinds” because of (1) interest rates that cannot go much lower, (2) rising taxes, and (3) mortgage modifications that are re-defaulting. Oregon’s Office of Economic Analysis forecast falls somewhere on the pessimistic side of in-between, predicting modest gains in Oregon housing prices. In contrast, the *Wall Street Journal’s* survey of economists forecasts relatively robust growth in the U.S. housing market.

	Oregon Office of Economic Analysis	WSJ Survey of Economists
2013	2.9%	5.75%
2014	3.7%	4.82%

I hope you enjoy this latest issue of the Center for Real Estate Quarterly Report and find it useful. The Report is grateful to the Oregon Association of Realtors (OAR) for their continued support. ■

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# ANATOMY OF A PUBLIC-PRIVATE PARTNERSHIP

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MICHAEL R. SILVEY

Lane Powell PC

This article explores the anatomy of a public-private partnership in the context of major real estate projects entered into by a governmental body with a real estate developer or owner. The author has been involved in a number of public/private partnerships involving arenas and stadiums. Those facilities, among others, will serve as examples of how public/private partnerships are put together.

## WHAT IS A PUBLIC-PRIVATE PARTNERSHIP?

A public-private “partnership” can be defined as a governmental service or private business venture which is funded or carried out through a “partnership” of a governmental body or bodies and one or more private sector companies. These public-private partnerships are referred to in shorthand as “PPP, P3 or P<sup>3</sup>.” For purposes of this article we will use the term “P3.”

Why is “partnership” in quotes above? The concept of partnership is really a non sequitur, since the typical agreement which documents a P3 includes specific dis-

■ Michael R. Silvey is a shareholder with Lane Powell PC, attorneys and counselors. He focuses his practice on representing developers, investors and businesses in all aspects of commercial real estate, including purchase transactions, loans for acquisition, development and refinancing, construction agreements, leasing, land use approvals and public-private partnerships. He graduated with his J.D. from Hastings College of the Law (UC Hastings) with Order of the Coif and with his A.B. from UC Santa Barbara with honors. Mr. Silvey is licensed to practice law in Oregon, Washington, Idaho and California.

claimers that it is not a partnership or a joint venture. The following is a typical disclaimer section found in a P3 agreement often referred to as a “Development Agreement” or “Disposition and Development Agreement” (usually abbreviated as “DA” or “DDA”).

*No Partnership.* Neither anything contained in this Agreement nor any acts of the Parties shall be deemed or construed by the Parties, or any of them, or by any third party, to create the relationship of principal and agent, or of partnership, or of joint venture or of any association between any of the Parties to this Agreement.

Normally the private sector party is referred to as an independent contractor and cannot act as an agent for the governmental body, without an express designation in writing. Rarely is such a designation given.

## **GOVERNMENTAL BODY PRESERVES ITS POLICY POWER AND REGULATORY AUTHORITY**

Governmental bodies generally cannot contract away their police or regulatory powers. At the same time, the developer or owner can often secure a contractual commitment that the governmental body will not, through its officials and employees, seek to influence the governmental regulatory bodies to deny to the private sector the benefits of the governmental bodies’ covenants and obligations under the Development Agreement. Similarly, the governmental body will not limit its discretionary or regulatory action with respect to project improvements, including rezoning, variance, environmental clearances, code compliance and the like.

At the same time you can generally secure a covenant from the governmental body that it will work in good faith to facilitate the cooperation of and coordination among the various governmental regulatory bodies. As was done for the Rose Garden Project (to be discussed later), the City of Portland held weekly coordination meetings among the City Bureaus having jurisdiction over the project. This allowed for conflicting issues or requirements between different City Bureaus to be discovered early and resolved on a more timely basis. Negotiating early the need for coordination meetings will be beneficial to a P3 in any municipality.

## **HOW ARE P3’S FORMED?**

In the arena and stadium projects on which the author has worked, the P3 is generally initiated by the private sector party but often a municipality will start the process by the use of an RFQ (Request for Qualifications) or a RFP (Request for Proposals), as the City of Portland has done for the Convention Center Hotel project.

Once the project has been identified, normally there is a public process to secure input from interested parties, often times referred to as “Stake Holders.” In the case of the development of the Rose Garden, the Portland City Council and the Metro



Council appointed influential public, civic and business leaders to the Arena Task Force (“ATF”). The ATF then held a series of public hearings and workshops to receive public input which culminated in a 19-page Memorandum of Understanding between the City and Oregon Arena Corporation which acted as developer and was directly or indirectly owned by Paul Allen, owner of the Portland Trailblazers.

With the development of the Seahawk’s Stadium, now CenturyLink Field, the process started with Paul Allen agreeing to purchase the Seahawks NFL franchise if the public would provide financing for a football stadium to be built on the location of the former Kingdome. This financing was accomplished by legislation passed by the Washington State Legislature. The legislation was then put to a vote of the people. This special referendum cost \$4.5 million and was paid for by Paul Allen. The state-wide referendum passed with 51 percent in favor and 49 percent opposed. The legislation provided \$300 million in public financing and created the State Public Stadium Authority.

## **NEGOTIATING THE DEVELOPMENT AGREEMENT**

Who takes the lead in negotiating on the public side is important. However, just as important is knowing who is calling the shots behind the scenes. In the case of the Rose Garden, the Portland Development Commission (“PDC”) was designated as the party to negotiate on behalf of the City. PDC used two project managers, an outside consultant, outside lawyer, and PDC’s general counsel as the primary negotiators on behalf of the City. Behind the scenes, it became evident that there was an “Executive Cabinet” comprised of various City and PDC department heads and the City’s City Attorney; the Mayor was also a party. All important issues had to be taken back to the Executive Cabinet which slowed down negotiations. The negotiations for the Rose Garden started in the Spring of 1991, and closing occurred on June 24, 1993; although the last six months were devoted to negotiating the financing documents for the private improvements (see Financing section below). Ultimately, approval came from the City Council.

In the Seahawk’s Stadium situation, the known “Executive Cabinet” was the State Public Stadium Authority which met regularly to vet and approve issues as they arose during the negotiation. The Stadium Authority hired an Executive Director who had lead negotiating authority and was accompanied by staff help and outside counsel. The negotiation process for the Seahawks Stadium was quicker. It was about one-year from start to finish, but a year had been spent before then as the needed legislation was being drafted and debated in the State of Washington Legislature. So a two year period in negotiating and drafting the myriad of documents which make up a significant P3 is probably more typical than not. Recent negotiations on the proposed redevelopment of the Veterans Memorial Coliseum were at nearly 18 months when the project was put on hold. The negotiations for the expansion of Portland’s Civic Stadium into JELD-WEN Field took approximately a year.

On the private side, both Oregon Arena Corporation and First & Goal Inc. are entities directly or indirectly owned by Paul Allen. Many of the same negotiators for Allen's companies were involved in both transactions. The author was one of the lead negotiators as outside counsel. The project manager for both projects for the Allen companies was the same which allowed for relatively quick resolution of issues as they arose. The dynamics of decision making on the public side versus the private side are thus much different. It is not unusual to sit in a conference room with your private side client while the public side is off in another conference room debating among themselves on how to resolve a particular issue. There can be a number of competing interests within the public side which will frustrate the private side. Patience is a virtue and the private side must remember that the public side will move more slowly.

Generally, every document being negotiated needs a lead author and one which controls the changes being made. These documents will go through multiple drafts. It is important to set up protocols as to the format of the documents and establishing a clear set of definitions which can be used in all the related documents. Generally, the definitions are set forth in the Development Agreement, although each related document may have its own set of definitions unique to that document. It is also important to set consistent times for negotiation sessions and require everyone to clear their calendars. While it is often the case that comments from the lawyers are directed only to the lawyers on the other side, in the case of P3s it is more typical to include principals on both sides, since it creates a better flow of information. This should be agreed to as one of the up-front protocols. The negotiations of P3s often involve principals at the negotiating table in order to resolve business issues directly and quickly. The problem arises, as noted above, when the true decision makers are not at the negotiating table.

## COMPETING GOALS AND OBJECTIVES

There is always some tension between the goals and objectives of the governmental agency and the goals and objectives of the private side. Some of these tensions were highlighted during the public hearing process leading to the Memorandum of Understanding in the case of the Rose Garden and in the hearings on the legislation for the Seahawks Stadium.

These stadium/arena projects or large development projects such as the Convention Center Hotel generate a number of governmental goals and objectives. A few examples are as follows:

- Reduce government's financial contribution.
- Provide a long-term source of revenue to the government through rent or user fees.
- Provide construction opportunities at prevailing wages.

- Provide workforce equity programs, including workforce training (apprenticeships), goals for participation by women and people of color, minority-owned, woman-owned, and emerging small businesses.
- Green requirements, including reduction in energy, water and green-house gases and the development of eco-districts.
- Provide for affordable housing.
- Provide for additional development opportunities through development options.

The private side has its own goals and objectives including the following contributions and assistance from the public side:

- Contribution of land or assistance in land assemblage (including the use of eminent domain).
- Low-cost loans or grants, including use of tax increment funds.
- Property tax freezes.
- Freedom to construct both the public and private portion of the project through an exemption from the normal public building process.
- Protection against environmental liability for publicly owned property transferred to the project.
- Assistance in coordinating necessary governmental approvals.

Many of the public and private goals and objectives may be compatible but many will conflict. The cost of negotiating a resolution of conflicting goals and objectives will be expensive. Legal and consulting fees just for negotiating the documents can run into the high six figures and can run into the millions of dollars.

## **TIME IS MONEY**

Since time is also money, budgeting sufficient lead time is critical. The Rose Garden took over two years to negotiate; the Seahawks Stadium a little over a year but only after the legislation was passed, so that lead time was also two years. The Convention Center Hotel project is on its third attempt in the last 20 years. From inception to completion of these types of projects, a five year window is probably as short a time frame as you can expect with half the time taken up with negotiation, planning, financing and the other half taken up in permitting and actual construction.

## **FINANCING**

Financing of P3 projects are generally complex and require multiple sources of funds. While the Rose Garden project seemed relatively straight forward, the required funds and property were complex. First, the City agreed to ground lease its land to Oregon Arena Corporation for only \$1 per year, on a long-term ground lease; initially 30 years with three, ten year extensions. The City contributed \$34.5 million for infrastructure improvements, including roads, utilities, environmental remediation.

tion and the construction of two parking garages. The City was paid back with a 6 percent user fee on each ticket sold for events within the Rose Quarter. It not only paid off the City's infrastructure bonds but has provided funds for the City's Public Spectator Fund used to expand Civic Stadium into JELD-WEN Field. That 6 percent user fee continues during the initial 30 years and will continue during each ten year extension unless the City elects to require the payment of market rent for the City's ground leased property. It is expected that the 6 percent user fee will generate significantly more rent for the City.

The financing of the private side improvements was done through privately placed mortgage term notes of \$155 million. Paul Allen contributed another \$46 million of equity into the private improvements. There was also secondary financing of \$16 million from the concessionaire for the Rose Garden and \$10.5 million of earned interest from the unexpended proceeds of the privately placed notes. Accordingly, with the City's \$34.5 million, a total of \$262 million was available for the Rose Garden Project. The cost of an arena today would be two to three times that amount. The recently opened Barclays Center in Brooklyn, New York cost close to \$1 billion but the proposed new arena in Seattle is estimated to cost \$490 million.

The Seahawk's Stadium was budgeted to cost \$460 million. Since the Washington State Legislature only authorized \$300 million, the short fall of \$160 million was left to be funded by the private side, First & Goal, Inc. Additionally, as is typical in P3s, the private side was responsible for any cost overruns. Often, the public side will agree to be responsible for cost overruns but only for change orders to the project requested by the public side. The public side may agree to be responsible for environmental remediation costs for any real property it contributes to the project but will seek to cap that liability. The public side is very risk adverse and the private side needs to take that risk adverseness into account when negotiating the P3. The public side tends to signal throughout the negotiations that it only has as a limited amount of funds available, no other funds are available and the general fund of the municipality cannot be put at risk.

## **MANY SUCCESSES**

There have been many successes in the City of Portland and elsewhere using P3s. The Rose Garden, the Pearl District, South Waterfront, the expansion of Civic Stadium, now JELD-WEN Field, and possibly the Convention Center Hotel. In Portland, some of the P3s were initiated by PDC using tax increment funds which are now expiring. The Rose Garden was constructed without the use of tax increment funds so it is possible to finance P3s without that source of funds. The Convention Center Hotel is now working on a financing plan which seeks to reduce the amount of public dollars involved.

P3s are flexible arrangements between the public and private sides. Each P3 will be negotiated and financed based upon the unique circumstances of the project and

the willingness of the public and private side to take on liability and risk. Being involved in a successful P3 is the goal of both sides. When that happens, as it has on many occasions in the City of Portland and elsewhere, many of the public goals and objectives discussed above are achieved and the private side is able to create a project that would not have taken place but for the assistance and contributions of the public side. ■

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## RESIDENTIAL MARKET ANALYSIS

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EVAN ABRAMOWITZ

RMLS Student Fellow

Master of Real Estate Development Graduate Student

Existing-home sales eased in March from inventory constraints, which continued to pressure home prices, according to the National Association of Realtors.

Total existing-home sales, which are completed transactions that include single-family homes, townhomes, condominiums and co-ops, declined 0.6 percent to a seasonally adjusted annual rate of 4.92 million in March from a downwardly revised 4.95 million in February, but remain 10.3 percent higher than the 4.46 million-unit pace in March 2012.

Sales have been above year-ago levels for 21 consecutive months, while prices show 13 consecutive months of year-over-year price increases.

Lawrence Yun, NAR chief economist, said there is more demand than supply in the current market. “Buyer traffic is 25 percent above a year ago when we were already seeing notable gains in shopping activity,” he said. “In the same timeframe housing inventories have trended much lower, which is continuing to pressure home prices. The good news is home construction is rising and low mortgage rates are con-

■ Evan Abramowitz is a multifamily investment specialist with Joseph Bernard LLC Investment Real Estate. He is currently working towards the Master of Real Estate Development degree through Portland State University’s School of Business where he is an RMLS Student Fellow. Any errors or omissions are the author’s responsibility. Any opinions expressed are those of the author solely and do not represent the opinions of any other person or entity.

tinuing to keep affordability conditions at historically favorable levels. The bad news is that underwriting standards remain excessively tight, while renters are getting squeezed by higher rents.”

The national median existing-home price for all housing types was \$184,300 in March, up 11.8 percent from March 2012. The March increase was the largest year-over-year since November 2005.

Single-family home sales decreased 0.2 percent to a seasonally adjusted annual rate of 4.32 million in March from 4.33 million in February, and are 9.1 percent higher than the 3.96 million-unit level in March 2012. The median existing single-family home price was \$185,100 in March, up 12.1 percent from a year ago.

Existing condominium and co-op sales decreased 3.2 percent to a seasonally adjusted annual rate of 600,000 in March, and are 20 percent above the 500,000-unit pace a year ago. The median existing condo price was \$178,900 in March, which is 10.4 percent higher than March 2012.

Regionally, existing-home sales in the Northeast were unchanged at an annual level of 630,000 in March and are 6.8 percent above March 2012. The median price in the Northeast was \$237,000, up 3.0 percent from a year ago.

Existing-home sales in the Midwest increased 1.8 percent in March to a pace of 1.16 million but are 14.9 percent higher than a year ago. The median price in the Midwest was \$141,800, up 7.8 percent from March 2012.

In the South, existing-home sales decreased 1.5 percent to an annual level of 1.95 million in March but are 12.7 percent above March 2012. The median price in the region was \$161,700, up 10.4 percent from a year ago.

Existing-home sales in the West declined 1.7 percent to an annual pace of 1.18 million in March but are 4.4 percent above a year ago. With continuing inventory shortages in the region, the median price in the West was \$258,100, which is 26.1 percent higher than March 2012.

Mortgage interest rates are still hovering at nearly 60-year lows. The national average commitment rate for a 30-year conventional, fixed-rate mortgage was 3.41 percent in April, up from 3.34 percent in January; the rate was 3.91 percent in April 2012.

First time homebuyers constituted 30 percent of homes in March, unchanged from February. They were 33 percent in March 2012. Investors purchased 19 percent of homes in March, which declined from 21 percent in March 2012.

The four counties in the Portland metro area have added 9,000 residential homes or apartment units since 2010.

### Median Home Values of Existing Detached Homes

	U.S.	West	Portland Metro Area
March 2012 Median Sales Price	\$164,800	\$204,600	\$206,500
March 2013 Median Sales Price	\$184,300	\$258,100	\$242,000
% Change in Median Sales Price	11.8%	26.1%	14.7%
% Change in Number of Sales Mar 2012- Mar 2013	10.3%	4.4%	N/A

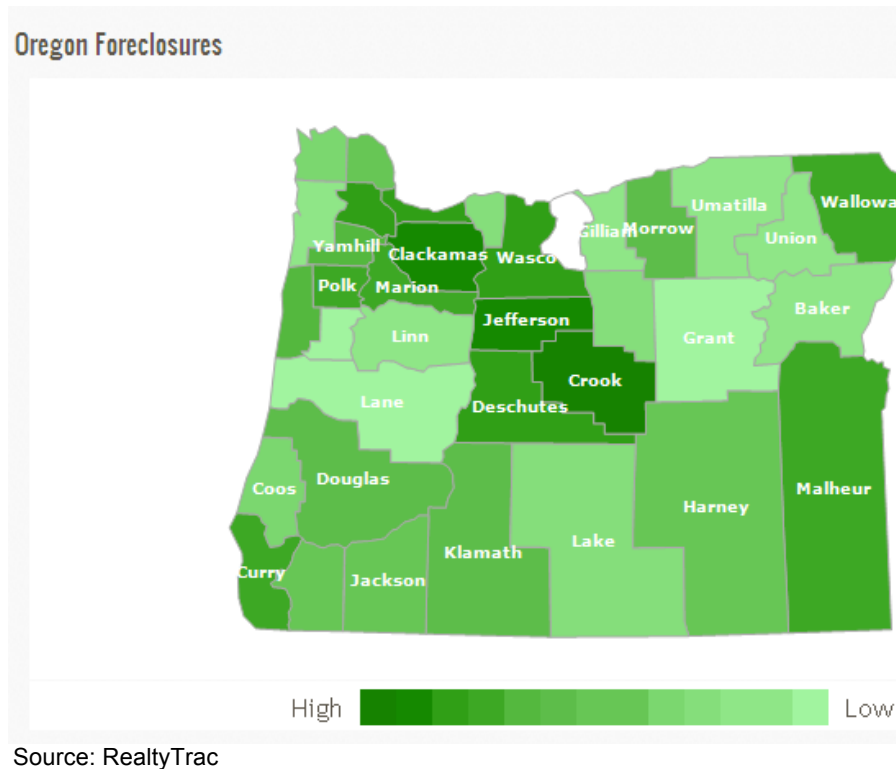
Standard & Poor's Case-Shiller Index for was 146.14 through January 2013. The represents an increase of 0.1 percent from December 2012, and a year-over-year increase of 8.1 percent. Portland was at 140.74 in January, which is an 0.4 percent decrease from December, and up 8.3 percent compared to the same time last year. The index data shows that in January 11 of the 20 major U.S. metropolitan cities, home prices increased from the previous month, 6 including Portland decreased, and three remained unchanged.

Foreclosure filings were reported on 442,117 U.S. properties during the first quarter, a decrease of 12 percent from the previous quarter and a decrease of 23 percent from the first quarter of 2012. Foreclosure activity is at the lowest level since the second quarter of 2007.

“Although the overall national foreclosure trend continues to head lower, late-blooming foreclosures are bolting higher in some local markets where aggressive foreclosure prevention efforts in previous years are wearing off,” said Daren Blomquist, vice president at RealtyTrac. “Meanwhile, more recent foreclosure prevention efforts in other states have drastically increased the average time to foreclose, which could result in a similar outbreak of delayed foreclosures down the road in those states.”

During the first quarter of 2013 Oregon reported 7,879 foreclosure filings. Multnomah County had the state's highest level of activity in September 2012 with 275 homes.





According to RealtyTrac, the ten states that ranked the highest in foreclosure rates in March 2013 were Florida, Nevada, Illinois, Ohio, Georgia, Arizona, Washington, Maryland, South Carolina, and California. Of these states, Florida posted the nation's highest state foreclosure rate, with one in every 104 housing units receiving a foreclosure filing in the first quarter of 2013, more than three times the national average. In Nevada one in every 115 housing units and in Illinois one in every 147 housing units filed for foreclosure during the first quarter of 2013.

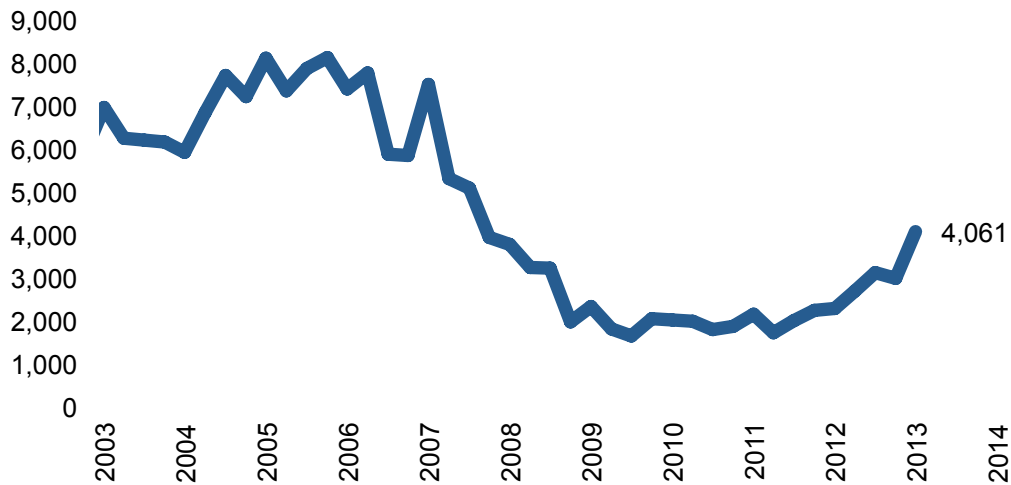
Single family building permits have increased sharply in the first quarter of 2013 in the US and Oregon. Statewide permitting activity is 79 percent higher than in the first quarter 2012. The Portland-Vancouver-Beaverton area has seen a 112 percent increase over last year's first quarter activity. The Portland area has not seen this level of permit activity since just before the market crash.

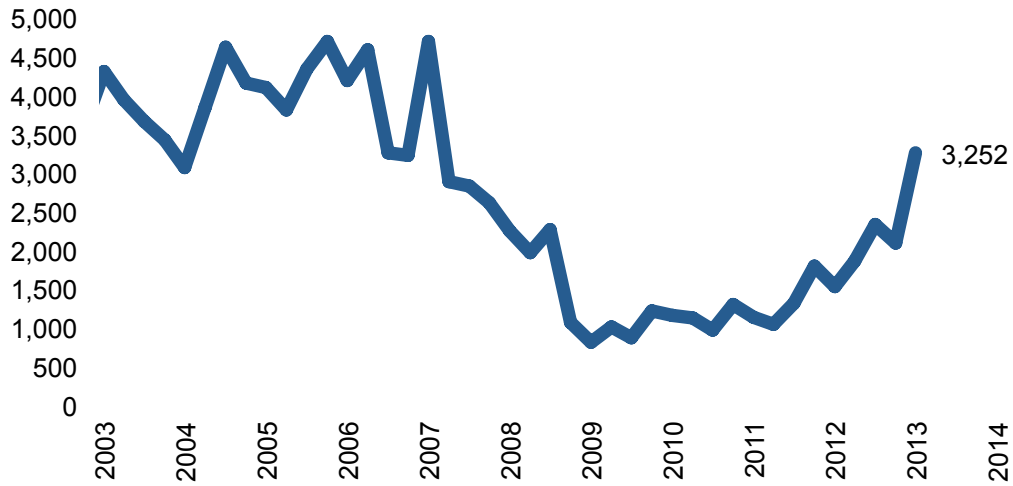
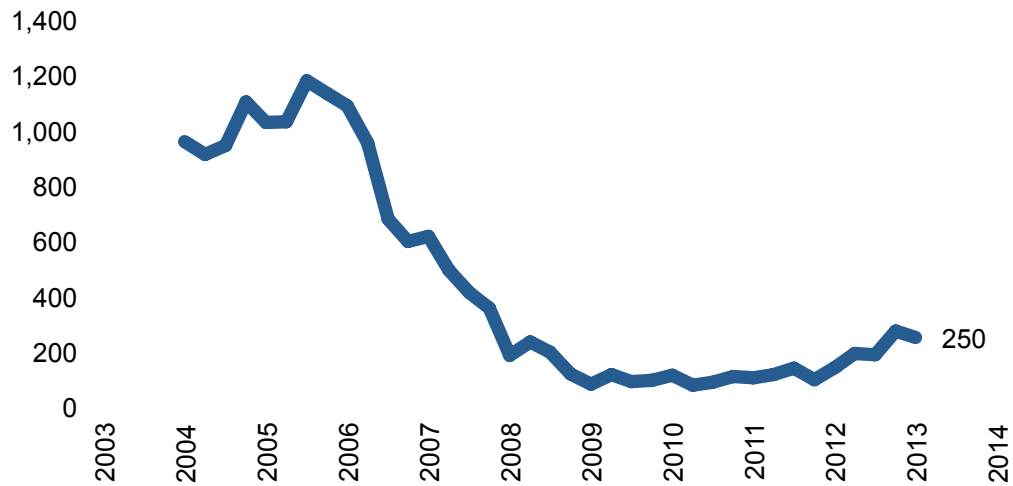
### Building permits for new private housing, Oregon and selected areas

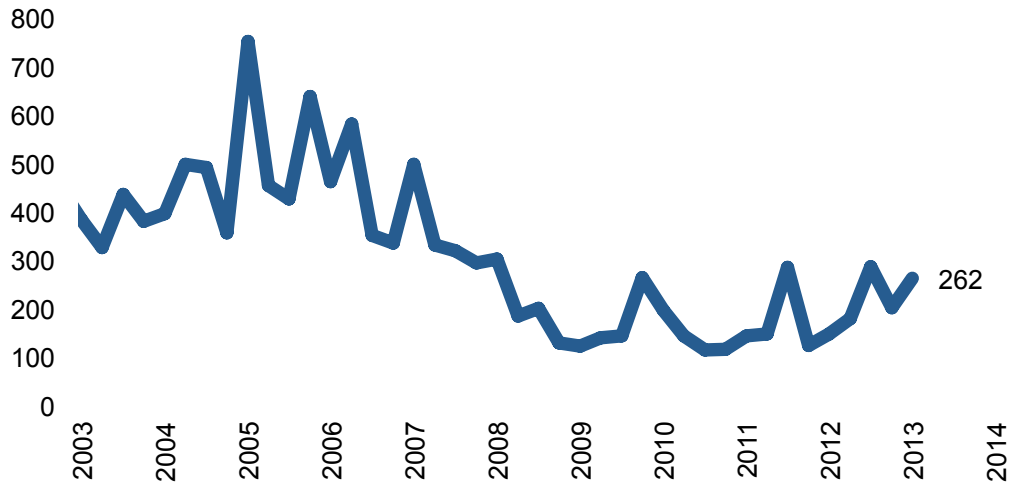
	This Quarter	Same Quarter Last Year	Percent Increase
Portland MSA	3,252	1,531	112%
Bend	250	140	79%
Eugene	262	146	79%
Medford	128	82	56%
Oregon	4,061	2,271	79%

With the exception of Corvallis, the state and all major Oregon markets increased more than the US average for single-family with Bend increasing 131 percent since February 2012. Multifamily new construction has increased sharply in the US and even more in Oregon.

### Building permits for new private housing Oregon, statewide



**Building permits for new private housing  
Portland-Vancouver-Beaverton MSA****Building permits for new private housing  
Bend**

**Building permits for new private housing  
Eugene-Springfield****Building permits for new private housing  
Medford****PORTLAND**

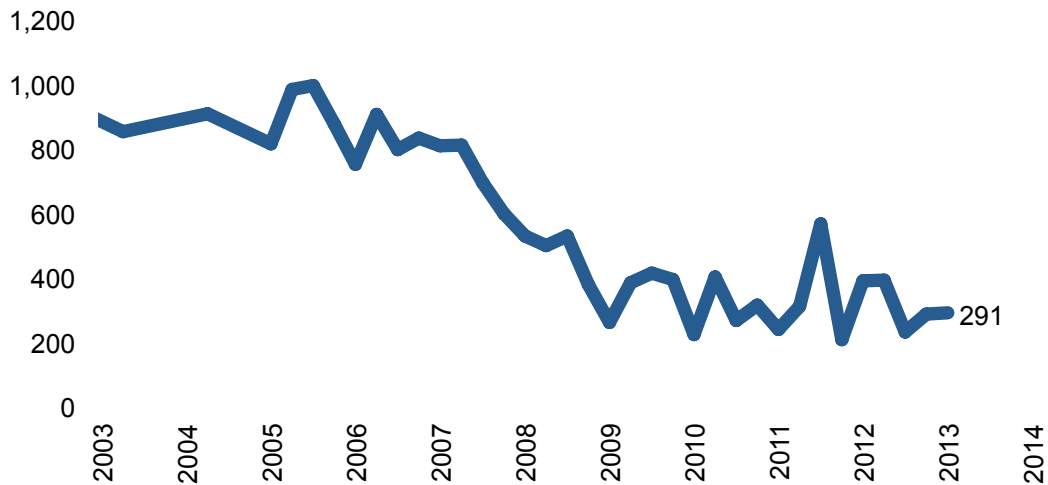
Buyers closed on purchases of 4,026 homes. The number of transactions in first quarter 2013 decreased 5.9 percent from last quarter, and decreased 17.6 percent

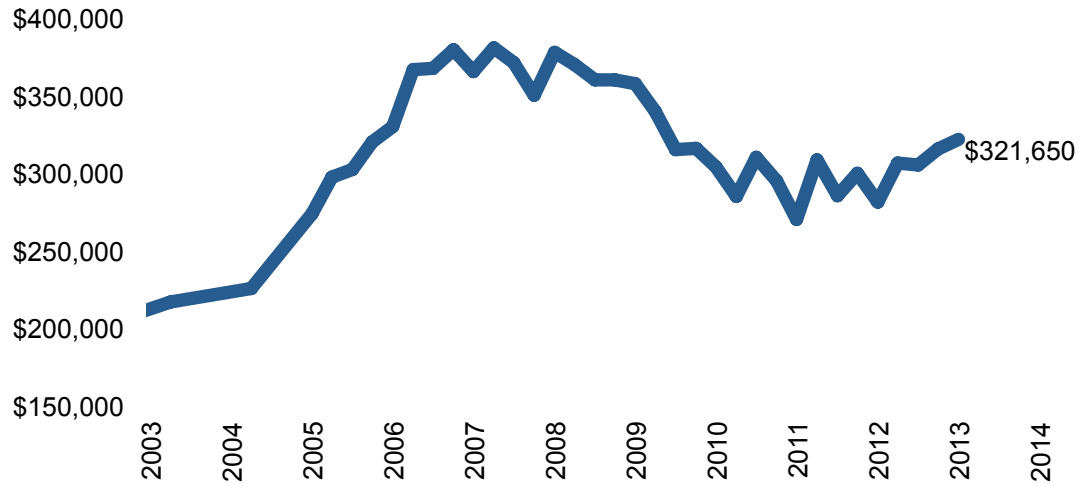
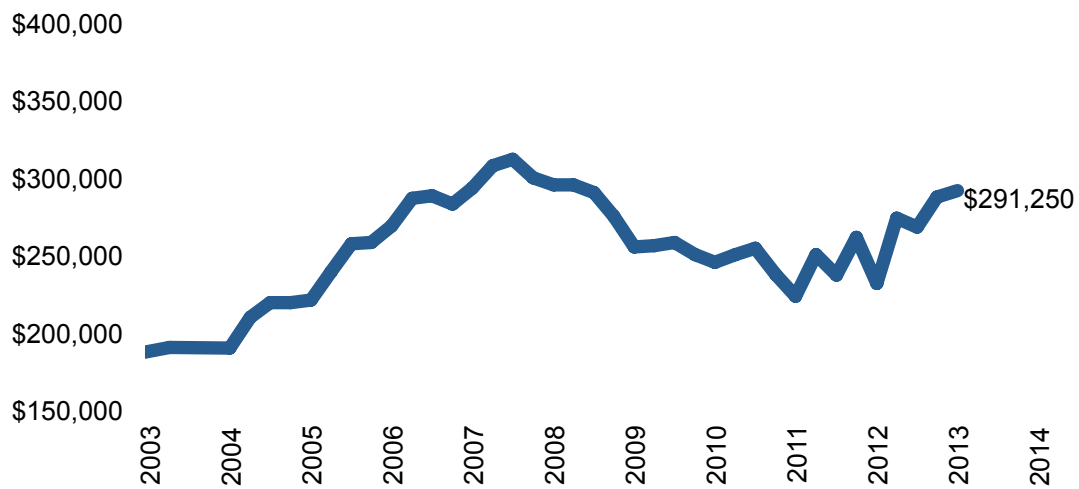
annually. Median prices for the first quarter were at \$291,250 which represents a 1.5 percent increase over the previous quarter and a 26 percent increase annually.

The data comparing sales price to list price cooled a bit from its red hot performance last quarter and number of days on the market increased slightly as well. Properties sold at an average price of 98.3 percent of the original list price. Sellers in the Portland area have had their homes on the market for an average of 41 days before closing, which one more than 40 in the previous quarter.

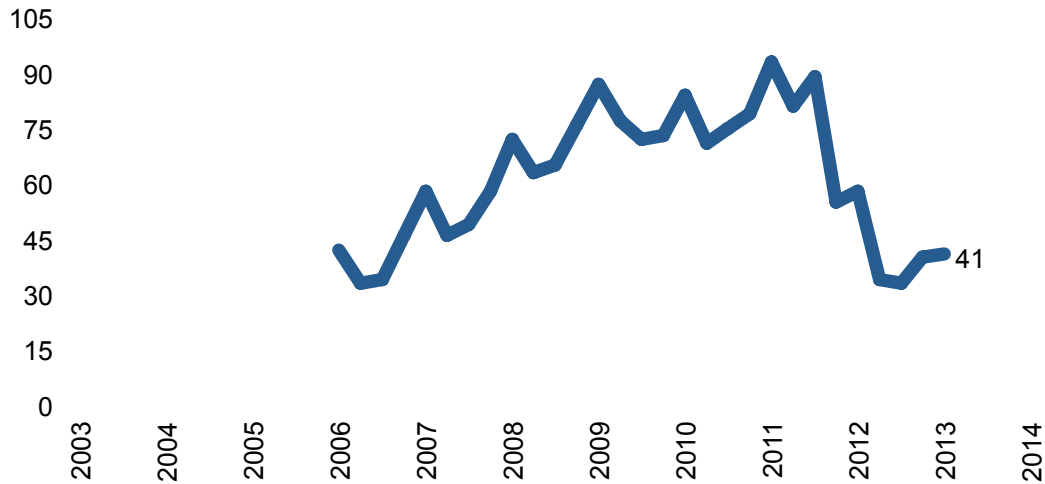
There were 291 new properties sold, compared to 287 in fourth quarter, and a 25.6 percent decrease from first quarter 2012. The new properties sold at a median price of \$321,650 which was a 2 percent increase from fourth quarter. New home prices increased from first quarter 2012 by 14.5 percent.

**Number of transactions**  
**Portland metro, new detached homes**



**Median sales price  
Portland metro, new homes****Median sales price  
Portland metro, existing homes**

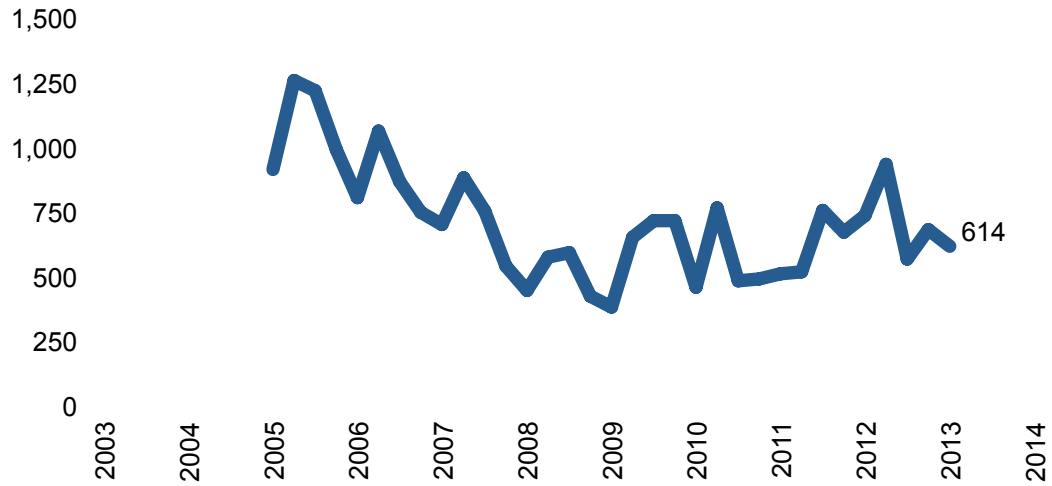
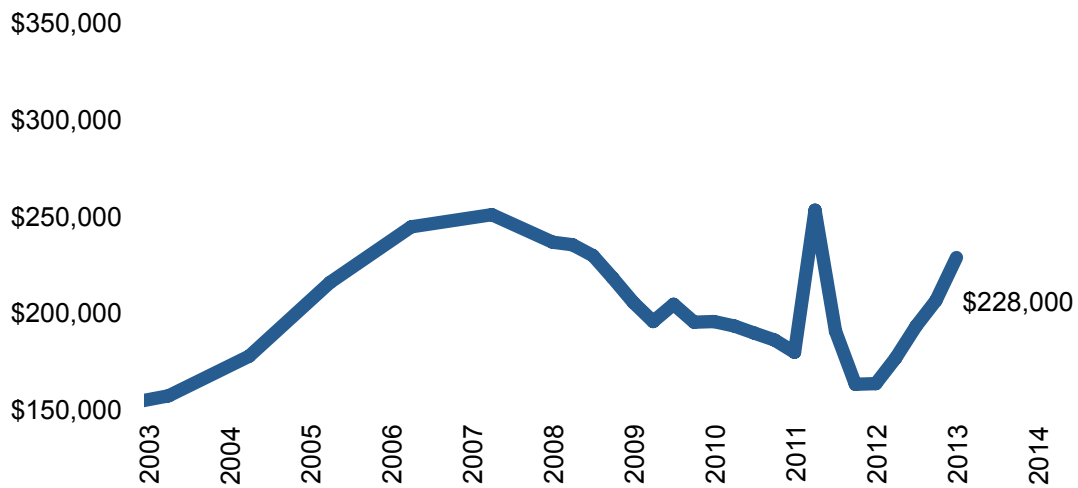
### Days on market Portland metro, existing homes



## VANCOUVER

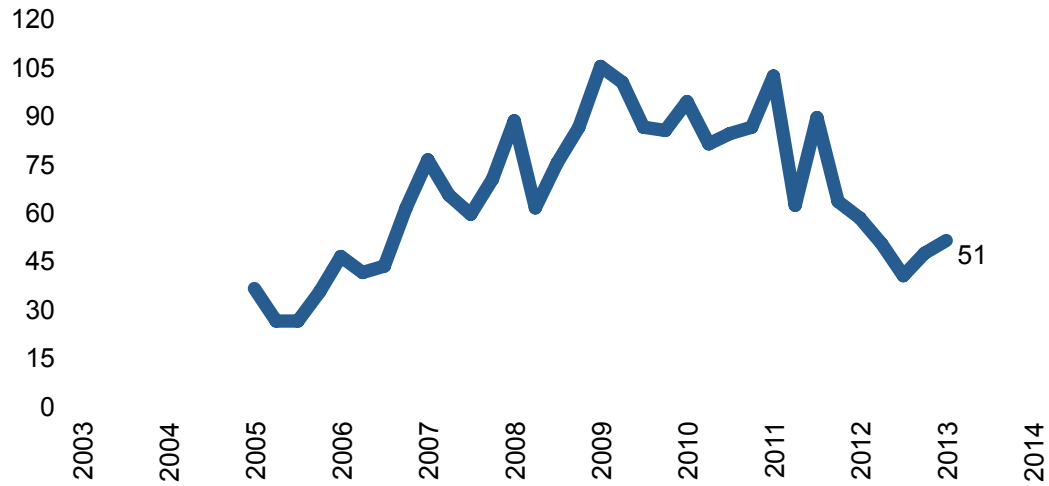
In Vancouver, the median home price in first quarter 2013 was \$228,000, which increased 40 percent year over year. This was a 10.7 percent increase from the previous quarter. The number of homes sold in first quarter decreased by over 9 percent from the previous quarter to 614, and by 16.2 percent annually. The number of days on market increased by 8.5 percent from the previous quarter to 51 but this was down from 63 last year at this time.

In the Vancouver suburbs median home price during the first quarter of 2013 was \$258,800, a 2.5 percent increase from fourth quarter 2012 when it was \$252,600. The number of homes sold in first quarter was up 3.1 percent increase from the fourth quarter of 2012 at 531, but it decreased by 2.4 percent year over year. However, the number of days on the market increased to 74 from 62 in the previous quarter and 73 in first quarter 2012.

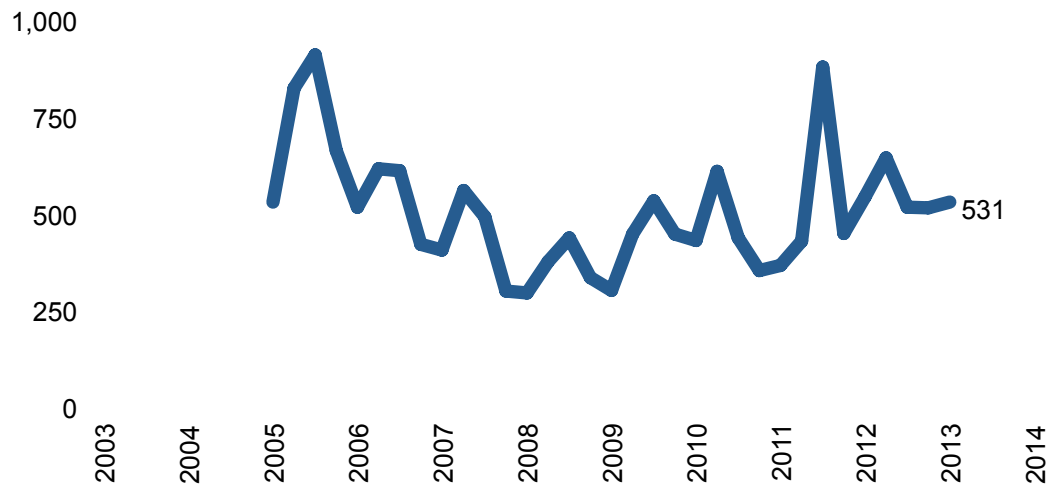
**Number of transactions  
Vancouver, existing homes****Median sales price  
Vancouver, existing homes**



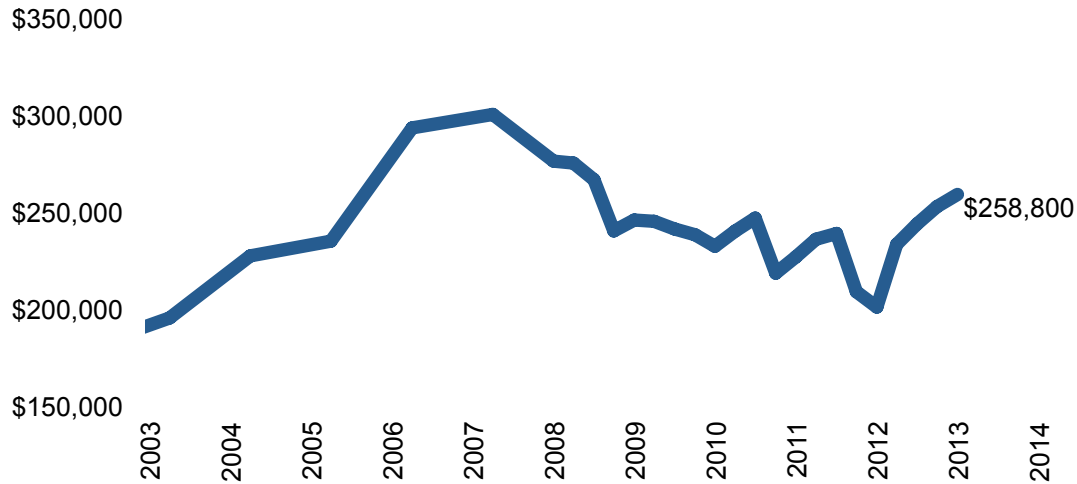
**Days on market**  
**Vancouver, existing homes**



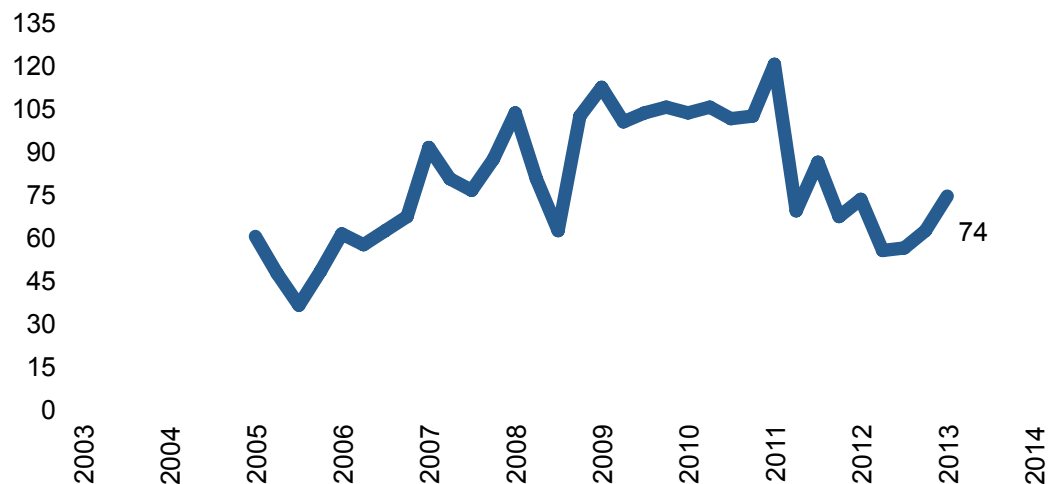
**Number of transactions**  
**Clark County, excluding Vancouver, existing homes**



**Median sales price**  
**Clark County, excluding Vancouver, existing homes**



**Days on market**  
**Clark County, excluding Vancouver, existing homes**



## CENTRAL OREGON

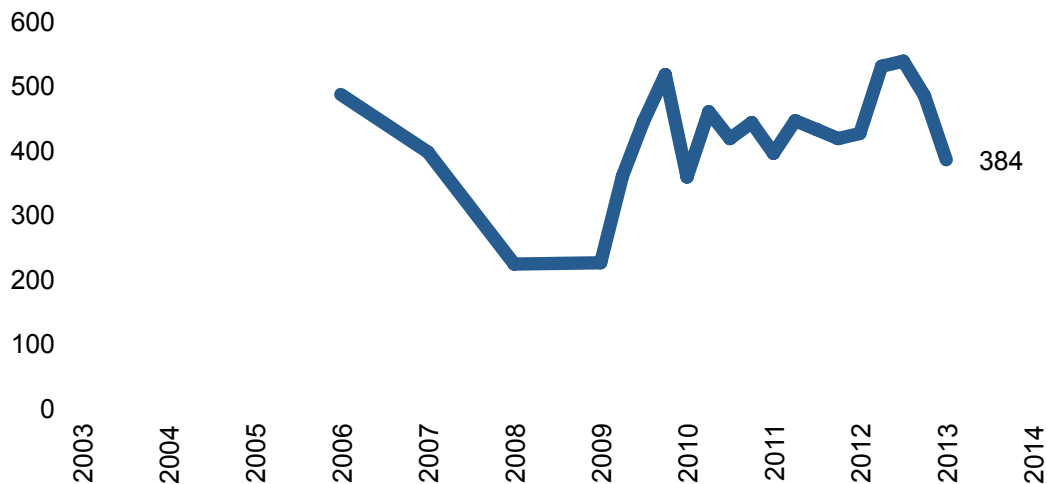
At 384 transactions, first quarter Bend home sales of less than one acre are down 9.4 percent since the same period last year. At 113 transactions of less than one acre, Redmond is down 17.5 percent over last year. For larger properties—homes on

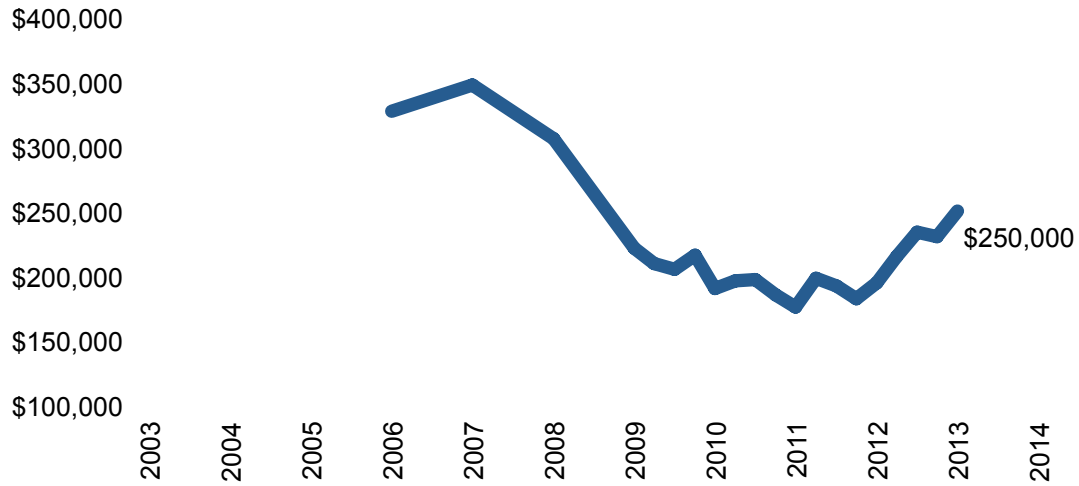
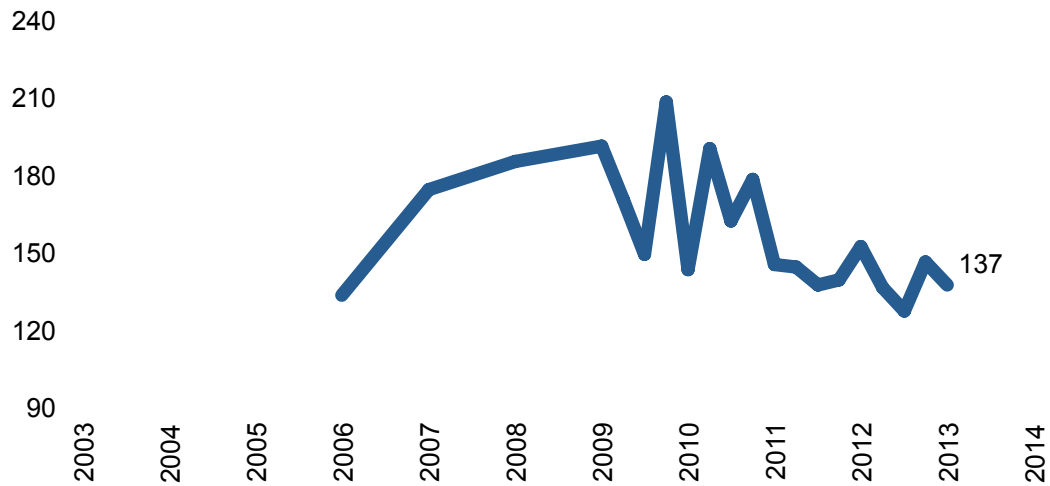
1-5 acres—transactions are up 15.8 percent in Bend and down 21.1 percent in Redmond.

Although transaction volume is up, so is the number of days on the market for every market in Central Oregon. Properties less than an acre spend nearly five months on the market before sale. Larger properties average eight months in Bend and nearly one year in Redmond.

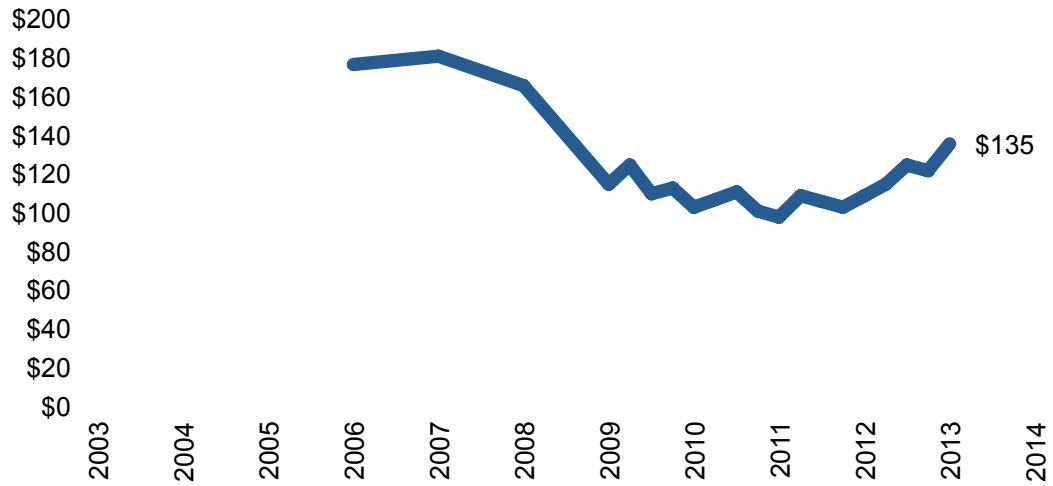
For sales under an acre, the median home prices for Bend and Redmond both increased since the fourth quarter of the previous year. The median price in Bend market increased 28.4 percent to \$250,000, while Redmond increased 27.1 percent to \$162,000. Results are mixed in the market for larger properties: the median price in Bend is down 5.8 percent, but the median price is up 6.4 percent in Redmond. Measured on a price-per-square-foot basis, the median price of properties of 1-5 acres is up 5.3 percent in Bend, and up 5.4 percent in Redmond.

### Number of transactions Bend, under 1 acre

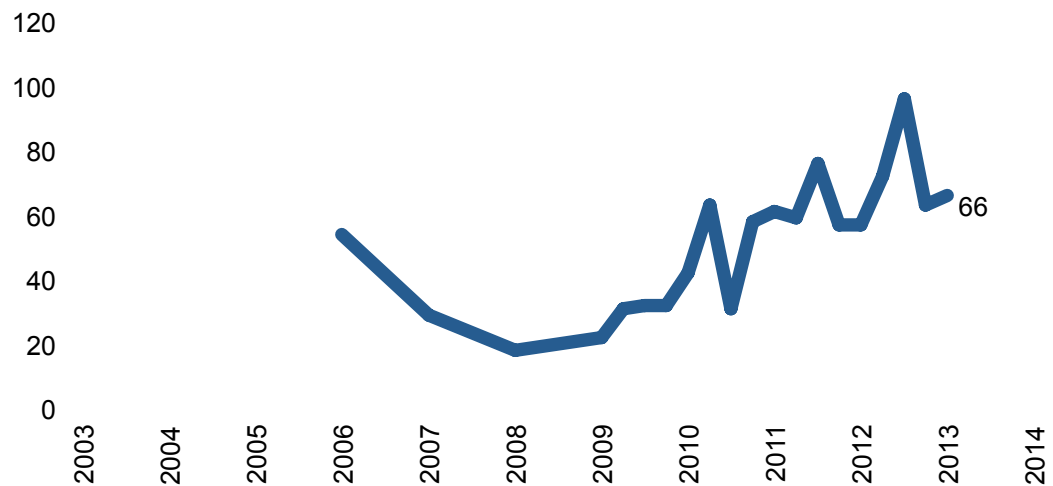


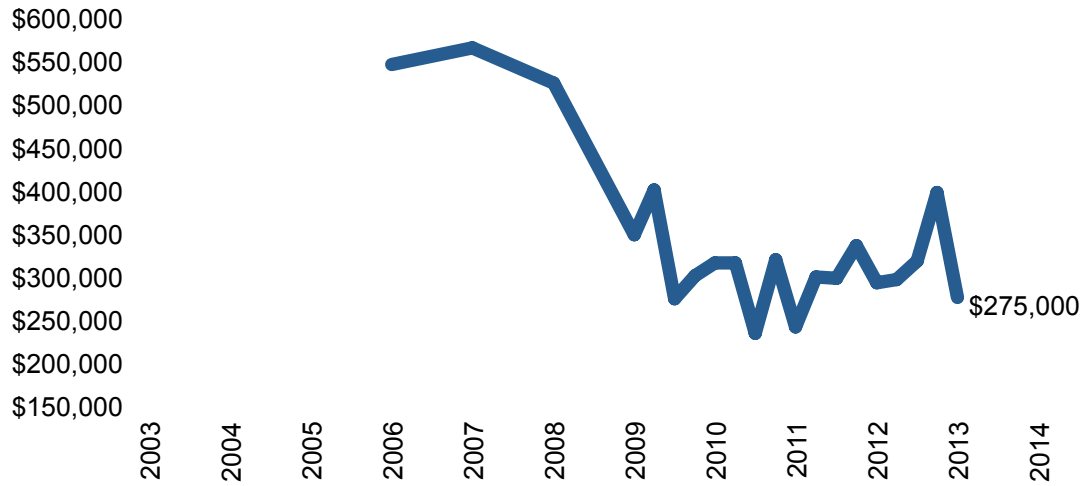
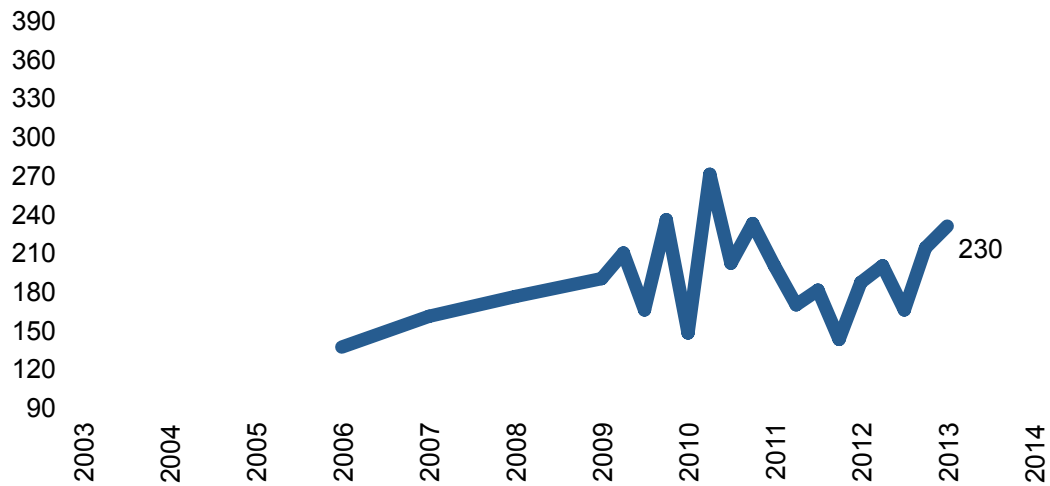
**Median sales price  
Bend, under 1 acre****Days on market  
Bend, under 1 acre**

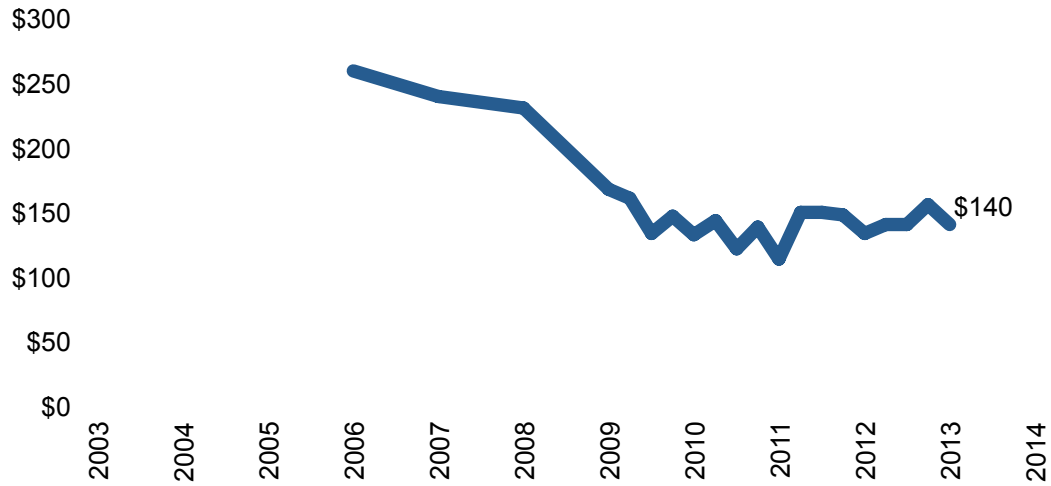
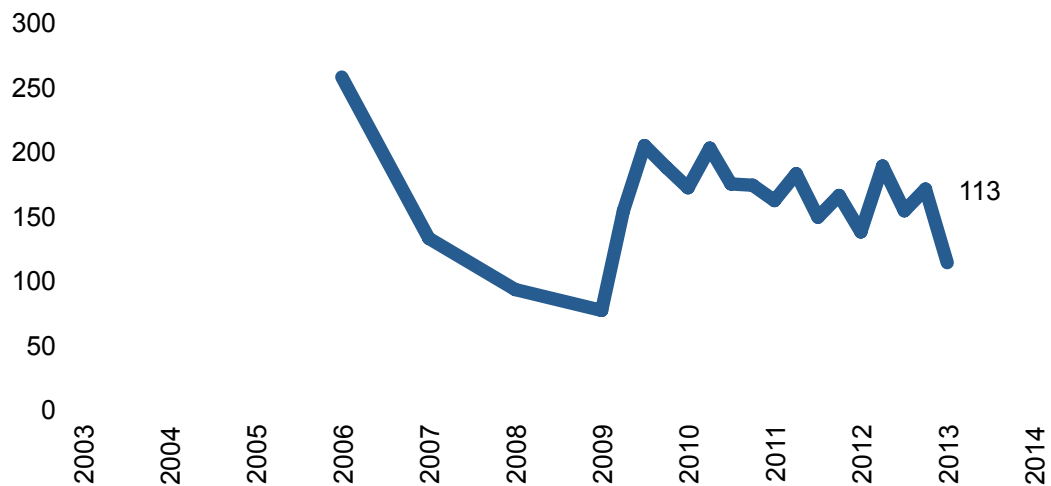
**Median sales price, \$ per square foot**  
**Bend, under 1 acre**

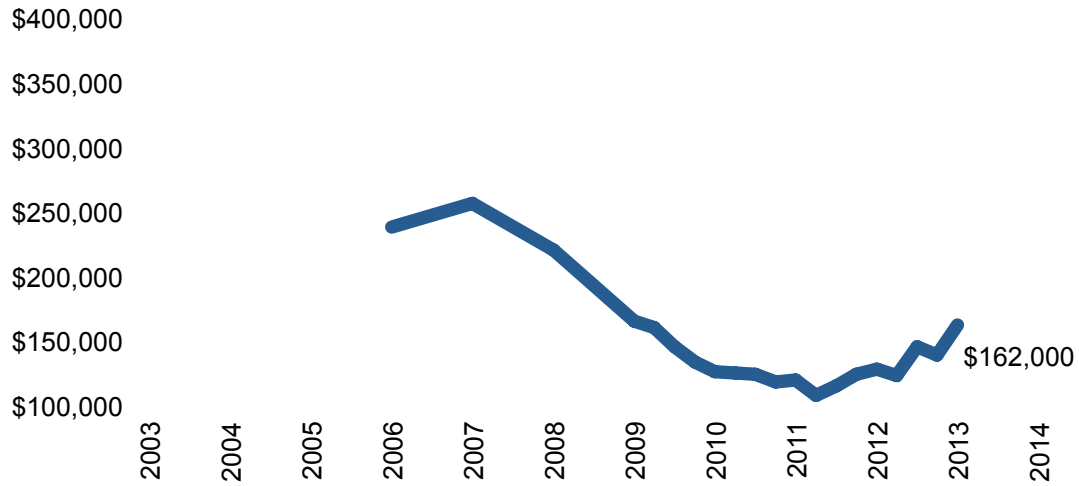
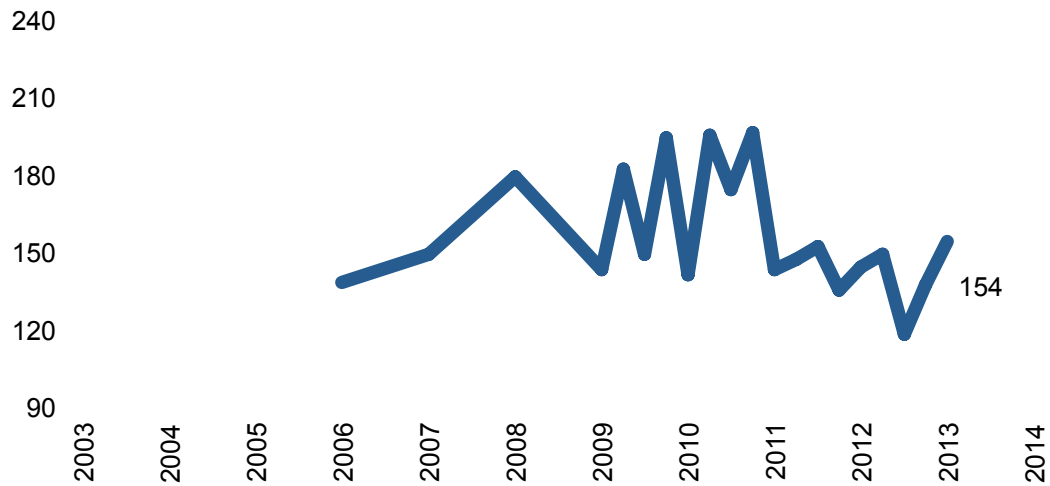


**Number of transactions**  
**Bend, 1-5 acres**

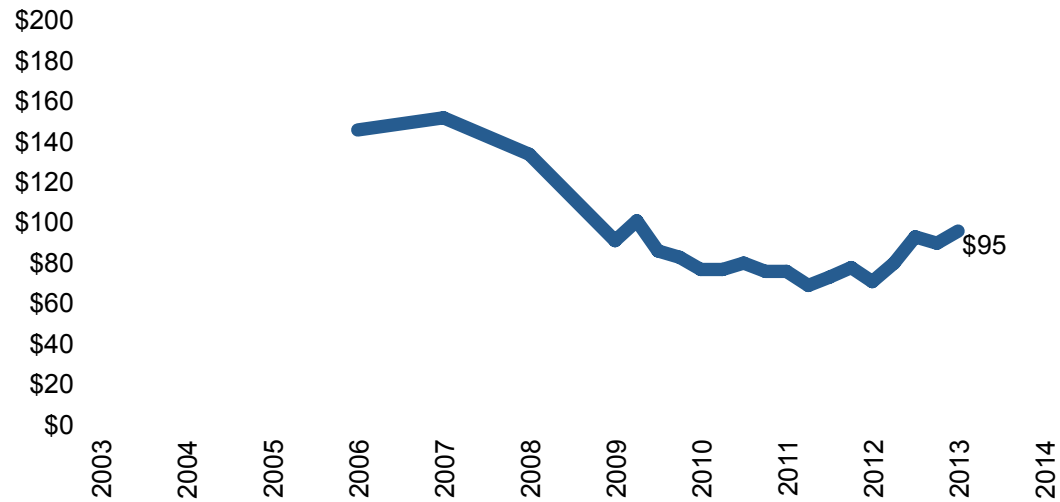
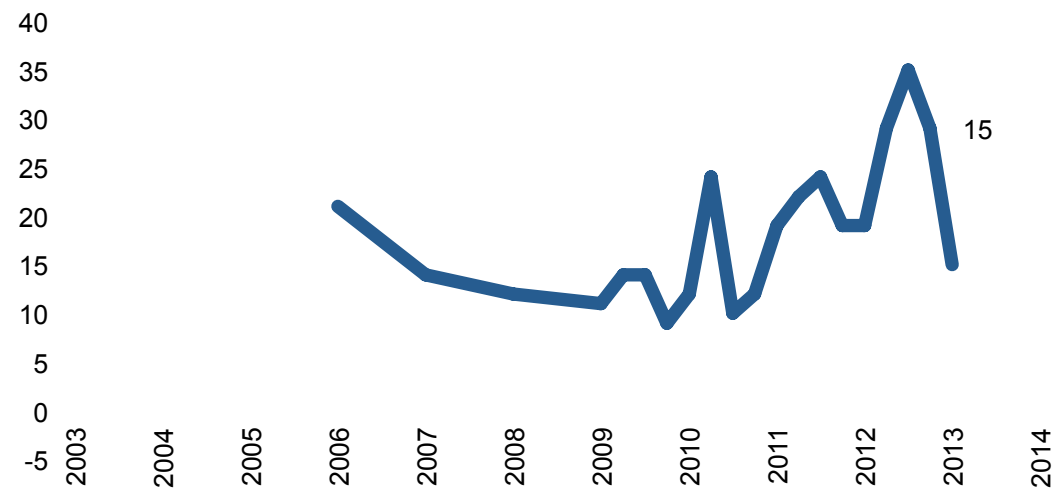


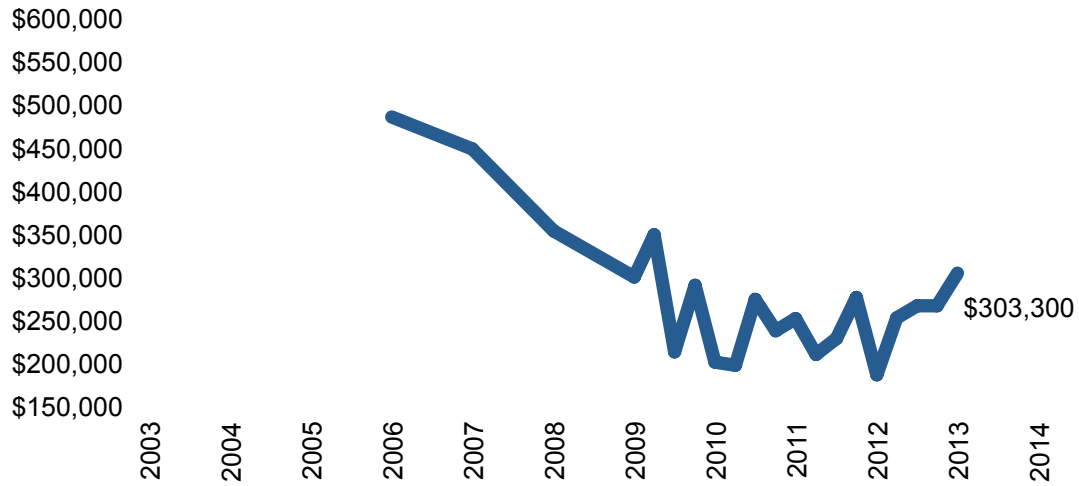
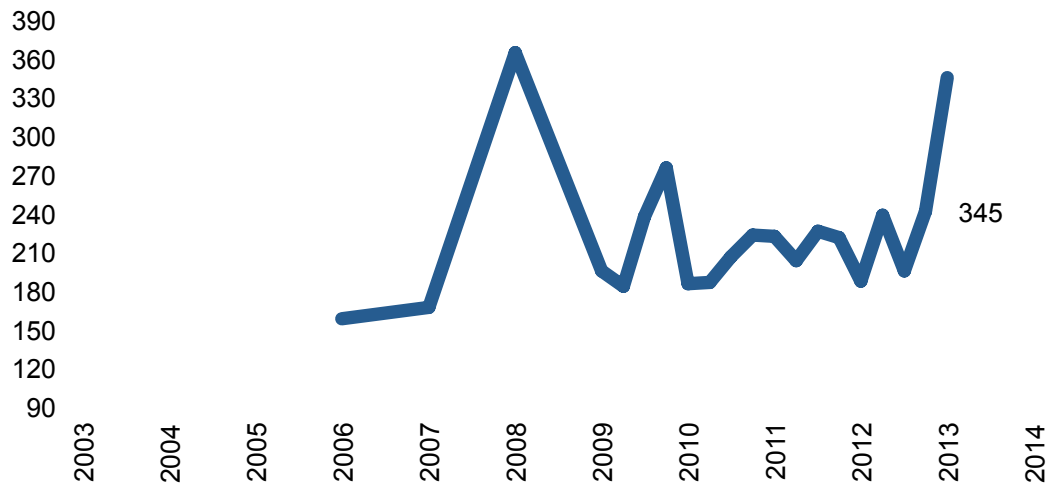
**Median sales price  
Bend, 1-5 acres****Days on market  
Bend, 1-5 acres**

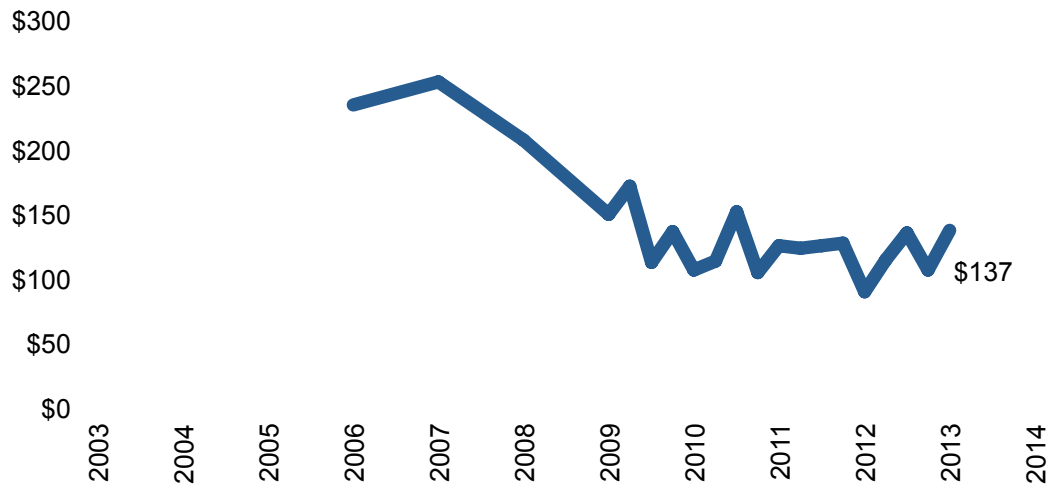
**Median sales price, \$ per square foot  
Bend, 1-5 acres****Number of transactions  
Redmond, under 1 acre**

**Median sales price  
Redmond, under 1 acre****Days on market  
Redmond, under 1 acre**



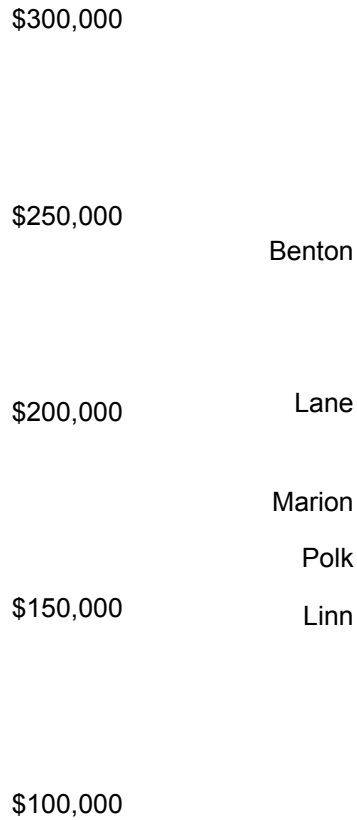
**Median sales price, \$ per square foot  
Redmond, under 1 acre****Number of transactions  
Redmond, 1-5 acres**

**Median sales price  
Redmond, 1-5 acres****Days on market  
Redmond, 1-5 acres**

**Median sales price, \$ per square foot  
Redmond, 1-5 acres****WILLAMETTE VALLEY**

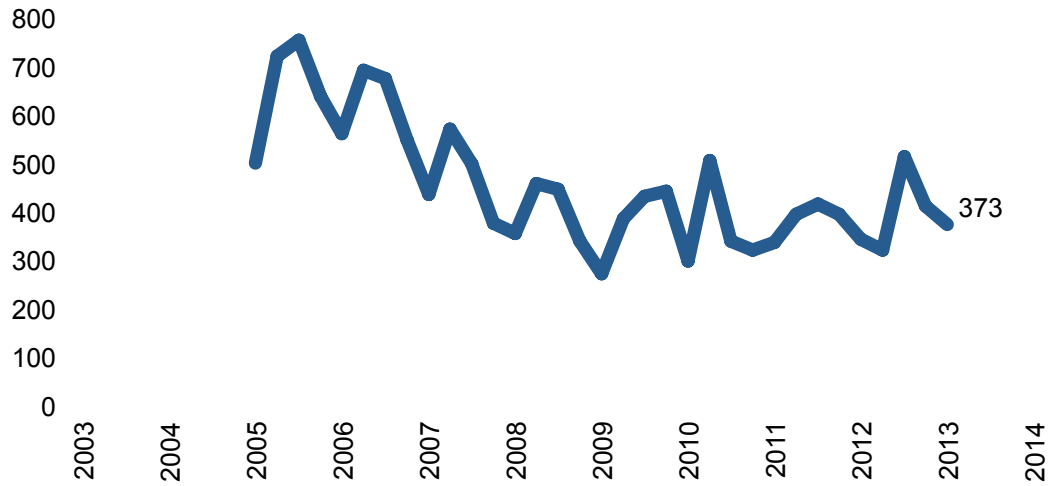
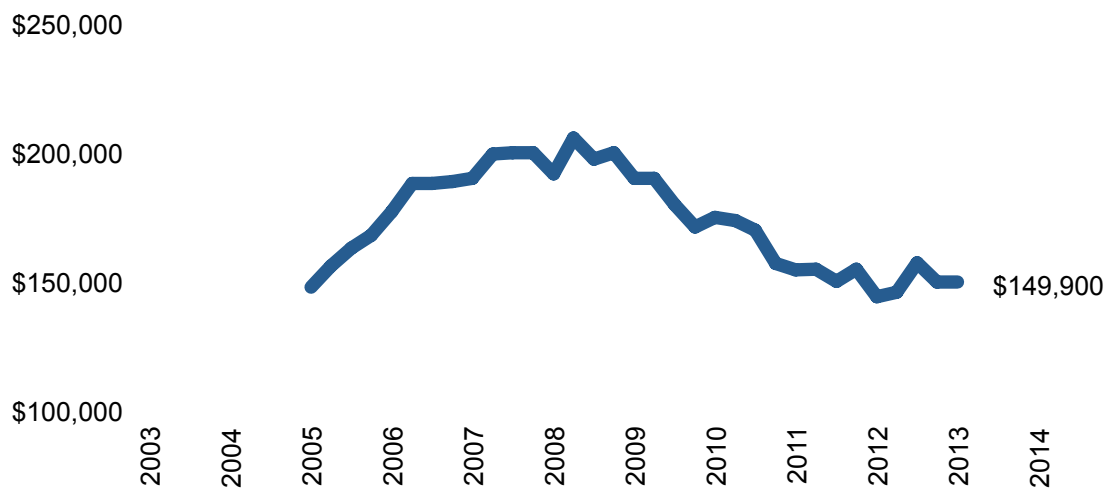
Marion County increased 10 percent from the previous quarter to a median sold price of \$155,900. Polk County decreased year over year by 8.2 percent. Benton County increased 7.3 percent over the past year to a median price of \$250,000.

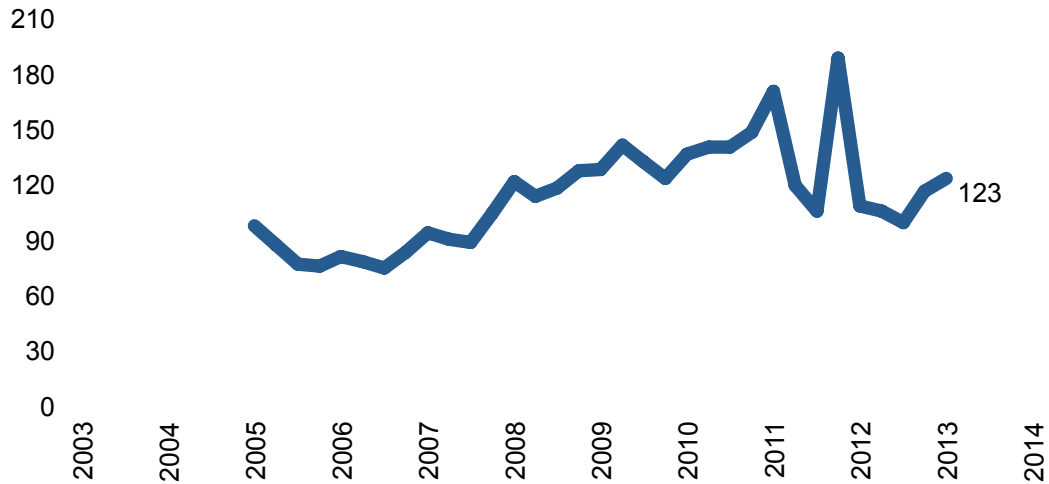
**Median sales price**  
**Willamette Valley, existing detached homes**



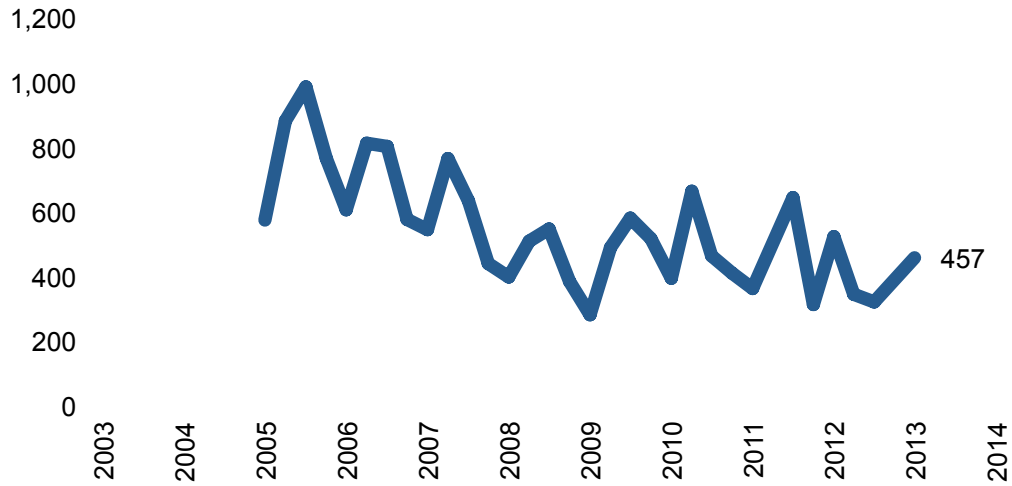
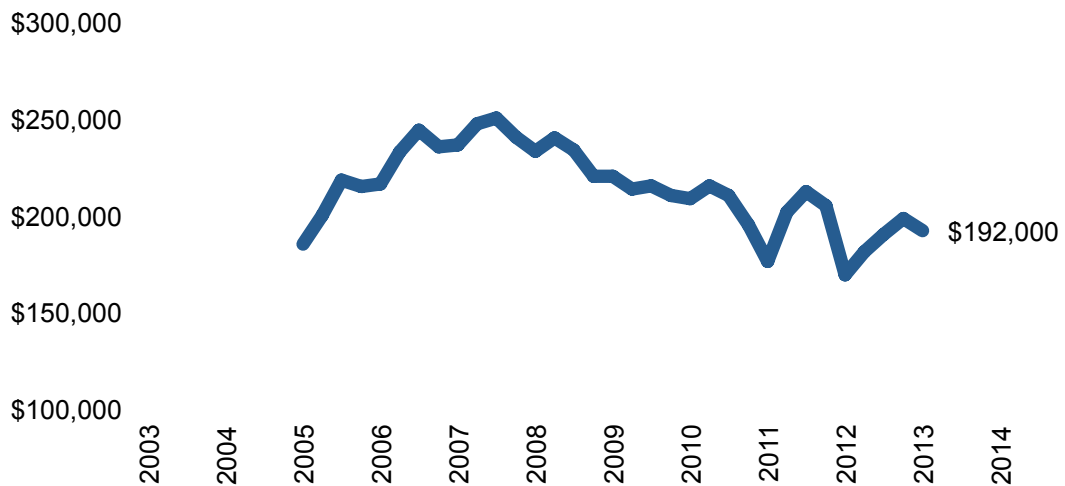
**SALEM**

Salem's housing market was unchanged since the fourth quarter of the previous year with a median sold price of \$149,900. At the same time, the number of transactions are down 9.2 percent, and the number of days on the market has dropped from 123 days in the fourth quarter of 2012 to 116 in the first quarter of 2013.

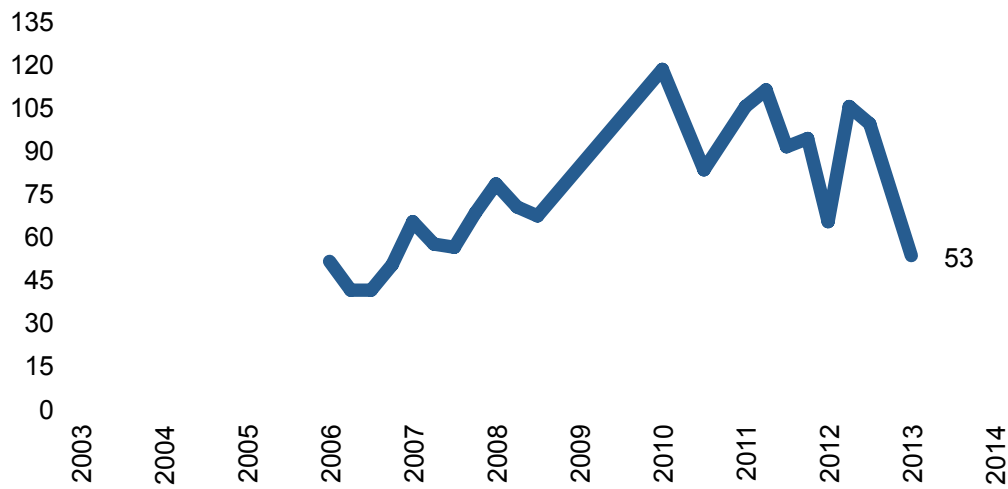
**Number of transactions  
Salem, existing homes****Median sales price  
Salem, existing homes**

**Days on market  
Salem, existing homes****EUGENE/SPRINGFIELD**

Home prices in the Eugene/Springfield area were down 3 percent since the previous quarter. However, at a median price of \$192,000, the year-over-year median price is up 13.7 percent. There were 457 transactions in the first quarter of 2013. The median number of days on the market for sold transaction was 53.

**Number of transactions**  
**Eugene-Springfield, existing homes****Median sales price**  
**Eugene-Springfield, existing homes**

**Days on market**  
**Eugene-Springfield, existing homes**





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## MULTIFAMILY MARKET ANALYSIS

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EVAN ABRAMOWITZ

RMLS Student Fellow

Master of Real Estate Development Graduate Student

The strong market fundamentals persist in multifamily, but the new construction is coming. For now Portland remains one of the tightest markets in the nation with a vacancy rate of 3.55 percent. Both local and national investors are seeking to position equity, and have been drawn to the market conditions that make apartments an attractive, low-risk investment. However, with thousands of units in the planning, permitting, or construction phases, there is concern that the market could become overbuilt. According to appraiser Mark Barry: “Many developers are chomping at the bit to get back in the game. In 2013, we’re in a sweet spot. When we get into 2014 and 2015, the apartment market will be more in balance. It will no longer be a landlord’s market.”

The Barry’s forecast that rent increases will subside after mid-2013 and will flatten out over the next two years as landlords compete for tenants. They predict that apartment vacancies will increase to 4 percent to 4.5 percent by the end of this year and possibly as high as 5.5 percent by the end of 2014. This will result in a shift from a landlord’s market to a more balanced market over the next 18 to 24 months.

■ Evan Abramowitz is a multifamily investment specialist with Joseph Bernard LLC Investment Real Estate. He is currently working towards the Master of Real Estate Development degree through Portland State University’s School of Business where he is an RMLS Student Fellow. Any errors or omissions are the author’s responsibility. Any opinions expressed are those of the author solely and do not represent the opinions of any other person or entity.

Multifamily construction has been ramping up, but still below 2004-2008. In 2012 there were multifamily building permits issued for 2,687 units in the tri-county area. In 2011 permits were issued for 1,696 units in the three county metro area, compared to 1,100 in 2010, according to the Barry Report. From 2004-2008 an average of 4,700 units came online annually.

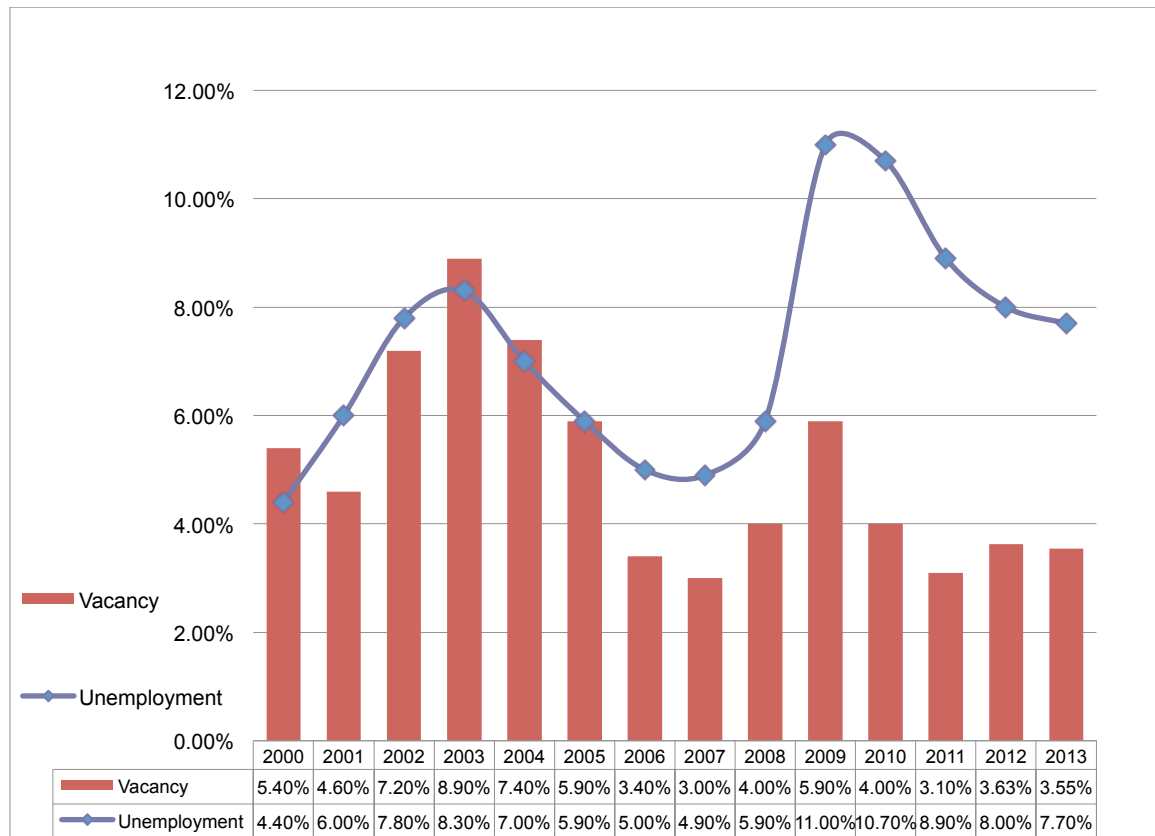
The high demand for rentals is expected to persist over the next several years and absorb the new construction projects. Strong fundamentals including low interest rates, low vacancy rates, and increasing rents have spurred new projects, as developers work to capitalize.

Axiometrics, a leading provider of apartment data and market research, reports that effective rent growth remained steady during February, at a rate of 3.53 percent, but that the pace of rent growth has been slowing in recent months. February's effective rent growth rate was the lowest since August 2010. Occupancy remained strong nationally with an average rate of 94.13 percent in February. This rate is up 35 basis points (bps) from February 2012 and 71 bps from February 2011.

“A pattern has emerged this year, as effective rent growth for Class A properties has really slowed down, Class B rates have remained relatively steady, but Class C rates have continued to increase,” said Ron Johnsey, president for Axiometrics.” Rents had been pushed so much at the upper end of the market it was inevitable we would begin to see a slowdown in growth for Class A properties, but we may also be seeing some impact from new properties coming online in certain markets. As new deliveries increase later this year and next, the trend could become even more pronounced.”

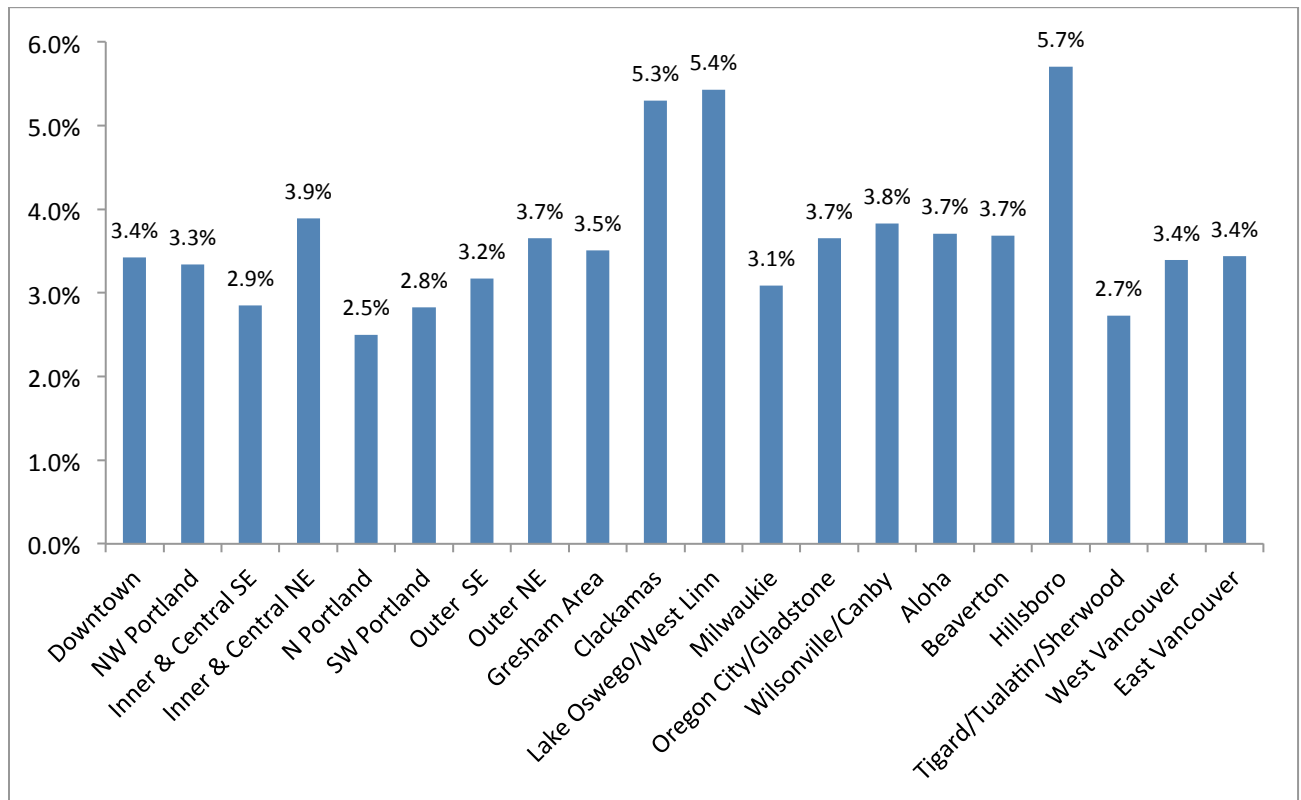
Unemployment rates are positively correlated with vacancies as shown in the chart below. Portland currently has an unemployment rate of 7.7 percent, which is lower than the state average of 8.2 percent on par with the national average of 7.6 percent.

**Figure 1: Unemployment and Multifamily Vacancy,  
Portland Metropolitan Area**



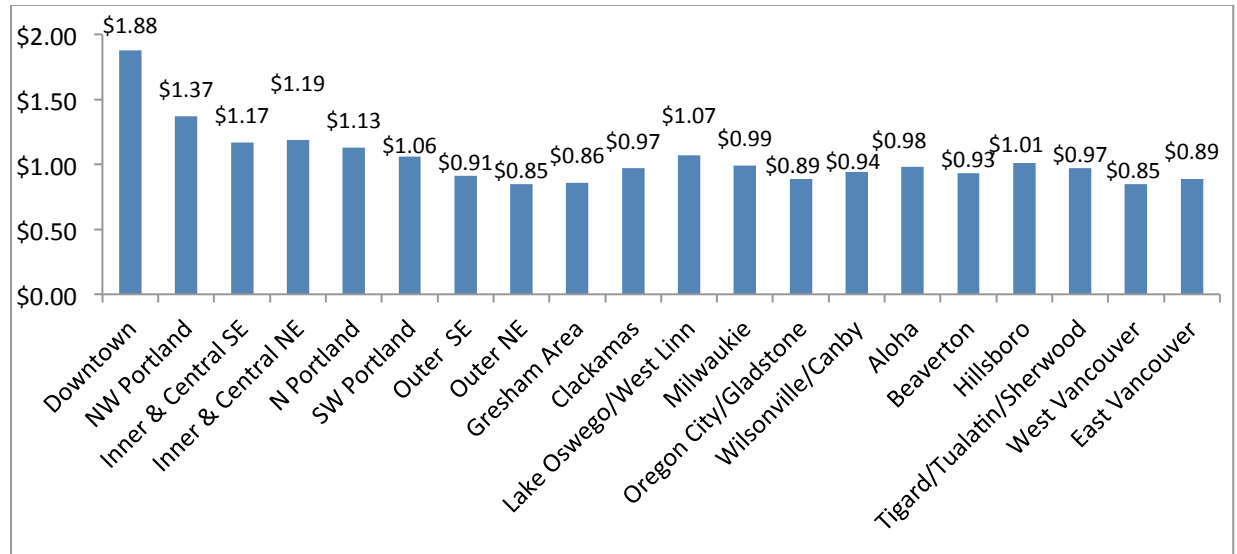
These market factors have driven vacancy rates in historically undersupplied Portland to among the lowest in the nation. The highest overall vacancy submarket was 5.7 percent in Hillsboro and the lowest was Inner & Central SE at 2.85 percent. The highest vacancy rate among studios was Hillsboro at 14.3 percent. The highest vacancy rate for 1 BD, 1 BA was Hillsboro at 6.9 percent, while the lowest was Outer SE with 1.95 percent. For 2 BD, 1 BA the highest vacancy was Downtown at 5.56 percent and the lowest was West Vancouver at 1.8 percent. Eight submarkets reported a 0 percent vacancy rate among 3 BD, 1 BA, but many of these were based on less than 100 units surveyed. Inner SE and Inner NE reported 0 percent for 3 BD / 2 BA, while Oregon City / Gladstone had a 12.6 percent vacancy rate for 3 BD / 2 BA.

**Figure 2: Vacancy Rates by Submarket Spring 2013 Portland Metropolitan Area**



Source: MMHA

The submarket with the highest overall rent/SF is downtown Portland with a \$1.88 average, followed by NW Portland at \$1.37. The lowest overall rent/SF is shared between Outer NE at \$0.85 per square foot. The highest rent/SF for studios was Downtown at \$1.96 and the lowest was Wilsonville / Canby at \$0.82. The highest rent/SF for 1 BD, 1 BA was Downtown at \$1.96 and the lowest was Outer North-east at \$0.92. The highest rent/SF for 2 BD, 1 BA was Downtown at \$1.55 and the lowest was \$0.82 in West Vancouver.

**Figure 3: Rent / SF by Submarket Spring 2013 Portland Metropolitan Area**

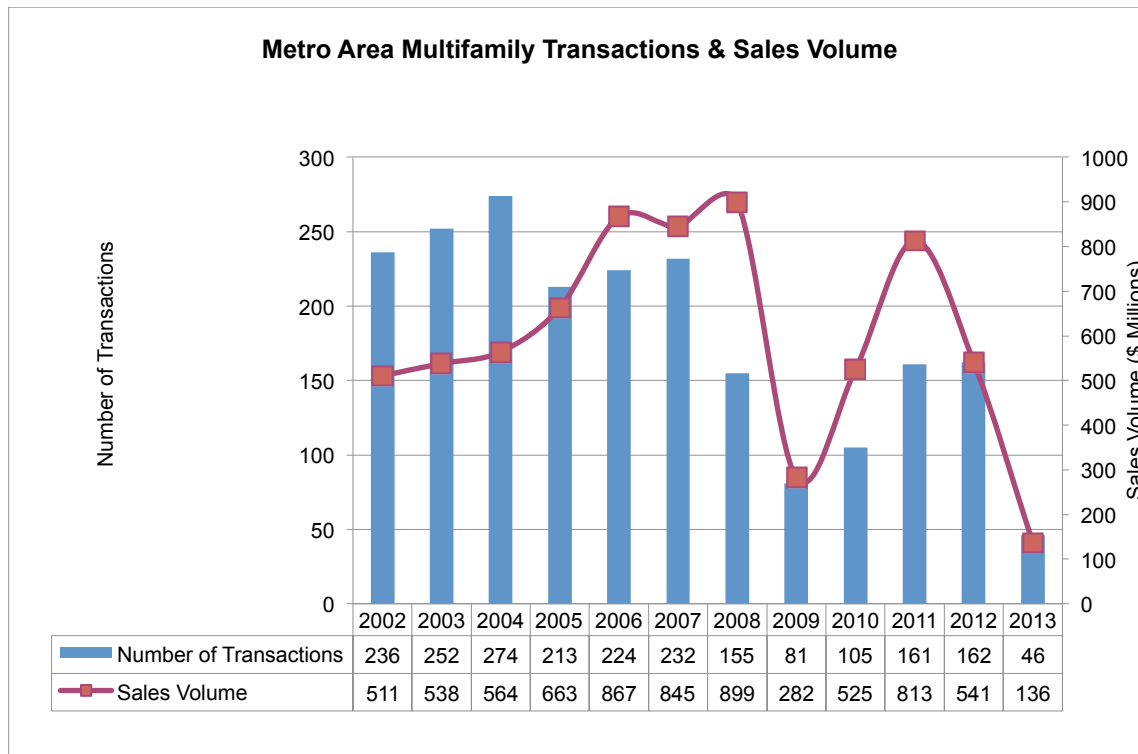
Source: MMHA

In Portland, approximately 70 percent of the apartments were built in the 1970s. These properties are often in the 8-60 unit range, have varying levels of deferred maintenance, and many sell in the \$50,000-\$80,000 per unit range depending on rents, location, condition, and other factors. In the first quarter of 2013 the sold price per unit was \$67,000. The average number of units sold per property was 37 in first quarter 2013 and 54 in the fourth quarter of 2012.

There have been three deals with a sales price over \$10 million thus far in 2012. The Rivercrest Meadows (338 units) in Tualatin sold for 46.6 million, Westbury (260 units) in Beaverton sold for \$28.5 million, and Fountain Park (216 units) in Beaverton sold for \$14.4 million.

In 2012 there were 162 transactions and \$541 million in sales volume compared with 161 transactions and \$813 million in 2011. Due to the solid market fundamentals, apartments remain the favored asset class of investors in Portland and throughout the nation. Experts are projecting that the increases in sales volume and transactions will continue to be strong in 2013 and over the next several years.

**Figure 4: Multifamily Transactions and Sales Volume, Portland Metropolitan Area, March 2013 Year to Date**



Source: Costar / Joseph Bernard Investment Real Estate

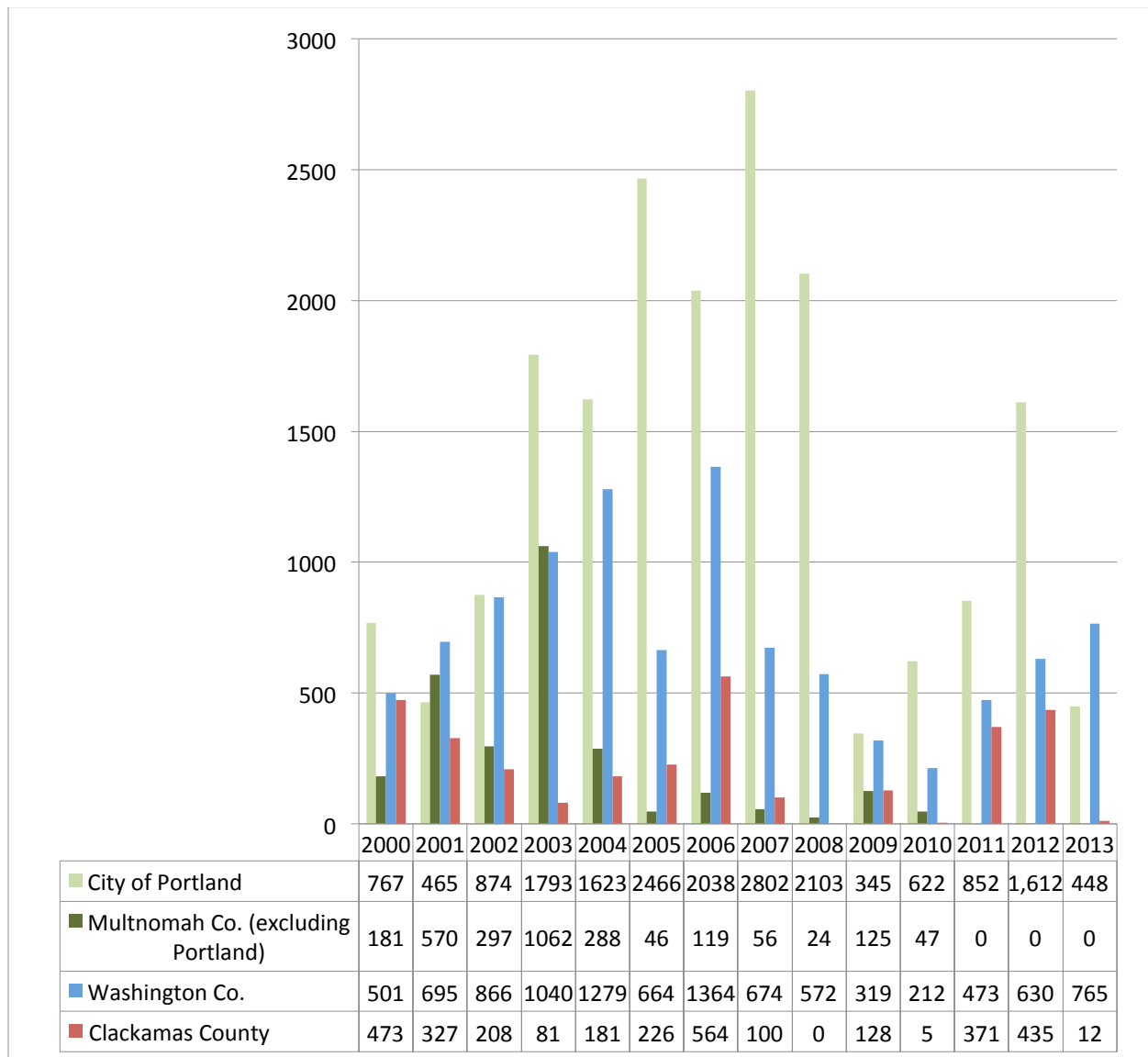
Through March 2013, multifamily building permits have increased within the metro area compared to 2012. Permits have been issued for 448 multifamily units built in the City, which is on pace to surpass last year's total of 1,612. According to the Barry Report there are 8,000 new units projected in 2013 and 2014 with half of these slated for Multnomah County. Washington County has already surpassed 2012 for the number of new units this year at 765 units through March.

In the April 2013 MMHA Report Mark and Patrick Barry observed a number of trends that have emerged in new apartment construction:

- Currently there are twice as many units under construction as units that have been recently completed.
- Almost three times as many units have been proposed as recently completed.
- Close-in east Portland accounts for almost 1/3 of the proposed units.
- Very little activity in market rate apartment construction in East Multnomah County area.
- Average size is approximately 50 units in urban east side and 100 units in urban west side.

- In the suburbs, most projects under construction or recently completed are over 150 units.

**Figure 5: Multifamily Building Permits Issued, March 2013 Year to Date**



Source: US Census

Mark and Patrick Barry predict that despite the uptick in new apartment construction, the market will not become overbuilt. They emphasize the projected population growth of 25,000-30,000 per year and that the new units will be delivered in intervals. They expect that some neighborhoods will experience slow absorption, higher vacancies, and possible concessions until there is sufficient time for the new units to be absorbed. ■

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## OFFICE MARKET ANALYSIS

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GEORGE S. MCCLEARY

Owner, MRE Properties

RMLS Fellow, Master of Real Estate Development Candidate

The first quarter of 2013 saw improvement in nearly every sector of the economy, with consumer confidence, employment and leasing all gaining strength. With the stock market surging, Portland's office market steadily gained ground towards what many believe to be the beginning of a new construction boom. Suburban markets have seen solid returns, with net absorption climbing from the depths of the recession to more healthy occupancy rates. Larger leases from big companies in the tech sector have helped boost leasing, and their growth rates show positive signs for continued engagement with the Portland workforce.

After several weeks of sequestration, most of America has yet to feel the pinch of these cuts. However, many of the cuts have not taken effect and can expect to be felt in the second quarter. Federal employees in particular are expected to face layoffs and will offset rises in private sector employment. Some economists predict that this could lead to lower spending and GDP, and subdue markets that have been thriving since the first of the year. To combat against these possibilities, the Federal Reserve has announced that rates will be kept low until employment falls below 6.5%, which is not expected to happen until 2015.

Internationally, Europe continues to drag anchor toward recovery. The Cyprus debt crisis ended with a \$12.8 billion bailout from the European Union and IMF. This renewed skepticism in the European markets, and caused employment num-

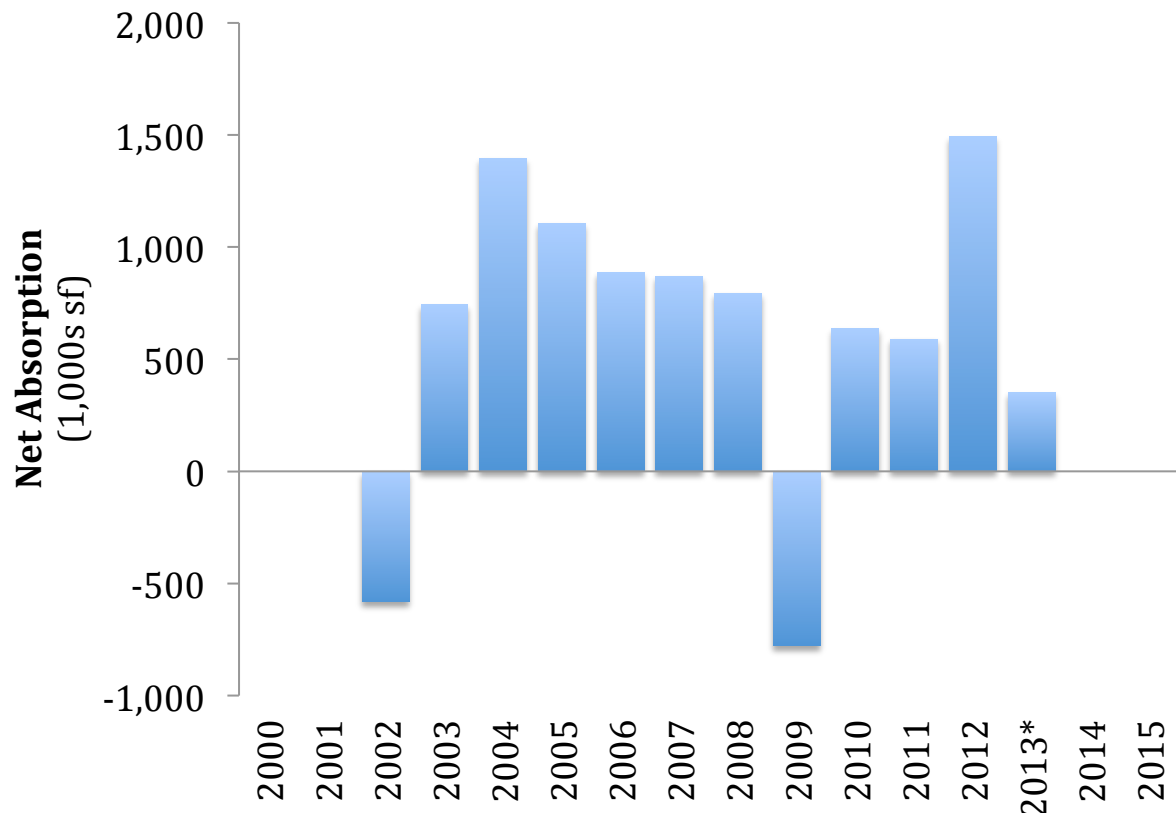
■ George S. McCleary is the owner of MRE properties specializing in commercial real estate investment and development of urban infill properties. He is enrolled in the Master of Real Estate Development program at Portland State University and is an RMLS Fellow in the program. Any errors or omissions are the author's responsibility. Any opinions expressed are those of the author solely and do not represent the opinions of any other person or entity.



bers to stagnate. They remained stubbornly high at 12% through February, rising slightly at the end of the quarter. US unemployment dropped thirty basis points to 7.6% during this same period.

Despite international woes and domestic uncertainty, Portland's office market has continued to rise steadily for the past several quarters, slowly repairing the damage from the downturn. The CBD vacancy rate of 8.7% is one of the lowest in the country and shows signs of growth yet to come. With a tightening supply citywide, tenants have been quick to snap up quality space as it comes available. Currently there are only six Class A blocks of space from 50,000 to 100,000 square feet on the market. As the market shifts to one that favors landlords rather than tenants, the landscape should shift as these changes occur.

**Figure 1: Overall net absorption, Portland office market**

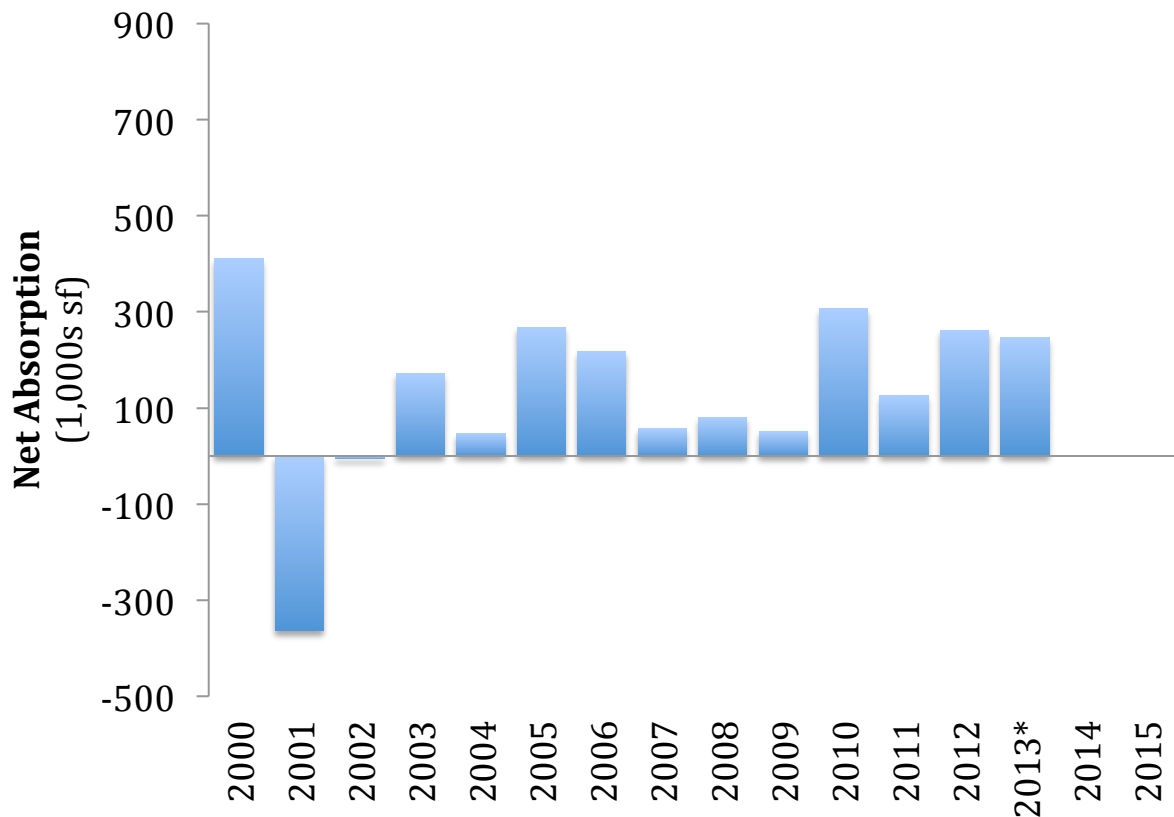


Jones Lang LaSalle reports that net absorption climbed in the metro area as a whole by 351,232 square feet with the suburban markets leading the charge. The largest single lease signed during the quarter was by technology provider salesforce.com, who leased 116,500 square feet in the Synopsys Technology Park. It

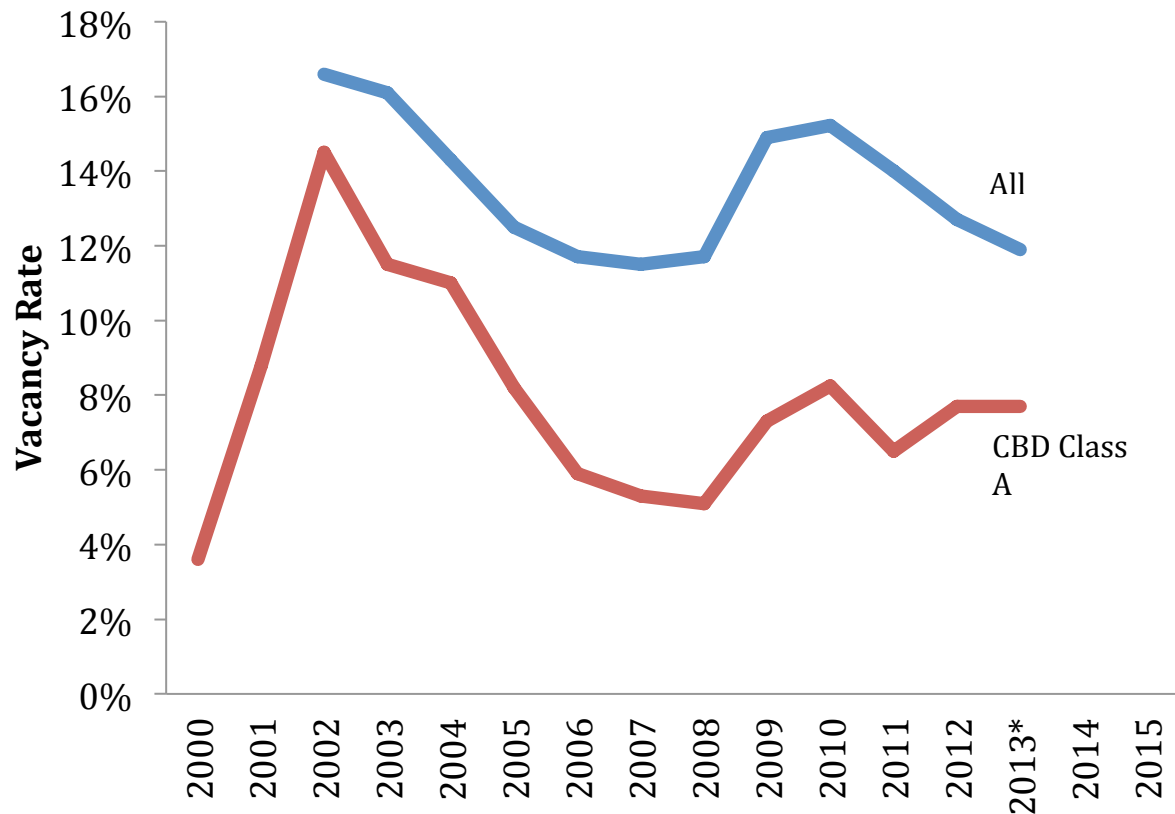
was suggested by insiders that the company might have opted for a more central location, but the lower lease rates in the suburbs ultimately prevailed.

While not measurable in terms of net absorption, it is notable that the market benefitted from the renewal of several larger-scale leases. Capital One renewed its 120,000 square foot lease at the Tigard Corporate Center. Tripwire and Schnitzer Steel both renewed leases of 49,053 and 41,000 square feet, respectively.

**Figure 2: Class A overall net absorption, Portland office market**



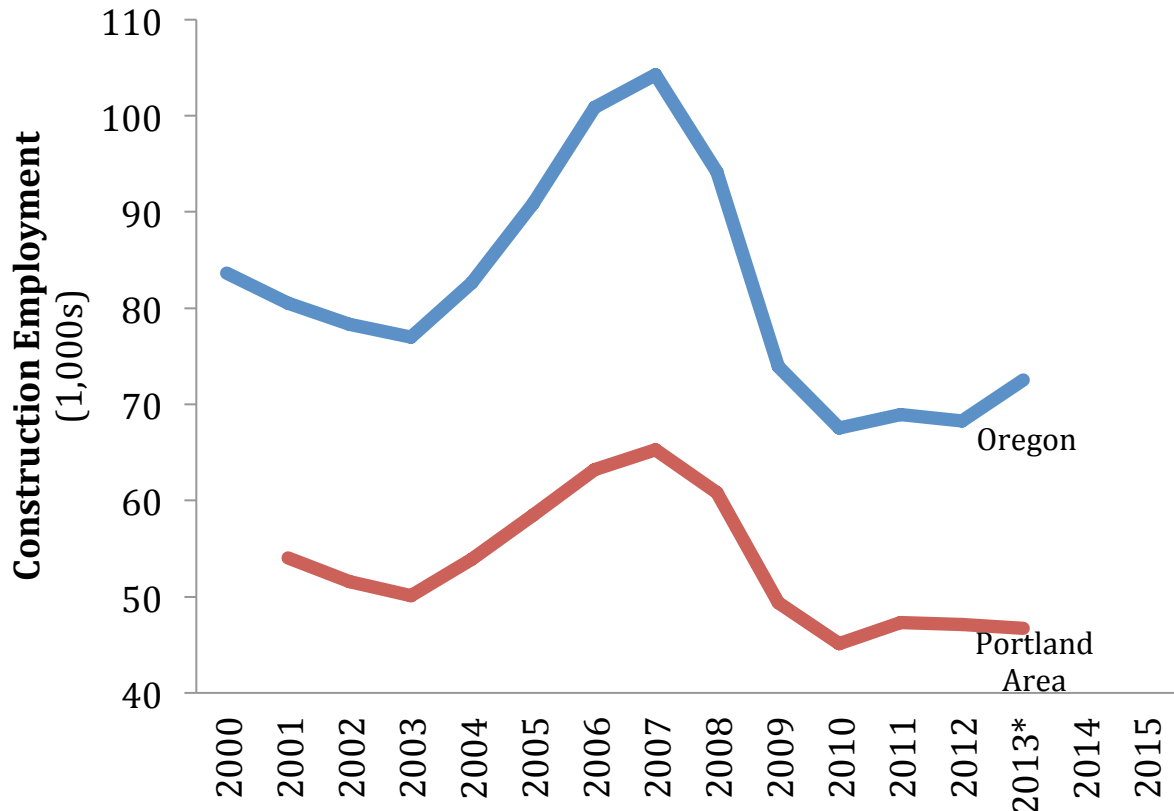
Jones Lang LaSalle reports Class A net absorption to be 246,785 square feet. This represents the bulk of the square footage absorbed in the market in the first quarter. With an increasing scarcity of true Class A space, tenants and landlords can expect rates to rise accordingly. In sectors such as the CBD, vacancy rates have fallen or remained stable, leading many to believe that speculative construction could be on the horizon. This number is expected to rise, although with a shortage of available Class A space it stands to reason that there may not be enough to sustain this growth for the duration of the year.

**Figure 3: Vacancy rates, Portland office market**

Source: Jones, Lang & LaSalle, NAI Norris, Beggs & Simpson

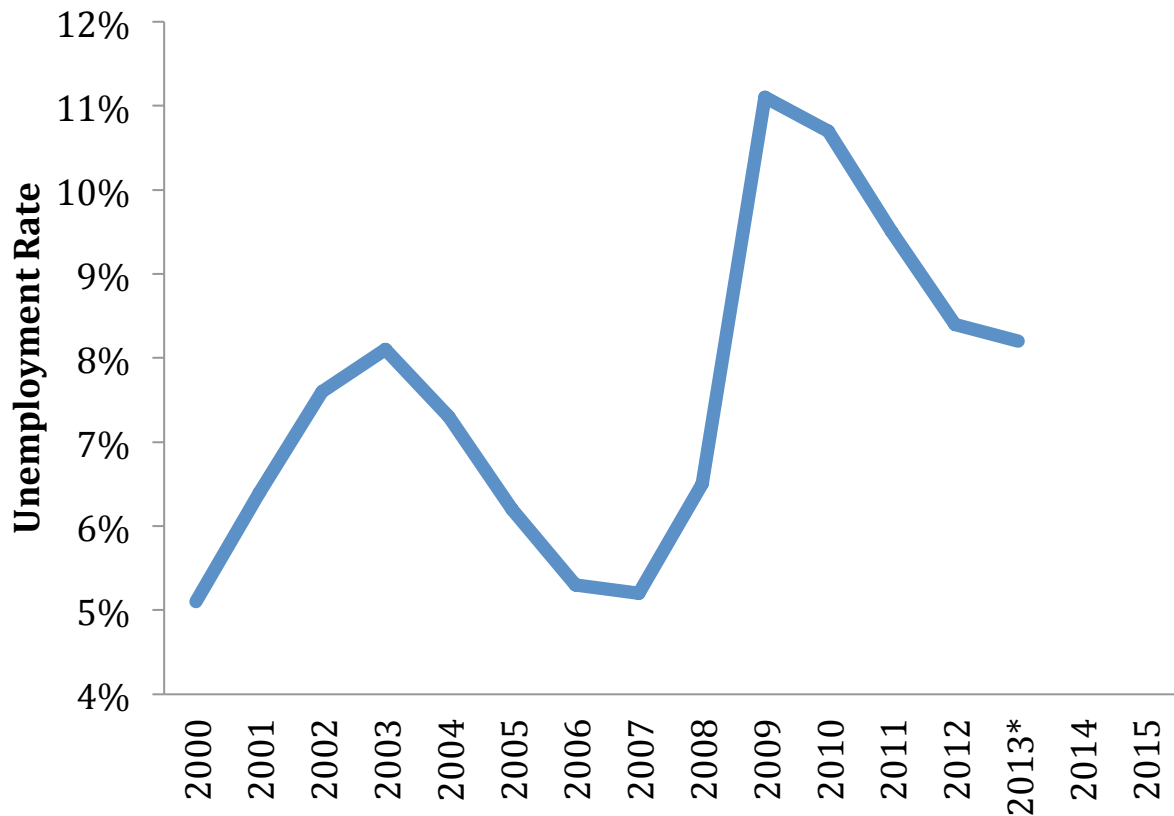
Since 2010, vacancy rates have declined in the metro area. Positive absorption is expected to continue in suburban markets, while Class A and the CBD both remain strong. Vacancy rates for class A space in the CBD had risen throughout 2012, with companies relocating or vacating their spaces in favor of the suburbs or Pearl locations. With rates stabilizing, users can expect rates to climb in 2013.

Despite increases in net absorption, suburban spaces still offer the most attractive rates in the market, especially for Class A and B space. This will slowly change as more space is occupied and concessions are less prevalent.

**Figure 4: Construction employment, Portland area and Oregon statewide**

Source: Oregon Employment Department

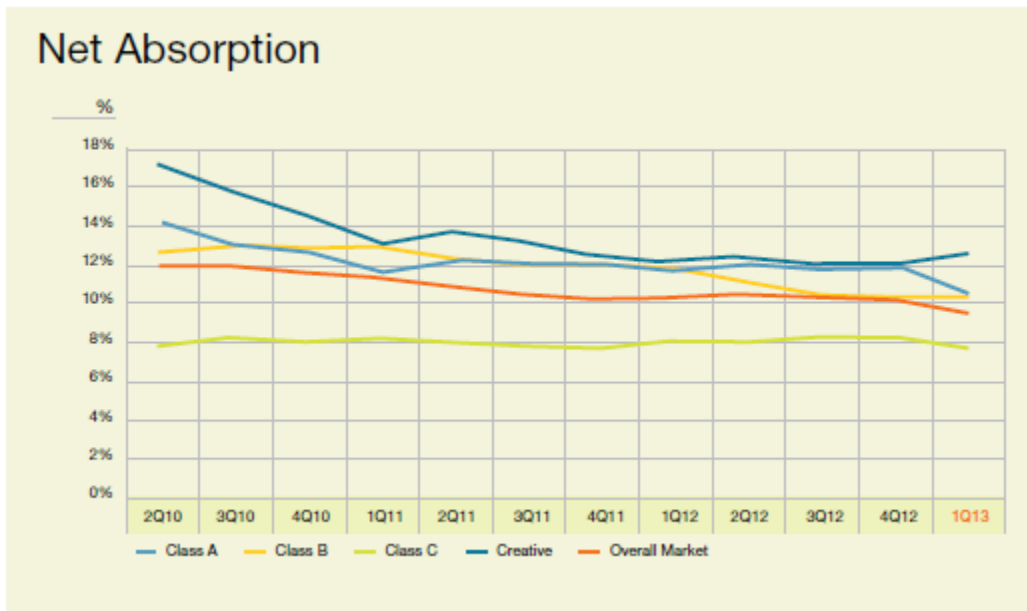
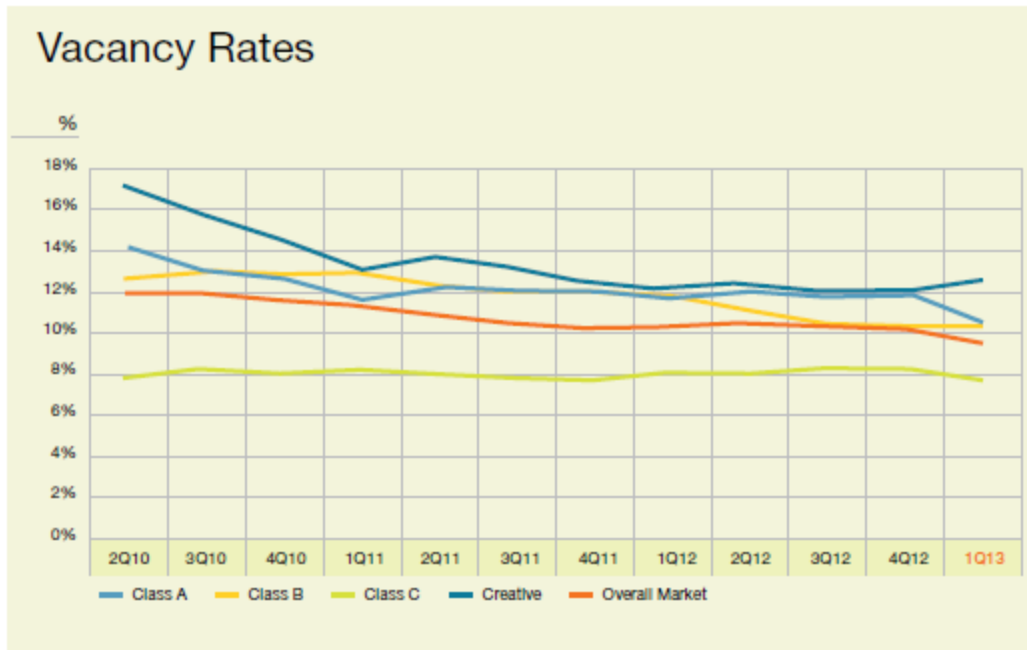
Construction is currently at a seasonally adjusted 72,500 jobs, with the metro area accounting for 46,700 of these positions. While this represents a slight uptick in both markets, construction employment growth remains stubbornly low. However, construction employment has begun to benefit from a renewed housing market. Home prices rose as much as 8.3% in the past year, triggering a number of home builders to spring into action. Multifamily apartment complexes continue to spring up to meet robust apartment demand, and the transit bridge project is scheduled for completion in 2014. Commercial buildings and infrastructure improvements are on the horizon, leading experts to believe that construction employment could be on the rise for the next several quarters.

**Figure 5: Unemployment rate, Oregon**

Source: Oregon Employment Department

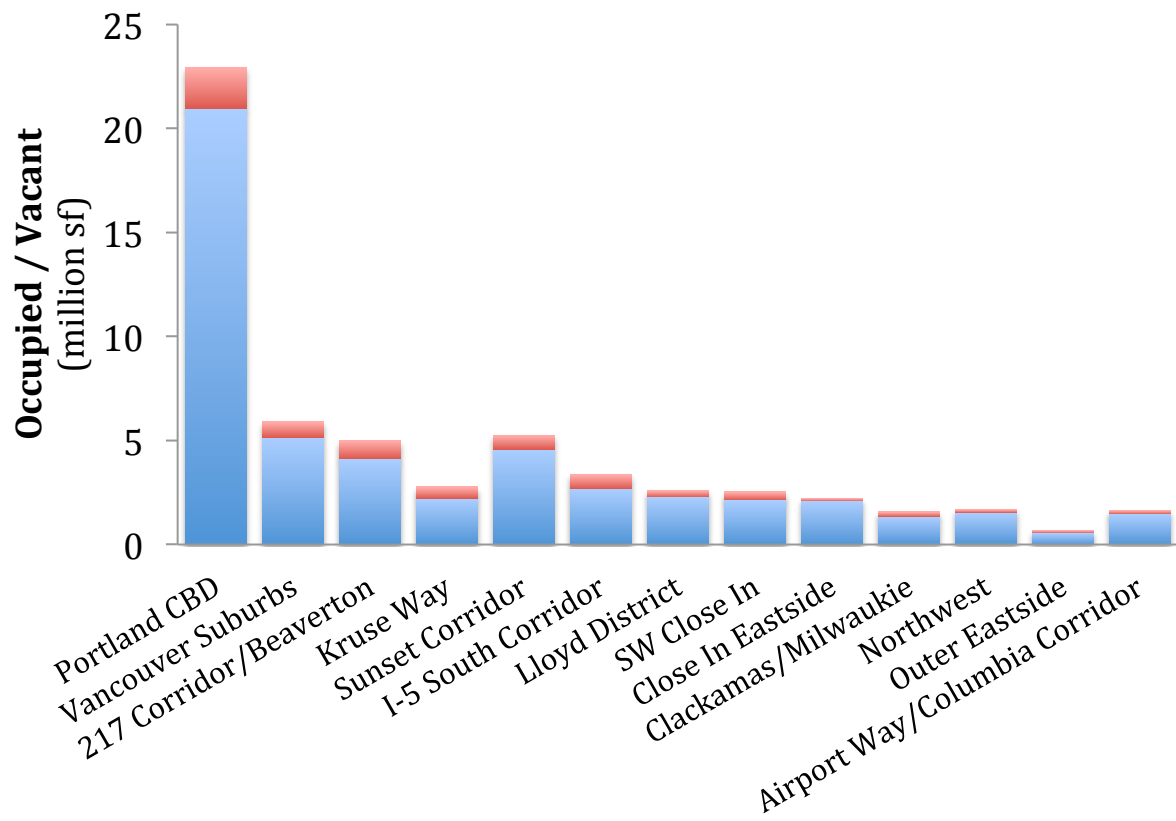
Portland added 23,000 jobs in the first quarter of 2013, and nearly every sector saw additional employment growth. Unemployment dropped 20 basis points to 8.2% for Oregon, and 10 basis points to 8% for Portland. Sectors driving employment growth are manufacturing, finance, insurance, professional services and technology, which all saw gains from 1-3%.

Analysts predict continuing growth in all sectors, but are weary of government cuts and tax increases as a result of the sequestration. These forces are expected to counteract each other with a slight favorability towards employment growth. Despite these gains, Oregon still lags behind the national unemployment rate of 7.6% at the conclusion of Q1.



Source: Kidder Matthews

Vacancy rates and net absorption have been on similar trajectories in the past three years, with vacancy trending downward and net absorption remaining steady and positive quarter over quarter.

**Figure 6: Submarket inventory, occupied and vacant**

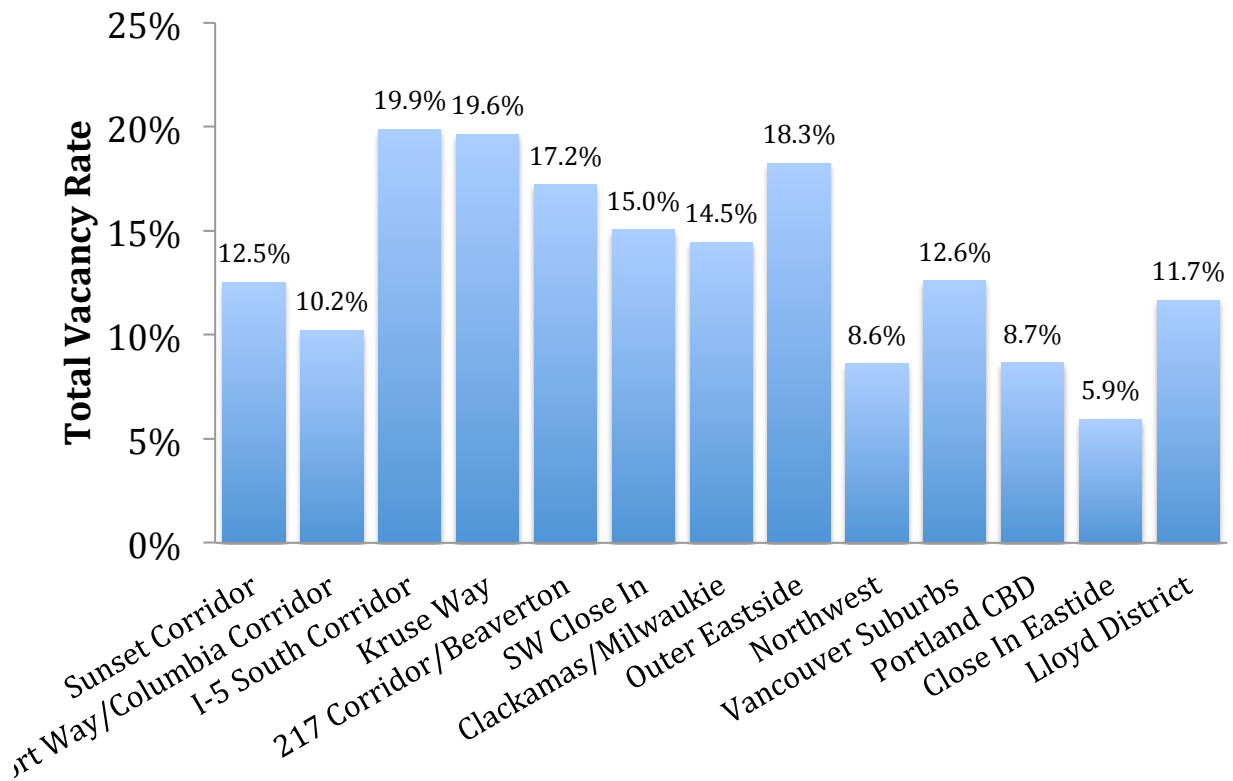
Source: Jones Lang LaSalle

Nearly every submarket saw either small or substantial gains in occupancy in Q1. With increasing demand and a scarcity of space, landlords have benefited from a more robust tenant base and a shift to a balanced market. The 217 submarket saw the greatest increase in occupancy, with a total of 189,883 square feet absorbed during Q1. This dropped the vacancy rate from 15.9% to 12.5%. Other winners included the Northwest submarket, which dropped from 10.2% vacancy to 8.2%, and Airport Way/Columbia Corridor, which dropped from 13.9% to 10.2% vacancy.

Other submarkets saw decreases in vacancy rates from 50 to 100 basis points, reaffirming the assertion that these markets have bottomed out and are on the upswing. Vacancy rates are still in the high teens in Kruse Way, 217 Corri-

dor/Beaverton and the Outer Eastside. The Outer Eastside saw the biggest increase in vacancy at 60 basis points to 18.3%. There was a slight uptick in the CBD occupancy rate, further fueling speculation of construction on the horizon. The close-in east side, Northwest, Lloyd and CBD submarkets and continue to enjoy vacancy rates that are below those of the other dominant submarkets. Inventory is expected to remain low in these markets for some time.

**Figure 7: Submarket vacancy rates**



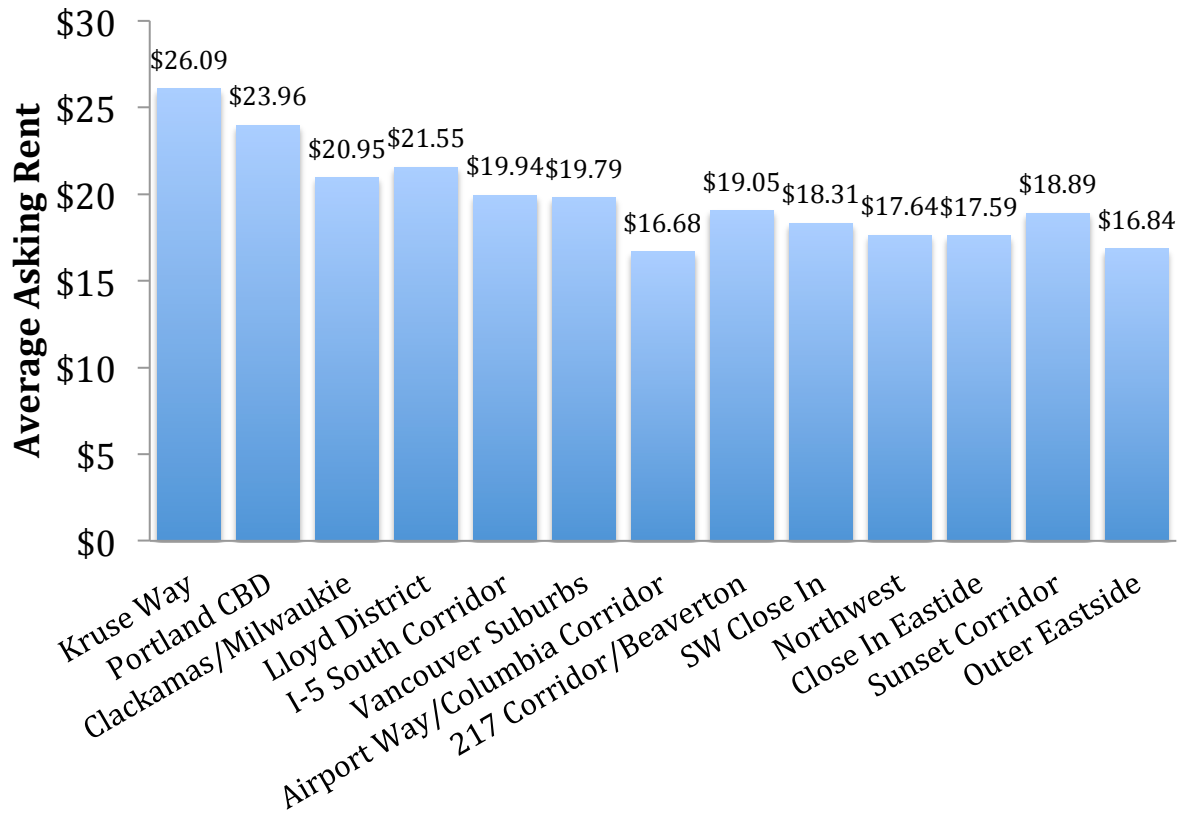
Source: Jones Lang LaSalle

Nearly all submarkets saw a drop in vacancy in Q1. Exceptions include the CBD (up 40 basis points) and the Outer Eastside (70 basis points). The CBD occupancy rate is still very strong, while the Outer Eastside continues to struggle. Recent articles in USA Today and the Los Angeles times report that poverty is on the rise in outer-ring suburbs and exurbs of major cities. High crime areas in Portland over the past 20 years have steadily moved from the central city to the city limits to the east



and west. Lease rates and occupancy have been reflective of this trend, and it appears that these markets face an uphill battle in the coming years.

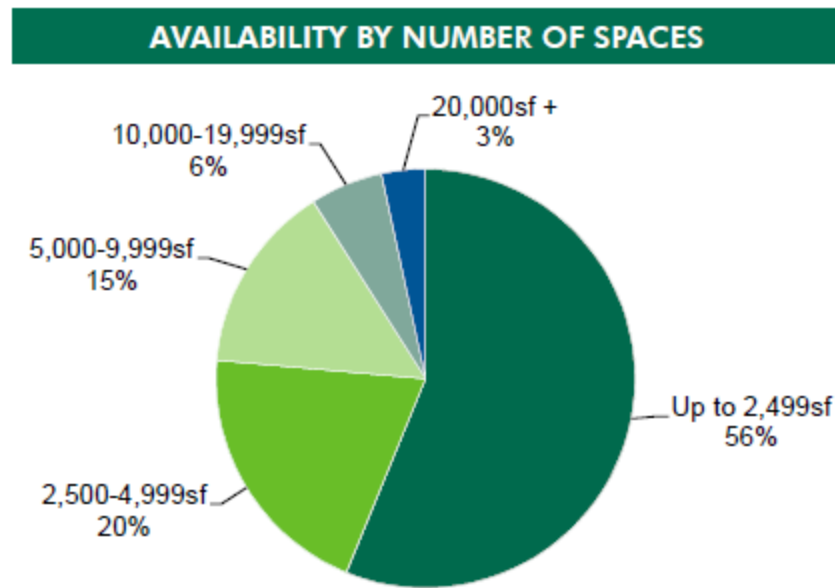
**Figure 8: Submarket average asking rents**



Source: Jones Lang LaSalle

While absorption was positive in nearly all submarkets, lease rates fell in some cases. Airport Way/Columbia Corridor's rates fell to \$16.68 per square foot, down from \$17.33 the previous quarter. The CBD fell slightly from \$24.05 to \$23.96, and the Vancouver Suburbs fell from \$20.81 to \$19.79. All other submarkets saw either stable rates or slight increases in average rent.

In submarkets with higher vacancy such as Kruse Way and the I5 South Corridor, lease rates remained relatively stable, or had a very slight uptick. If rates are rising even with vacancy rates in the high teens, it indicates that landlords are optimistic about future leasing prospects.



Source: CB Richard Ellis

Companies looking for larger, class A spaces have very limited options, while smaller companies have a large selection of places. This trend is expected to continue until more space is constructed in future quarters.

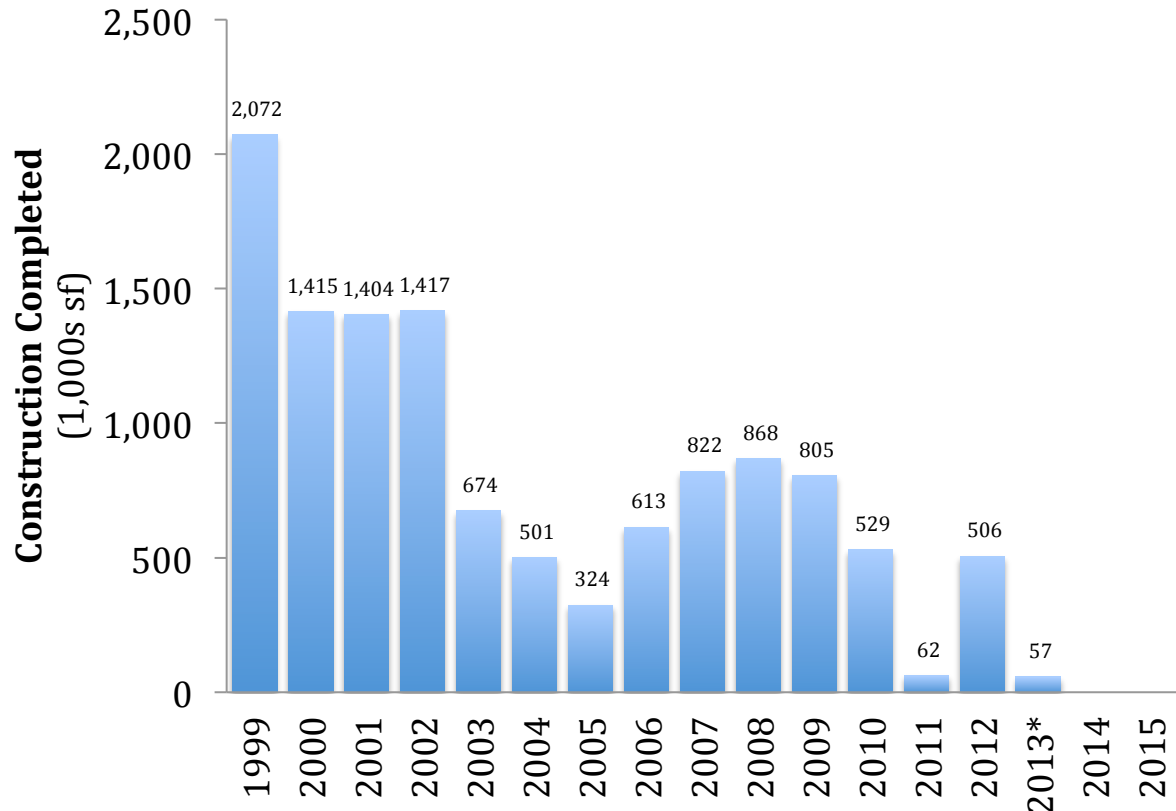
With new construction at a near standstill for two years, the next construction cycle is expected to begin as rates rise, vacancy falls and the economy improves.

#### Construction and Deliveries

Square Feet, millions



Source: Grubb & Ellis

**Figure 9: Office construction completed, Portland**

Source: Colliers International, Jones Lang LaSalle

Very little new construction was delivered during the first quarter of 2013. With few projects currently in the pipeline, it is unlikely that this number will climb significantly in 2013. With the current supply on hand it is unlikely that speculative building will reach the levels of the early 2000's anytime soon, but as supply is absorbed it is likely that developers will reenter the market. Portland developers traditionally wait until there are lower vacancy rates than do developers in other cities.

Centennial Mills, a centrally located century-old mill, is being redeveloped in a partnership between the Portland Development Commission and Harsch Investment Properties. Several firms have been engaged for possible tenancy, although there is some opposition to the development containing only office space. Schoolhouse Electric, a local purveyor of electrical fixtures and hardware, has set up shop in the Pacific Hardware and Steel Company building in the NW industrial district. These two redevelopments signal a trend for office space that favors preservation over demolition and renovation over new construction.

**Table 1: Major lease transactions, first quarter 2013**

Completed lease transactions				
Tenant	Building/Address	Submarket	SF	Type
Capital One	Tigard Corporate Center	217 Corridor/Beaverton	120,000	Renewal
Salesforce.com	Synopsys Technology Park	Sunset Corridor	116,500	New
Tripwire	One Main Place	CBD	49,053	Renewal
Schnitzer Steel	KOIN Center	CBD	41,000	New
Urban Airship	Vestas	CBD	40,000	New
PacifiCorp	PSU	CBD	40,000	Renewal
Ruby Receptionists	Murray Scholls Town Center	Sunset Corridor	30,822	New
Columbia River Inter-Tribal Fish Council	Lloyd 700 Building	Lloyd District	26,200	New
DTI	Pittock Block	CBD	22,000	New
Oregon Health Authority	Lincoln Building	CBD	21,500	New
Exterro	The Round	217 Corridor/Beaverton	20,309	Sublease
Harris myCFO	River Forum	SW Close In	20,290	New

Source: Jones Lang LaSalle

Apart from major leases by Capital One and Salesforce.com, the majority of larger lease transactions were between 20,000-40,000 square feet. A higher number of new leases helped to boost net absorption, while renewals and subleases demonstrated a strong continuation of economic activity.

### Q1 2013 Deals of Note

Property Name	Submarket	Size (SF)	Date	Sale Price	Price/SF
Owner-User Office	SE Close-In	4,914	Mar-13	\$650,000	\$132
Pacific Tower	Clark County CBD	40,000	Feb-13	\$3,200,000	\$80
Social Security Admin.	NE Close-In	12,990	Feb-13	\$2,150,000	\$166
The Gregory (Condo Interest)	Pearl District	47,000	Feb-13	\$10,571,317	\$225
Low-Rise Office Property	Lloyd District	21,000	Jan-13	\$1,650,000	\$79
Low-Rise Office Property	Pearl District	13,713	Jan-13	\$627,000	\$46

Source: Kidder Matthews

Most sources agree that Portland reached a cyclical bottom in 2012. 2013 brings renewed hope in the market, amidst a handful of present or impending setbacks. Submarkets that were hit hardest by the recession have made healthy gains, and with the endorsement of powerful tech companies it is likely that these markets should continue to flourish. A lack of available space in certain sectors will eventually bring lease rates to the point where speculative construction once again takes center stage. Portland office development has tended to wait until the last minute to meet demand. Ultimately, developers will enter the market as landlord leverage is peaking, which will stabilize the landlords' market. Overall, the outlook is cautiously strong in the Portland office market, with optimism from tenants, landlords and developers alike. ■