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# **CENTER FOR REAL ESTATE**

## Quarterly Report

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Volume 6, Number 4

Fall 2012

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## SUMMARY AND EDITORIAL

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ERIC FRUITS

Editor and Adjunct Professor, Portland State University

In this last issue of 2012, the first article in the Quarterly Report looks forward to 2013 with a forecast of the U.S. and Oregon economy. Expect next year to be disappointing, but not disastrous. Next year's economy is projected to look much like this year's, marked by sluggish growth with a substantial risk of disruptions that could stall the recovery or send the U.S. and many of its trading partners back into recession.

In our single family housing report, RMLS student fellow **Evan Abramowitz** reports that the market is now in recovery. Although September existing-home sales declined modestly, inventory continued to tighten and the national median home price recorded its seventh back-to-back monthly increase from a year earlier. In the Portland metropolitan area, the median sales price is up 3.2 percent from a year ago while in U.S. as a whole, median home prices are up 11.4 percent.

Outside of the three-county Portland area, Abramowitz finds that housing prices have risen steadily in other markets over the last year, including Bend (up 21.7 percent), Lane County (up 11.1 percent), and Vancouver, (up 2.0 percent), with declines Eugene and Lane County. A combination of lower prices and record low interest rates has led to greater sales activity and reduced housing inventories. In Portland,

■ 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., a consulting firm specializing in economics, finance and statistics, [www.nathaninc.com](http://www.nathaninc.com). 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.

the months of supply has dropped to level that have not been seen since the beginning of 2007.

In the multi-family housing report, Abramowitz reports a continuing nationwide boom in the apartment market. He reports that rents have increased in the U.S. by about four percent with vacancies of just over five percent. In the Portland region, Abramowitz reports a year-on-year rent growth of six to seven percent and a tight vacancy rate of 3.6 percent. The region continues to attract young migrants who seem hesitant to commit to homeownership. He finds that new construction continues to lag behind demand, but several new projects in the pipeline are expected in the next year.

In our commercial market report, OAR Student Fellow **George McCleary** finds several pieces of evidence of a slowly improving economy. While Portland's unemployment is down from its 2009 high of more than 11 percent, the region has been stuck at about eight percent for the past year. Nevertheless, a Brookings Institution report ranked Portland ninth in comparison with other American cities in overall economic strength. Office vacancy rates have been slowly improving, but remain relatively high at 13.5 percent. Thus, it seems the region would need a more robust recovery before new office construction is demanded.

However, as we have reported in previous issues, the downtown office market remains fairly tight relative to the rest of the metropolitan area. For example, the Portland CBD's vacancy rate of 9.8 percent is one third lower than the Sunset Corridor and less than half of Kruse Way's 22.6 percent vacancy. With vacancy rates this high, McCleary believes we are several years away from new speculative office construction and we will see continued pressure for lease concessions, especially in sub-urban markets.

McCleary's retail report finds negative net absorption of space in most markets, with vacancy rates holding steady at just under seven percent. At the same time, McCleary reports activity in the grocery market, with Target opening a store with a grocery section, Walmart expanding in Vancouver Plaza, and New Season announcing a new store in Northeast Portland.

In the industrial report, McCleary reports that despite positive net absorption in the last quarter, the delivery of new product outweighed leasing activity keep vacancies steady at about seven percent. Although vacancy rates have been relatively flat, the consensus seems to be that other metrics moving in a more positive direction, suggesting an improvement in the near future. Portland has enjoyed its ninth consecutive quarter of positive net absorption since the third quarter of 2010. The tightening supply of large, quality warehouse and distribution space will have positive implications for increasing rates and renewed construction activity.

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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## FORECAST OF OREGON'S ECONOMY IN 2013: DISAPPOINTING BUT NOT DISASTROUS

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ERIC FRUITS

Editor and Adjunct Professor, Portland State University

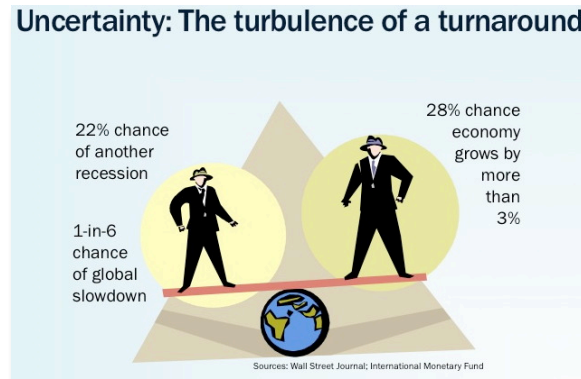
During a recent presentation that I made to the Roseburg Chamber of Commerce, I gave a one sentence summary of the forecast for Oregon's economy in 2013: "We're getting socks for Christmas." It's nice to get a present, but it's not what we hoped for. What consensus there is among economists projects that Oregon and much of the U.S. will see some economic growth, but not the economic growth we hoped for.

Next year's economy is projected to look much like this year's—sluggish growth with a substantial risk of disruptions that could stall the recovery or send the economy back into recession. Businesses and households would benefit from planning for some of these risks by asking if they are prepared for:

- Increased taxes associated with the "fiscal cliff;"
- Federal spending cuts associated with the "fiscal cliff" (for businesses that rely on government contracting—remember federal cuts trickle down to the state and local level);

■ 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., a consulting firm specializing in economics, finance and statistics, [www.nathaninc.com](http://www.nathaninc.com). This forecast is based on a presentation made to the Roseburg Chamber of Commerce in early November 2012. 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.

- Another credit crunch in the event of a euro zone break up;
- Reduced demand for exports in the event of a significant slowdown in China's economy.



**Figure 2.** “Uncertainty” will be 2013’s word of the year. On the one hand, economists are predicting about a 1-in-5 chance of another recession. At the same time, they predict a 1-in-4 chance that the economy will grow at a faster than average rate. What’s left is a fairly big chance of growth, but sluggish growth.

## SLOW, BUT NOT NECESSARILY STEADY

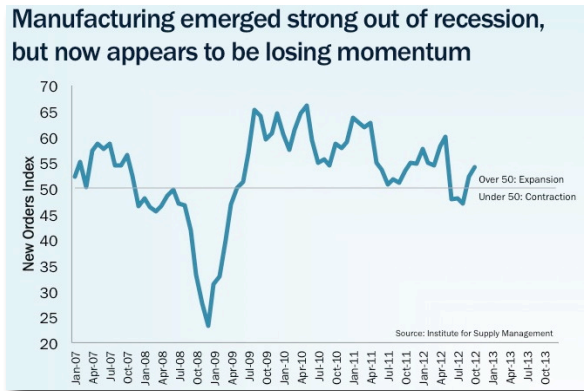
Most economists are predicting relatively sluggish economic growth over the next year. Economists surveyed by the Wall Street Journal forecast growth of 2.4 percent next year. The Organization for Economic Cooperation and Development recently cut its forecast for the U.S. economy. The OECD predicts that even if the “Fiscal Cliff” is averted, the economy will grow 2.0 percent next year, which is down from the May forecast predicting 2.6 percent growth. On average, over the long run, U.S. economic growth has been about 3 percent a year, so the forecasters are projecting below-average growth.

Most economists surveyed by the Wall Street Journal do not expect see the U.S. falling into recession. On average, the economists put a 22 percent chance of another downturn hitting in the next year. The International Monetary Fund says that there is a 16 percent chance of a global slowdown. On the other hand, the Wall Street Journal economists say that there is a 28 percent chance that the economy will grow above 3 percent in 2013. These conflicting projections raise the big question: Will the economy tank or boom? The consensus seems to forecast sluggish growth with a significant number of economists saying that there are more downside risks facing the economy than there are upside opportunities.

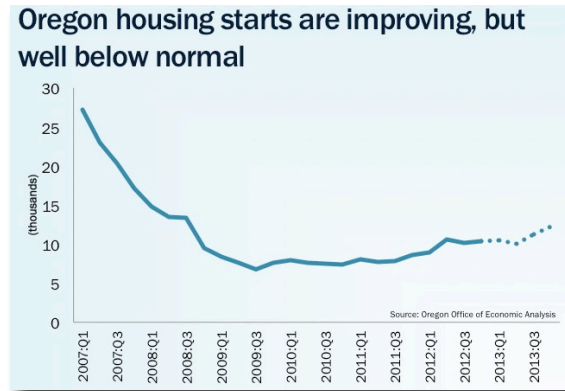
Quite a few of the employment forecasts I’ve read have used the phrase, “disappointing, but not disastrous” to describe job growth over the next year. Most econo-

mists expect modest employment growth that barely keeps pace with population growth. Thus, the consensus seems to be that unemployment in the U.S. and Oregon will remain virtually unchanged in 2013.

One upside to a sluggish economy is relatively modest inflation and some reduced pressure on oil prices. Economists surveyed by the Wall Street Journal forecast inflation to be about 2.2 percent.



**Figure 3.** More turbulence in the manufacturing sector. Manufacturing came strong out of the recession, but has slowed over time, with some recent months hinting at the possibility of a contraction.



**Figure 4.** Since about 1990—and with the exception of the housing boom—Oregon housing starts have been in the around the 20,000 a quarter range (with some big swings from year to year). Forecasts project that housing starts next year will be about the same as last year.

### MIXED MESSAGES FROM TWO MAJOR SECTORS

Manufacturing took a big hit in the recession, but came back strong as the recovery began. Manufacturers found ways to boost output and margins. This can be seen in the increase in business profits and dividends since 2009. However, manufacturers have managed to make their gains with fewer employees, and it’s unclear whether this growth can be sustained. Earlier this year, the U.S. saw a small contraction in new orders in manufacturing. Right now, we’re in the uncomfortable position of trying to determine whether that small dip was just a “blip” or the hint of longer run slide in manufacturing.

The Oregon Office of Economic Analysis is somewhat optimistic about the state’s manufacturing sector. They point to a new expansion announced at Intel as well as improved market conditions for many wood product and metal firms as indicators that Oregon’s manufacturing sector is likely to improve over the next year or so.

The other part of the economy showing mixed messages has been the housing sector. In both the U.S. and Oregon, house prices are improving. At the same time, Oregon housing starts have slowly—almost imperceptibly—grown over the past few years. The Oregon Office of Economic Analysis projects 10,000 to 12,000 new hous-

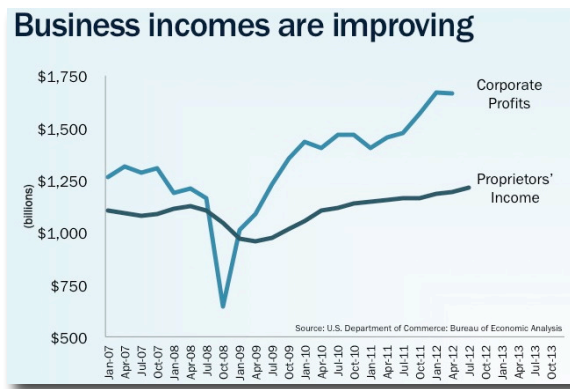


ing starts a quarter over the next year. This is about half the number of housing starts that a “normal” Oregon economy has seen (meaning, if we ignore the housing boom and it’s subsequent bust). So, again, the forecast is disappointing, but not disastrous.

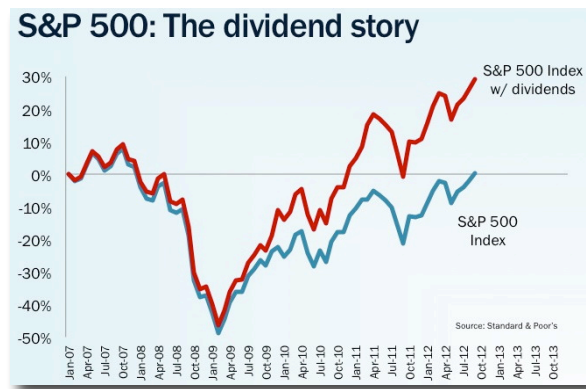
### A BRIGHT SPOT: BUSINESS INCOMES AND DIVIDENDS

After a sizable hit during the recession, business incomes have improved and represent a bright spot in the economy. Corporate profits are increasing, incomes for smaller businesses are improving, and dividend-adjusted stock returns are positive.

Business incomes are measured by corporate profits, proprietor incomes, stock price appreciation and dividends. Corporate profits before taxes tend to be dominated by “big” businesses and C-corporations that must pay corporate income taxes, and they have rebounded quite strongly since the recession. Proprietors' income is the payments to those who own non-corporate businesses, including sole proprietors and partners. These payments have risen since the recession, but not as rapidly as corporate profits. Finally, stock price returns measure the value of a company’s stock (either including or excluding dividend payments). When stock prices rise, that leads to more spending by consumers, either due to the increase in confidence or the extra income from dividends. Stock prices collapsed during the financial crisis and recession and have finally recovered to the level they were at the beginning of 2007. In fact, for stockholders, most of their gains came from improving dividends. Since 2007, dividend adjusted returns on stocks has been almost 30 percent. At first blush, this may seem like fairly strong growth. However, that amounts to an annual growth rate of just under 4.5 percent, which is well below the long run average return from stock market investing of approximately 8 percent a year (which is also the amount that the Oregon’s Public Employee Retirement System uses for its calculations).



**Figure 5.** Corporate profits, usually associated with “big business,” saw a brief, but severe, dip during the recession. These profits quickly recovered after the recession. Proprietors’ income has seen slow, but steady, gains in recent years.



**Figure 6.** Stock prices have had a wild ride over the past five years. If you fell asleep in January 2007 and woke up in October 2012, you’d think that nothing had happened to stock prices. Stock prices by themselves, do not tell the full story. Dividends have made a significant contribution to stock returns.

## THINGS TO LOOK FOR ... AND PLAN FOR

As noted earlier, most economists are forecasting growth of the next year, but it will be sluggish growth. There are, however, many events that can cause all those forecasts to be thrown out the window.

### The fast approaching “fiscal cliff”

As an economist, there is one prediction I can make with 100 percent certainty: By the end of this year, everyone will be sick of hearing the phrase “Fiscal Cliff.” The Fiscal Cliff is the combination of automatic tax increases and spending cuts that Congress wrote into the law earlier this year to avoid making a decision regarding the deficit prior to the election. In addition to the Fiscal Cliff, Congress and the Administration will have to take action on the federal debt ceiling sometime in the first half of the year.

The Congressional Budget Office calculates that the total effect of the Fiscal Cliff would be a 3.9 percent drop in economic growth. Remember, economists are projecting growth of only 2.4 percent to begin with. So, a drop of 3.9 percent means that the economy will contract and the U.S. will head into recession and drag the rest of the world with it. The International Monetary Fund has identified the Fiscal Cliff as one of the biggest threats to the global economy in the upcoming year.

Most commentators seem to agree that Congress and the President will do *something* about the Fiscal Cliff. At the same time, no one knows what that something will be or whether it pushes the cliff jumping back another year or two.

### A Euro zone break up: Yes, it matters to Oregon

An external uncertainty to the American economy is the continued financial turmoil in Europe. Euro zone leaders have been struggling for more than two years to formulate a collective response to the zone’s debt crisis. Many of the region’s leaders are skeptical of continuing what they consider to be austerity measures. Italy, France, and Spain are now pressing for more radical measures to prop up the euro zone.

The Economist Intelligence Unit assigns a “moderate” risk of a euro zone break up. In particular, there is a substantial risk that Greece will withdraw from the Euro zone. The country is scheduled to complete an orderly debt default in March, but may fail to abide by the terms of its second EU-IMF loan, causing it to leave—or be ejected from—the euro zone. This could trigger a crisis among the remaining 16 member states, major central banks and key global institutions.

The break-up of the euro zone would massively destabilize the global economy. Weaker former members would default on their debts and their currencies would plummet. Funding costs and interest rates would soar. Banks globally would suffer large losses and a credit crunch would return as banks seek to bolster their balance sheets.

The U.S. would likely be seen as a “safe haven” by investors. The movement of funds from overseas would result in a stronger dollar, which would increase the price of our exports and weaken orders for U.S. manufactured goods.

The combination of tight credit and reduced demand for U.S. exports would negatively impact Oregon exporting businesses and those businesses in need of credit and has the potential to reverse the state’s fragile turnaround in manufacturing activity.

### **Can China keep growing?**

The other external concern is the Chinese economy. China is the second largest economy in the world and the number one destination for Oregon exports. China’s economy has had a long run of double digit economic growth. However, since 2007, the country’s economy slowly has been losing steam. This year’s forecasted rate of 7.4 percent for China is the lowest growth rate in more than a decade.

China’s entry into the World Trade Organization in 2001 brought with it an export boom. Since then, China has grown to be the world’s largest exporter and accounts for more than 10 percent of the global market. With such a large share of the global market the room for further export expansion is limited. In addition, rising wages and a stronger yuan have also reduced China’s export competitiveness. On top of that, there appears to be growing evidence of a weakening of domestic demand as well.

As with predictions regarding the U.S. economy, economists have mixed forecast regarding China’s future growth. On the one hand, U.S. banking regulators have just required the biggest U.S. banks to “stress test” their balance sheets against a sharp slowdown in China. On the other hand, recent gains in industrial production, investment and retail sales picked hint that demand may be picking up again in China. The Fed’s stress test imagined a “sharp slowdown in economic activity in China that has substantial spillovers to activity in the rest of developing Asia,” according to the Fed. Under the Fed’s worst-case scenario, economic growth in developing Asian nations would slow down to 0.3 percent in the current quarter, compared with a base-line forecast of 7.4 percent growth. The Fed emphasized that the scenario was not a forecast but rather a hypothetical scenario.

The Economist Intelligence Unit says that a sharp slowdown in Chinese economic growth to 5 percent or so would have major implications for the global economy. A slowdown would likely lead to a drop in commodity prices and reduce demand for U.S. exports.

## **CONCLUSION**

Next year’s economy is projected to look much like this year’s economy. Oregon and much of the U.S. can expect sluggish growth some substantial risk of disruptions that could derail the recovery and send the economy back into recession. Businesses

and households would benefit from planning for some of these risks by asking if they are prepared for

- Increased taxes associated with the “fiscal cliff;”
- Federal spending cuts associated with the “fiscal cliff” (for businesses that rely on government contracting—remember federal cuts trickle down to the state and local level);
- Another credit crunch in the event of a euro zone break up;
- Reduced demand for exports in the event of a significant slowdown in China’s economy.

At the same time, interest rates are currently at all-time lows. Although some are still finding some difficulty in getting credit, it would be advantageous to identify ways to obtain and lock-in to low interest rates while they are still low. ■

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## RESIDENTIAL MARKET ANALYSIS

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EVAN ABRAMOWITZ

RMLS Student Fellow

Master of Real Estate Development Graduate Student

September existing-home sales declined modestly, but inventory continued to tighten and the national median home price recorded its seventh back-to-back monthly increase from a year earlier, 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, fell 1.7 percent to a seasonally adjusted annual rate of 4.75 million in September from an upwardly revised 4.83 million in August, but are 11.0 percent above the 4.28 million-unit pace in September 2011.

Lawrence Yun, NAR chief economist, said the market trend is up. “Despite occasional month-to-month setbacks, we’re experiencing a genuine recovery,” he said. “More people are attempting to buy homes than are able to qualify for mortgages, and recent price increases are not deterring buyer interest. Rather, inventory shortages are limiting sales, notably in parts of the West.”

Single-family home sales declined 1.9 percent to a seasonally adjusted annual rate of 4.21 million in September from 4.29 million in August, but are 10.8 percent

■ 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.

higher than the 3.80 million-unit level in September 2011. The median existing single-family home price was \$184,300 in September, up 11.4 percent from a year ago.

Existing condominium and co-op sales were unchanged at a seasonally adjusted annual rate of 540,000 in September, but are 12.5 percent above the 480,000-unit pace a year ago. The median existing condo price was \$181,000 in September, which is 10.0 percent higher than September 2011.

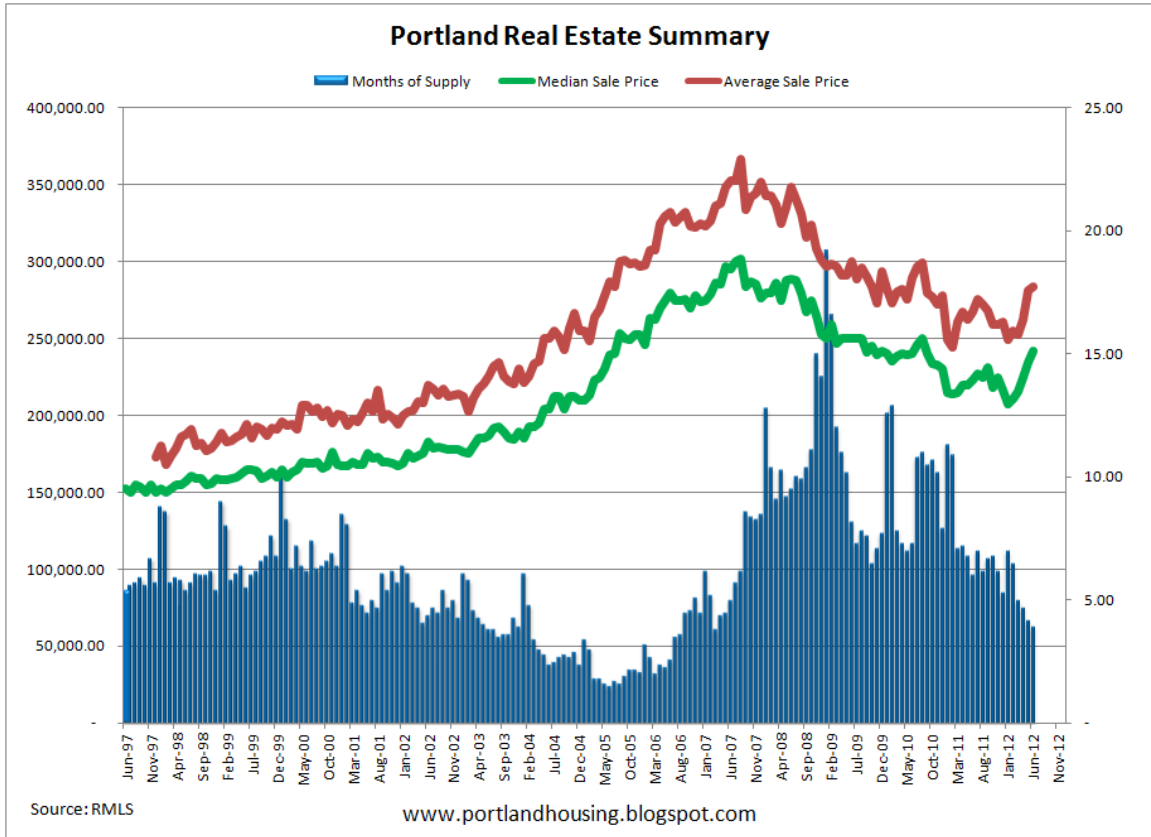
Regionally, existing-home sales in the Northeast fell 6.3 percent to an annual level of 590,000 in September but are 7.3 percent above September 2011. The median price in the Northeast was \$238,700, up 4.1 percent from a year ago.

Existing-home sales in the Midwest slipped 0.9 percent in September to a pace of 1.10 million but are 19.6 percent higher than a year ago. The median price in the Midwest was \$145,200, up 7.0 percent from September 2011.

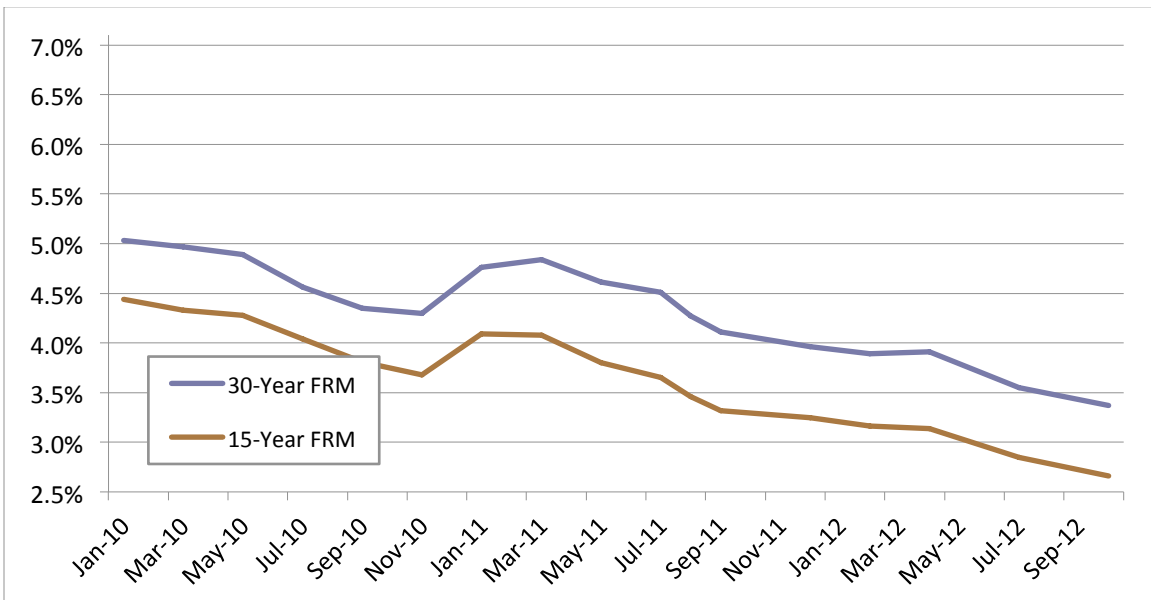
In the South, existing-home sales increased 0.5 percent to an annual level of 1.93 million in September and are 14.2 percent above September 2011. The median price in the region was \$163,600, up 13.1 percent from a year ago.

Existing-home sales in the West fell 3.4 percent to an annual pace of 1.13 million in September but are 0.9 percent above a year ago. With continuing inventory shortages in the region, the median price in the West was \$246,300, which is 18.4 percent higher than September 2011.

**Figure 1: Portland Sale Price & Inventory Data 1997-2012**



**Figure 2: Single Family Mortgage Interest Rate**



Source: Freddie Mac

Mortgage interest rates had been steadily decreasing since the first quarter of 2011 and are now at nearly 60-year lows. The national average commitment rate for a 30-year conventional, fixed-rate mortgage was 3.37 percent in October, down from 3.68 percent in June; the rate was 4.55 percent in July 2011.

First time homebuyers constituted 32 percent of homes in September, up from 31 percent in August. They were 32 percent in September 2011. Investors purchased 18 percent of homes in September, which was unchanged from August.

**Table 1: Median Home Values of Existing Detached Homes**

	U.S.	West	Portland Metro Area
September 2011 Median Sales Price	\$165,400	\$211,100	\$230,400
September 2012 Median Sales Price	\$184,300	\$250,000	\$238,000
% Change in Median Sales Price	11.4%	18.4%	3.2%
% Change in Number of Sales Sept 2011- Sept 2012	10.8%	1.0%	17.7%

Source: National Association of Realtors

Standard & Poor's Case-Shiller Index for Portland was 140.80 through August 2012. The represents an increase of 0.49 percent from July 2012, and a year-over-year increase of 3.60 percent. Case-Shiller's 20 city composite index is up 1.98 percent compared to the same time last year. The index data shows that in 18 of the 20 major U.S. metropolitan cities, home prices increased from the previous month.

Foreclosure filings were reported on 531,576 U.S. properties during the quarter, a decrease of 5 percent from the second quarter and a decrease of 13 percent from the third quarter of 2011 — the ninth consecutive quarter with an annual decrease in foreclosure activity. This was the lowest total since 2007. The report also shows one in every 248 U.S. housing units with a foreclosure filing during the quarter.

“We’ve been waiting for the other foreclosure shoe to drop since late 2010, when questionable foreclosure practices slowed activity to a crawl in many areas, but that other shoe is instead being carefully lowered to the floor and therefore making little noise in the housing market — at least at a national level,” said Daren Blomquist, vice president at RealtyTrac. “Make no mistake, however, the other shoe is dropping quite loudly in certain states, primarily those where foreclosure activity was held back the most last year.

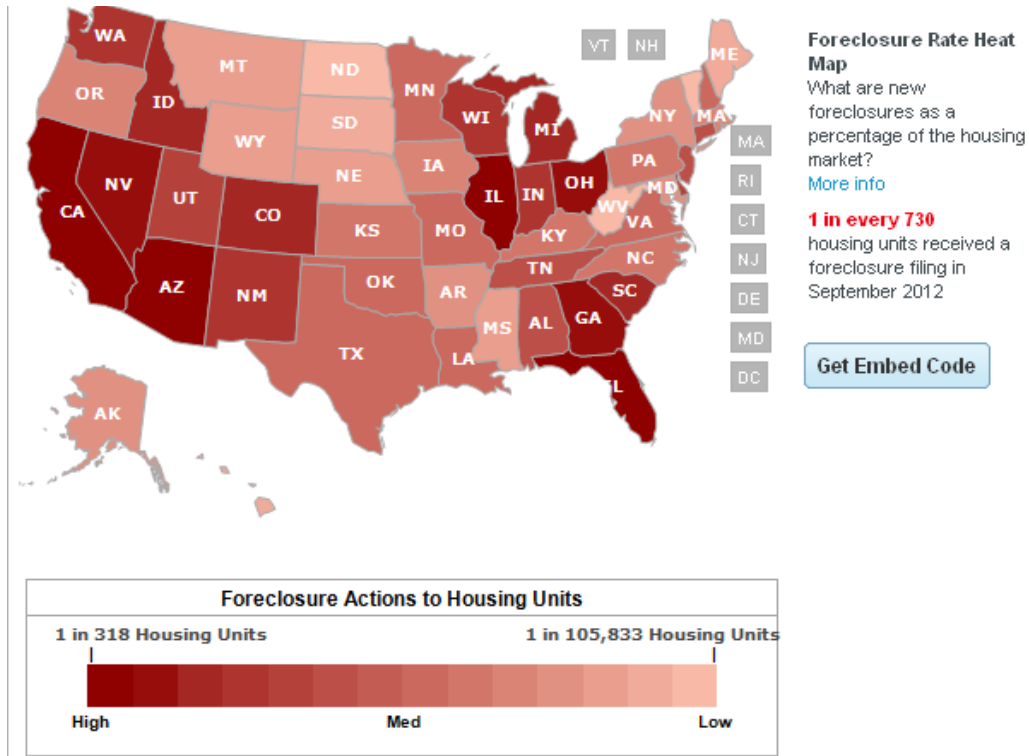
“Meanwhile, several states where the foreclosure flow was not so dammed up last year could see a roller-coaster pattern in foreclosure activity going forward because of recent legislation or court rulings that substantively change the rules to properly foreclose,” Blomquist added. “A backlog of delayed foreclosures will likely



build up in those states as lenders adjust to the new rules, with many of those delayed foreclosures eventually hitting down the road.”

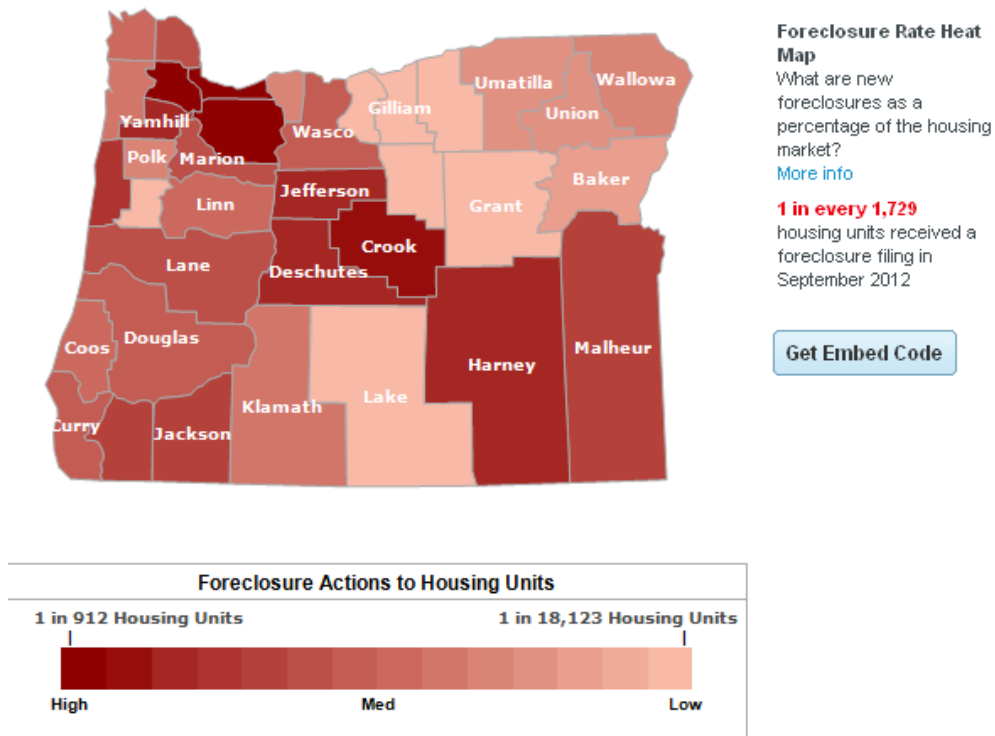
During September 2012 Oregon reported 969 foreclosure filings. Multnomah County had the state’s highest level of activity in September 2012 with 275 homes. In the U.S., one in every 730 homes received a foreclosure filing while one in every 1,729 homes in Oregon received a foreclosure filing during September 2012.

**Figure 3: Foreclosure Rate Heat Map, September 2012**



Source: RealtyTrac

**Figure 4: Foreclosure Rate Heat Map-Oregon, September 2012**



Source: RealtyTrac

According to RealtyTrac, the ten states that ranked the highest in foreclosure rates in September 2012 were Florida, Arizona, California, Illinois, Georgia, Nevada, Ohio, Michigan, South Carolina, and Colorado. Of these states, Florida posted the nation’s highest state foreclosure rate, with one in every 117 housing units receiving a foreclosure filing in September 2012, more than twice the national average and the first time Florida has lead the rankings since April 2005. In Arizona one in every 125 housing units and in California one in every 125 housing units filed for foreclosure during September 2012.

**Table 2: Building Permits Issued, Year to Date, in thousands**

	Single Family			Multi Family		
	Aug-12	Aug-11	% Change	Aug-12	Aug-11	% Change
United States	345.9	284.6	22%	187.6	123.0	53%
Oregon	4.55	3.58	27%	2.59	1.41	84%
Portland-Vancouver-Beaverton OR-WA	3.16	2.15	47%	1.81	1.04	75%
Salem OR	0.19	0.16	24%	0.19	0.07	164%
Eugene-Springfield OR	0.26	0.28	-8%	0.31	0.12	172%
Bend OR	0.48	0.34	41%	0.05	0.01	671%
Corvallis OR	0.04	0.02	90%	0.19	0.17	13%
Medford OR	0.24	0.18	38%	0.07	0.07	-7%

Source: National Association of Home Builders

Single family building permits have increased sharply thus far in 2012 in the US and Oregon. The Portland, Bend, Corvallis, Salem, and Medford markets increased more than the US average for single-family with Corvallis increasing 90 percent over this time last year. Eugene was the only major market that decreased by 8 percent. Multifamily new construction has increased sharply in the US and even more in Oregon. Portland increased by 75 percent with over 1,810 units built in the metro area from January-June 2012. Multifamily development returned to Bend after almost zero building in 2011, and posted a 671 percent increase.

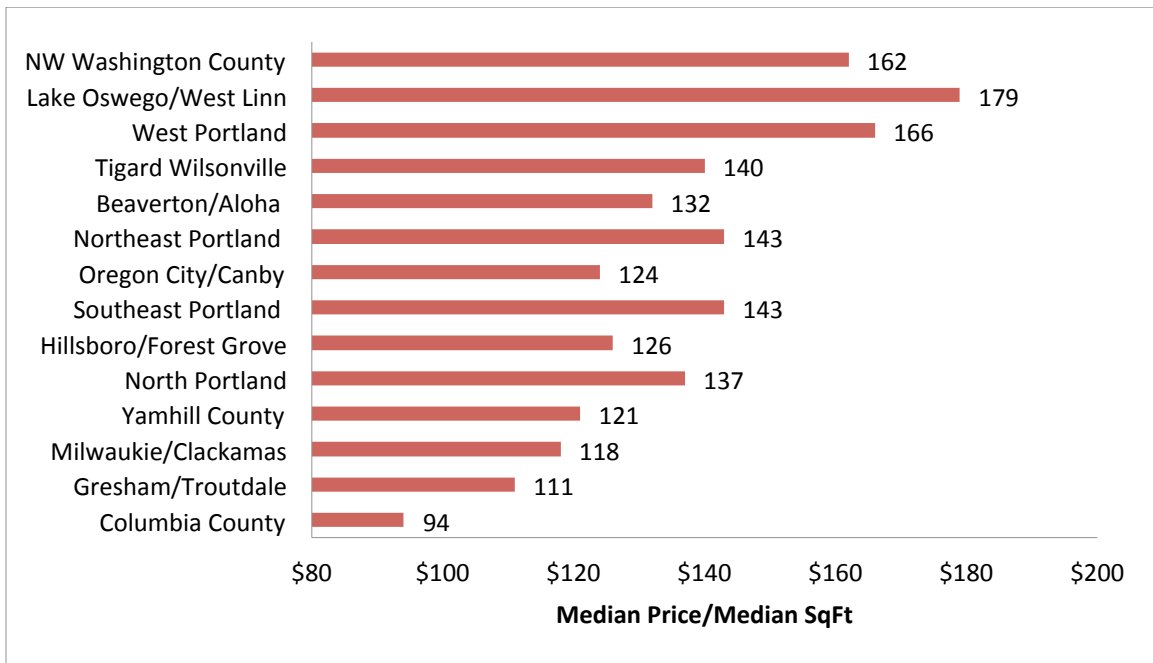
## PORTLAND

Buyers closed on purchases of 4,427 homes. The number of transactions in third quarter 2012 decreased 17.14 percent from last quarter and 15.43 percent year over year. Median prices for the first quarter were at \$267,870, which represents a 2.1 percent decrease over the previous quarter but a 13.18 percent increase annually.

Sales price exceeded list price, which is a key indicator in a hot market, with average sales taking place at 147 percent of the original list price. Sellers in the Portland area have had their homes on the market for an average of only 33 days before closing, which is 62 percent less than third quarter 2011.

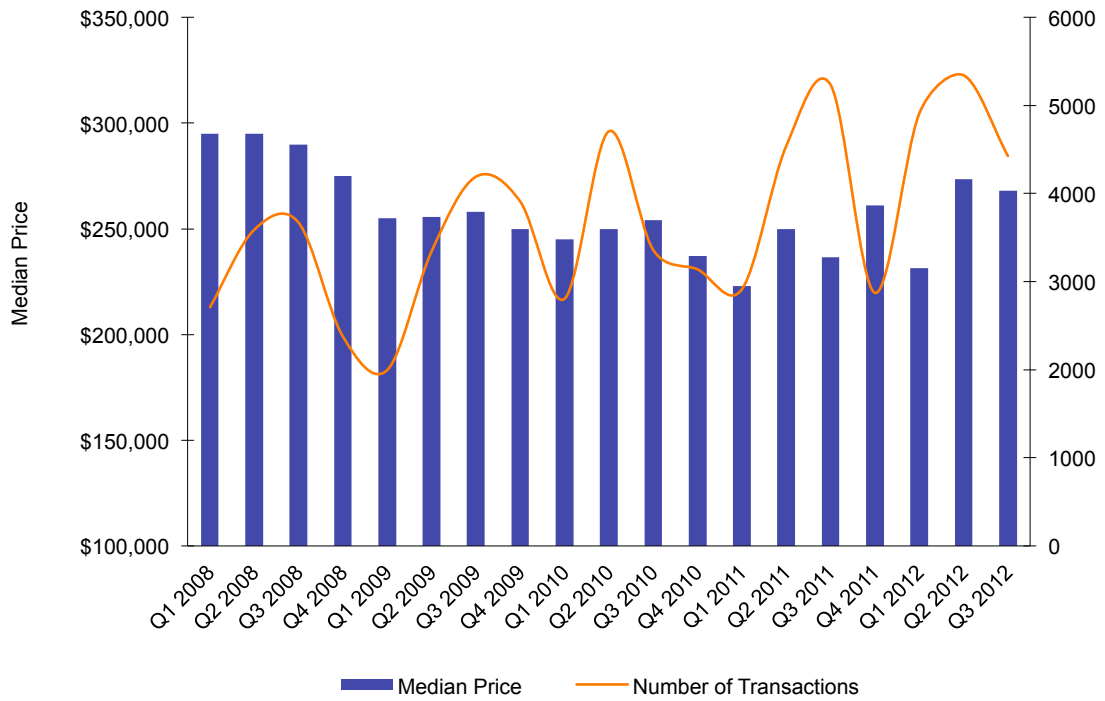
There were 231 new properties sold, compared to 392 in second quarter. The new properties sold at a median price of \$305,000 which was a virtually unchanged from second quarter. New home prices increased from third quarter 2011 by 7 percent.

**Figure 5: Single Family Price per Square Foot, New and Existing Detached Homes, Portland Sub Markets**

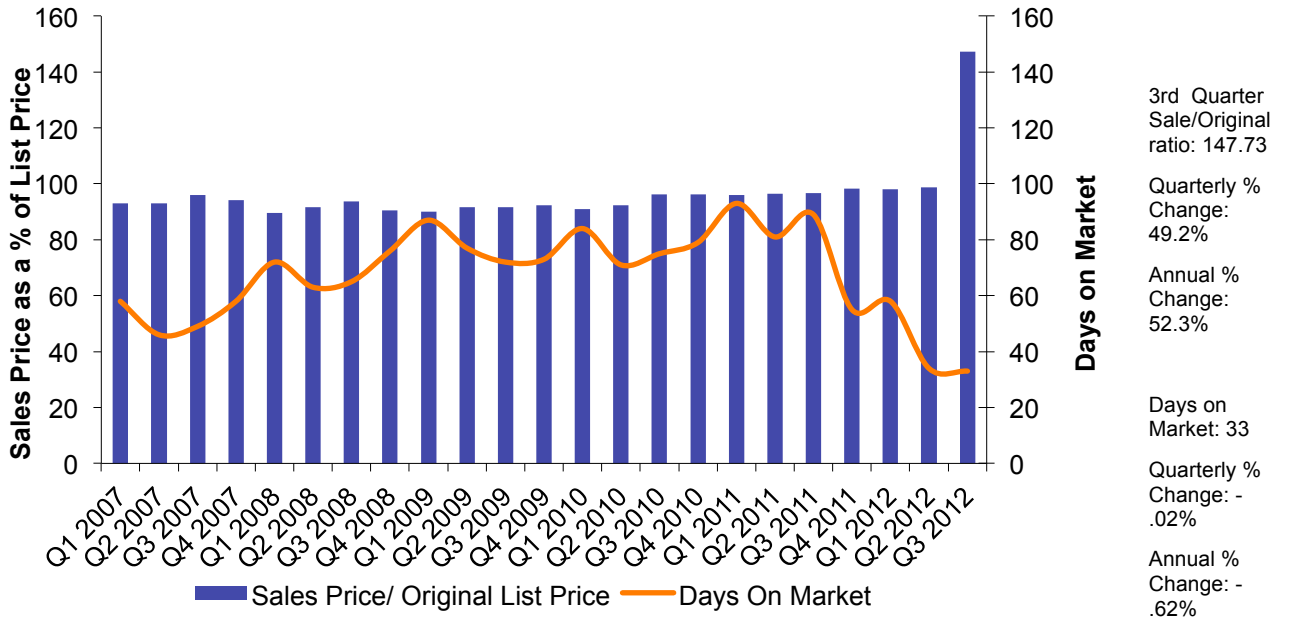


Source: RMLS

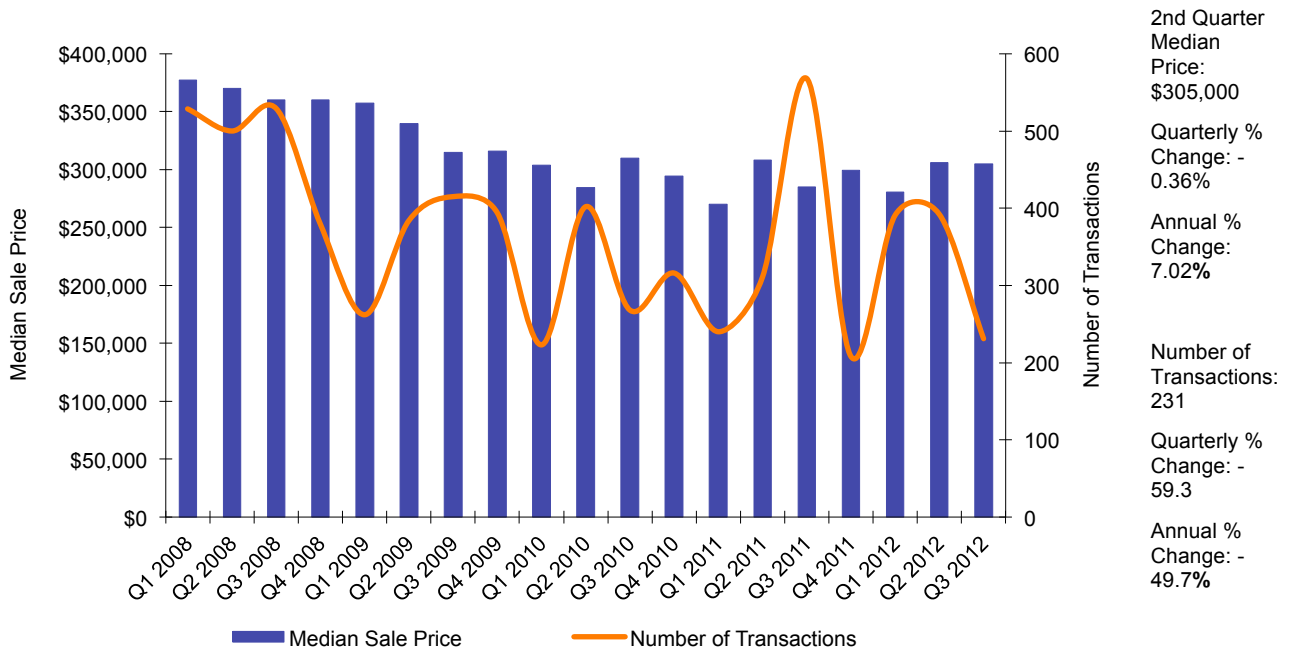
**Figure 6: Median Sales Price & Number of Transactions, Existing Detached Homes, Portland Metro (excluding Clark County, WA)**



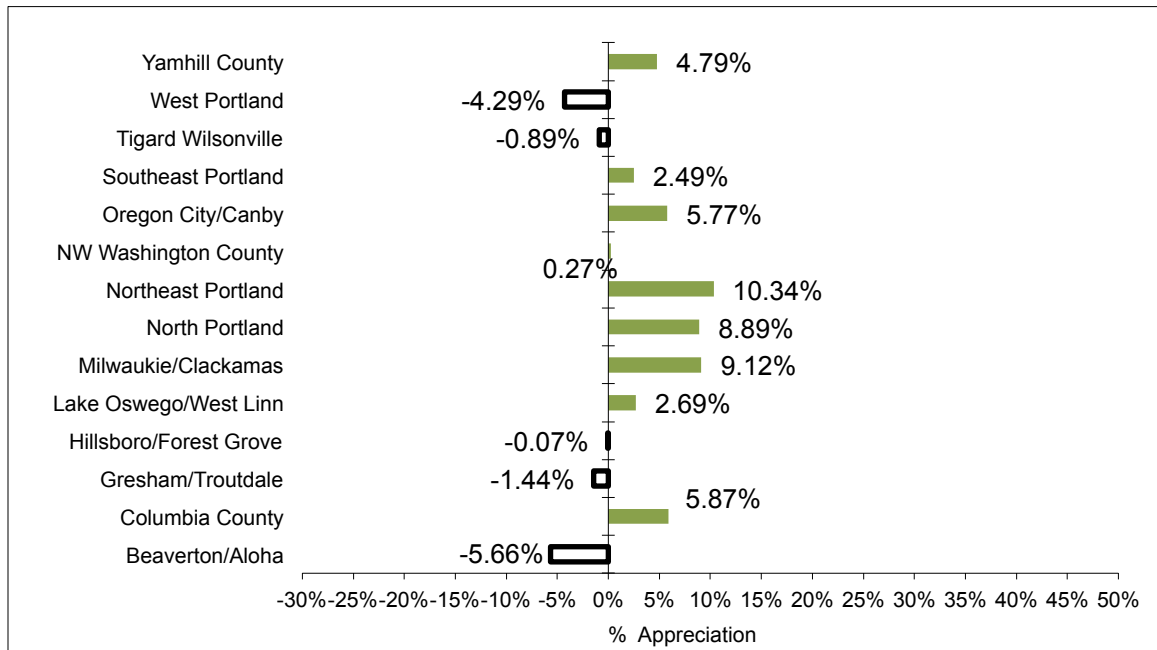
**Figure 7: Sale Price/Original List Price& Average Days on Market, Existing Detached Homes, Portland Metro (excluding Clark County, WA)**



**Figure 8: Median Sales Price & Number of Transactions, New Detached Homes, Portland Metro (excluding Clark County, WA)**



**Figure 9: Appreciation Rates of Existing New Detached Homes from Q3 2011 to Q3 2012, Portland Sub-Markets**

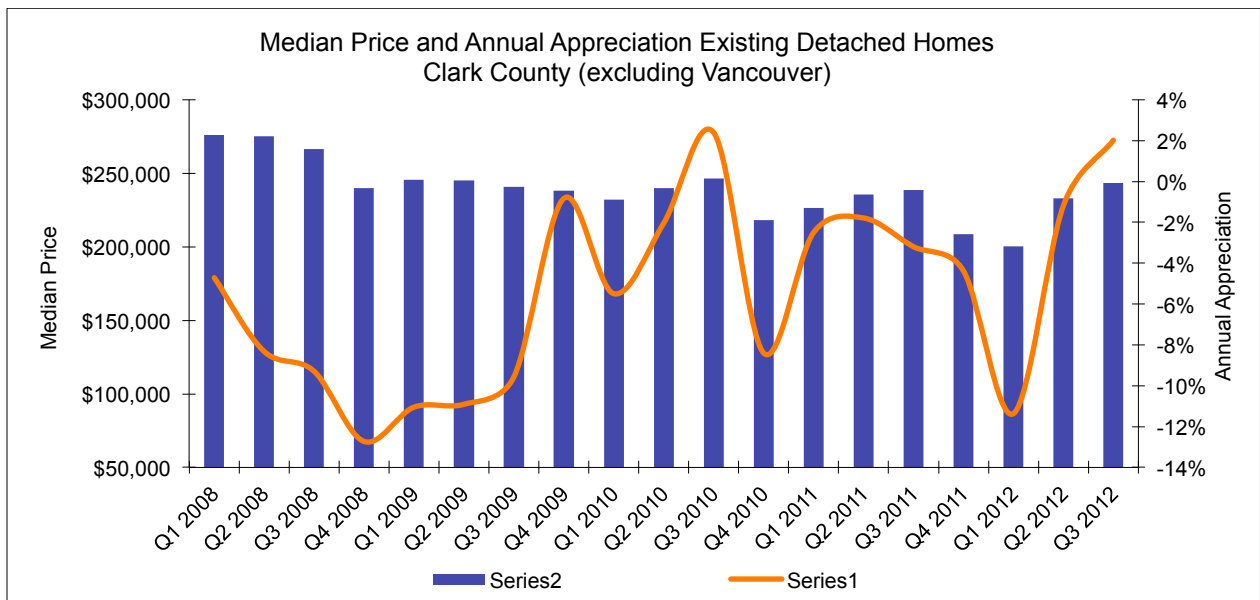


The Gresham / Troutdale submarket increased significantly at over 34 percent from second quarter 2011. West Portland also increased by 26 percent over the same period. The largest annual depreciation was experienced in Oregon City / Canby at 5.88 percent.

## VANCOUVER

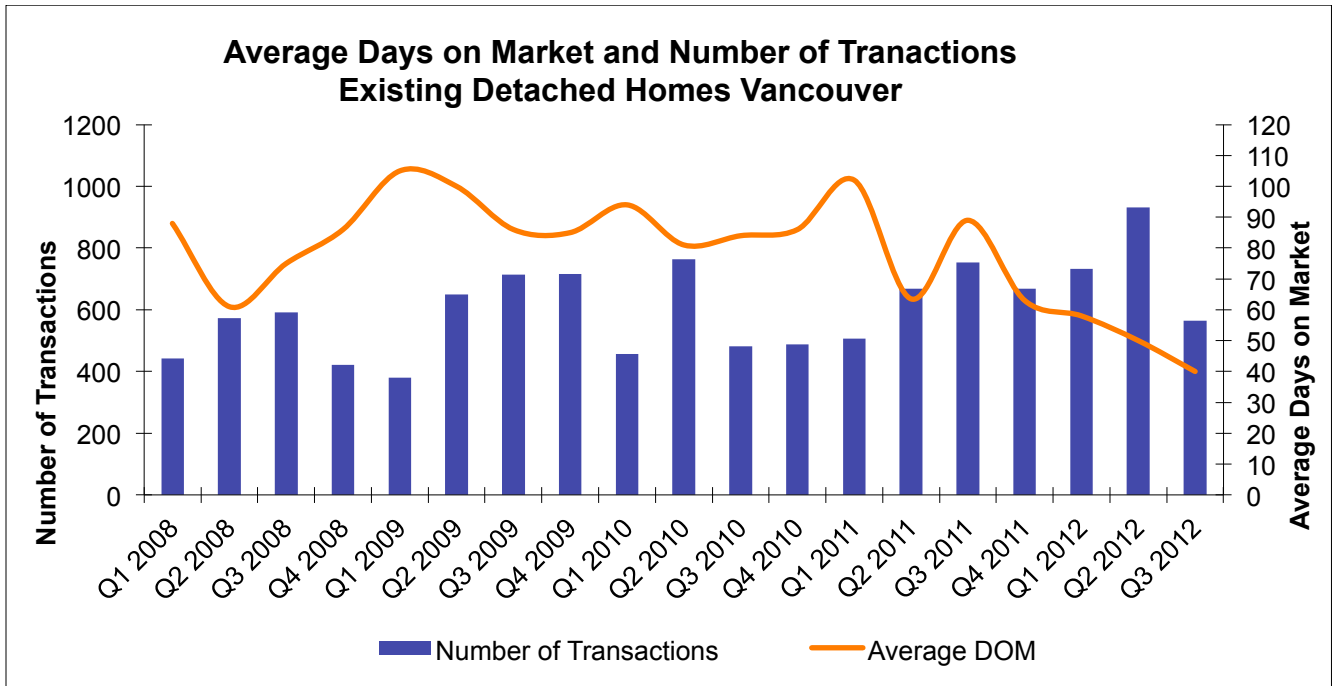
Vancouver’s median home price during 3<sup>rd</sup> quarter 2012 was \$192,500, a 9.3 percent increase from 2nd quarter 2012 when it was \$176,000. The number of homes sold in third quarter decreased by over 39 percent to 564 from the second quarter of 2012, and also decreased by 25 percent year over year. However, the number of days on the market decreased to 40 from 50 in the previous quarter and 89 in third quarter 2011.

**Figure 10: Median Price and Annual Appreciation Existing Detached Homes, Vancouver**



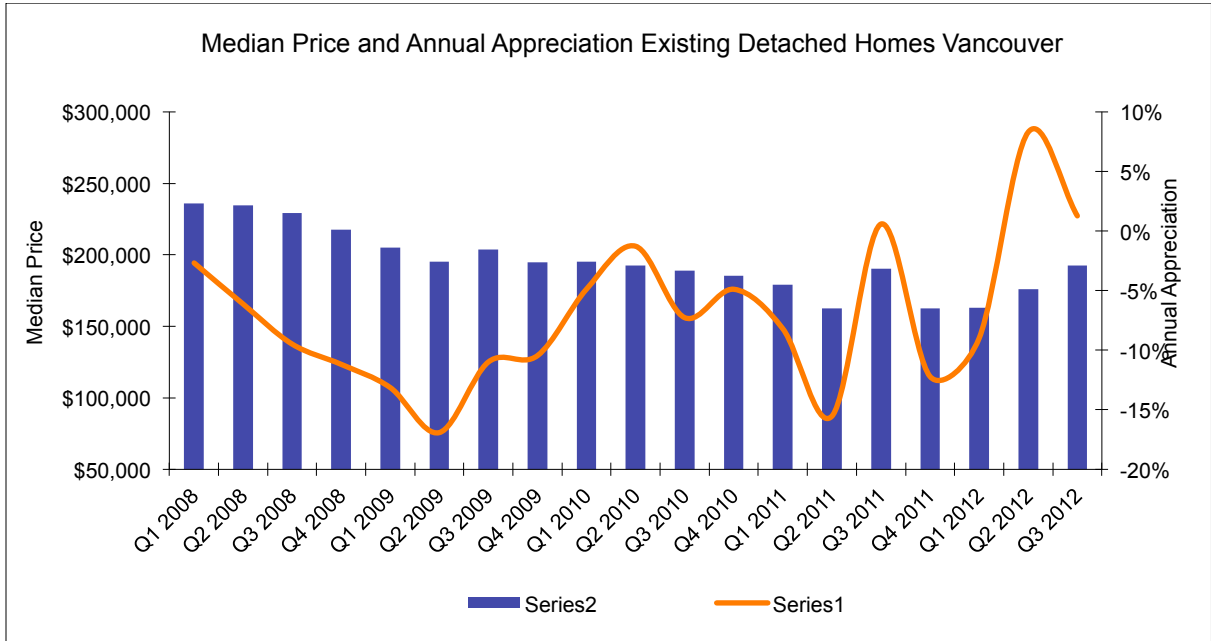


**Figure 11: Average Days on Market and Number of Transactions Existing Detached Homes, Vancouver**

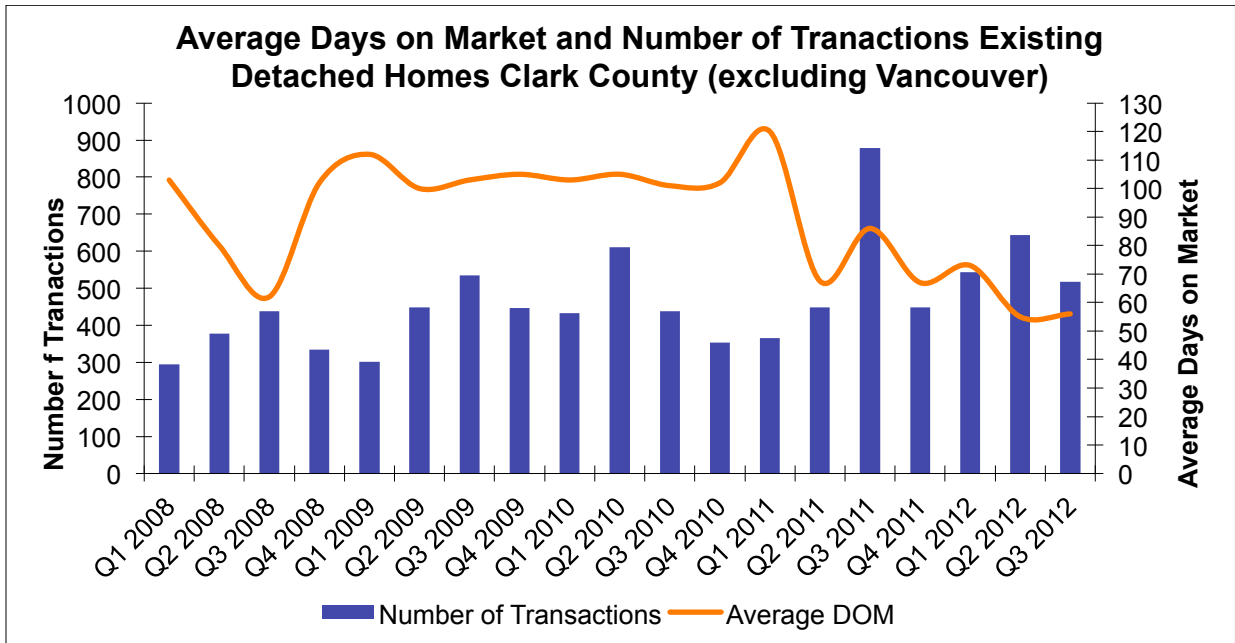


In the Vancouver suburbs, the median home price was \$243,430, which was a 2 percent increase from the third quarter of 2011, and a 4.5 percent increase from the previous quarter. The number of transactions decreased 20 percent from last quarter to 518. Properties were on the market an average of 56 days which was up slightly from last quarter when it was 55, but a sharp decrease from 86 in third quarter 2011.

**Figure 12: Median Price and Annual Appreciation Existing Detached Homes, Clark County (excluding Vancouver)**



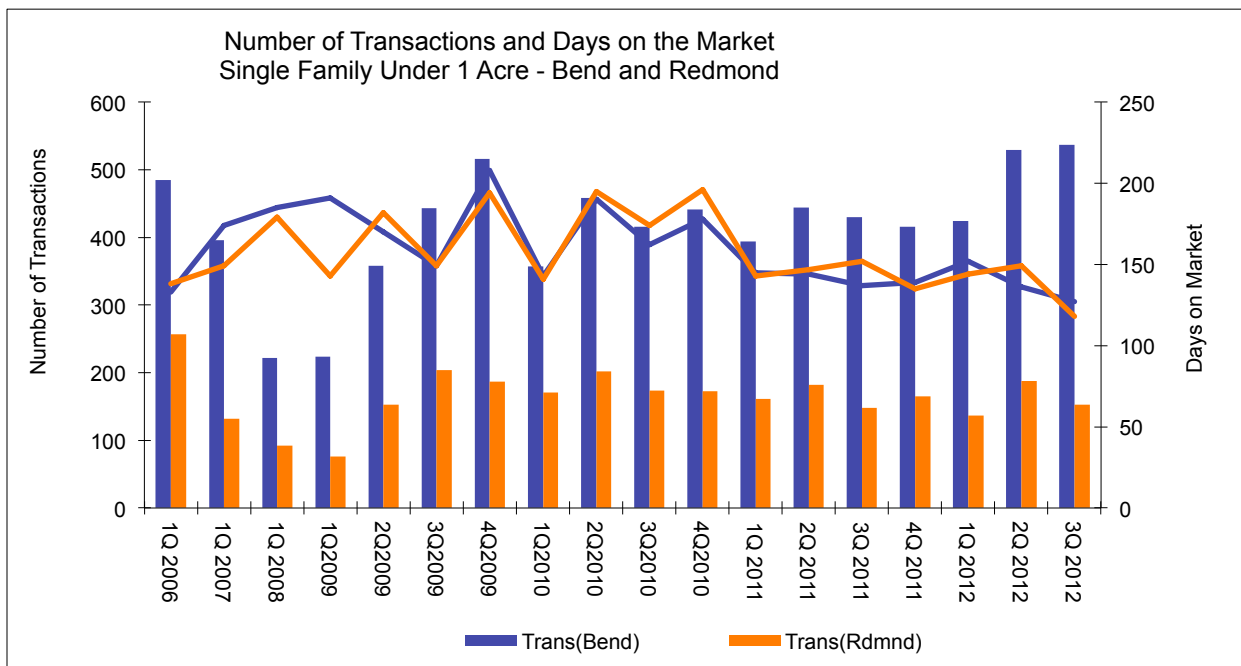
**Figure 13: Average Days on Market and Number of Transactions Existing Detached Homes Clark County (excluding Vancouver)**



### CENTRAL OREGON

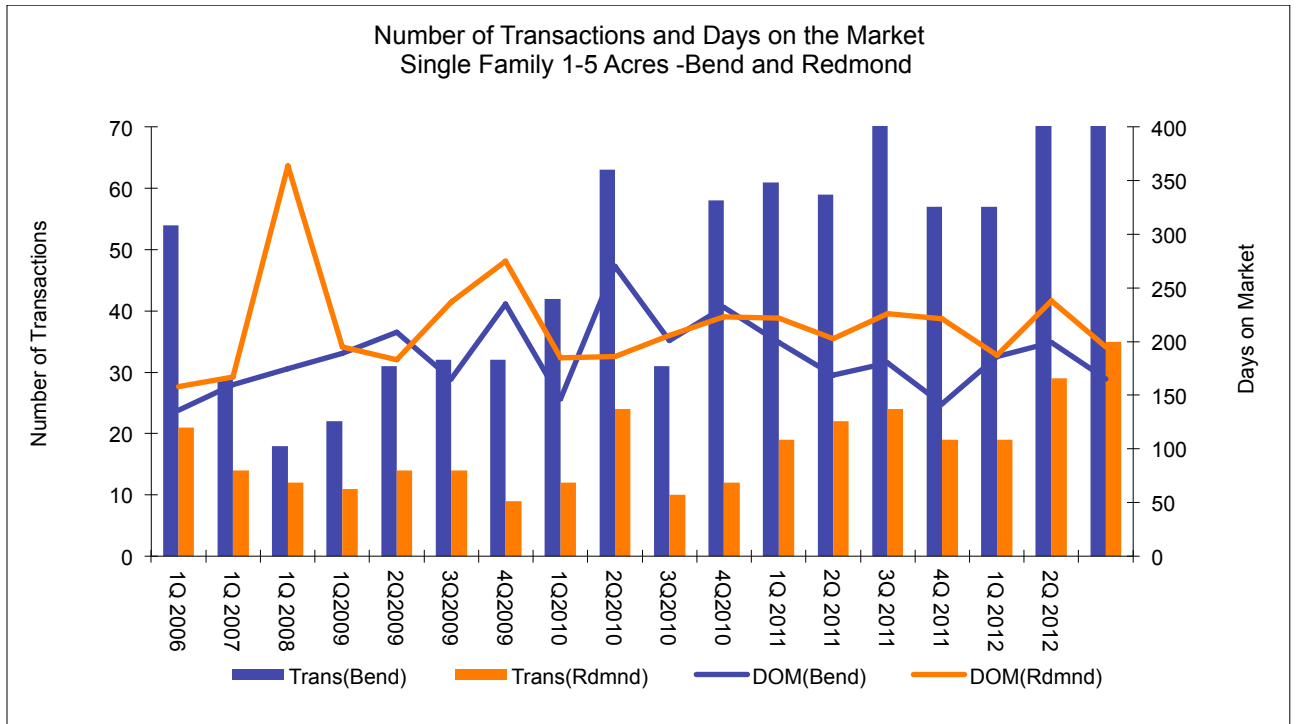
Bend home sales less than one acre increased 1.5 percent to 537 while Redmond's decreased 18.6 percent to 153 in the third quarter on homes sold less than one acres. On the other hand, sales volume for homes on 1-5 acres increased by 33 percent in Bend and 20 percent in Redmond. There were 96 transactions in Bend and 35 in Redmond. For homes on less than one acre, the average number of days on market decreased slightly to 127 in Bend and also decreased to 118 days in Redmond. In Central Oregon's reports, the housing stock is separated by lot size, properties under one acre and those between one and five acres. Price per square foot data is provided to control for lot size between both categories.

**Figure 14: Number of Transactions and Days on the Market, Single Family Under 1 Acre, Bend and Redmond**



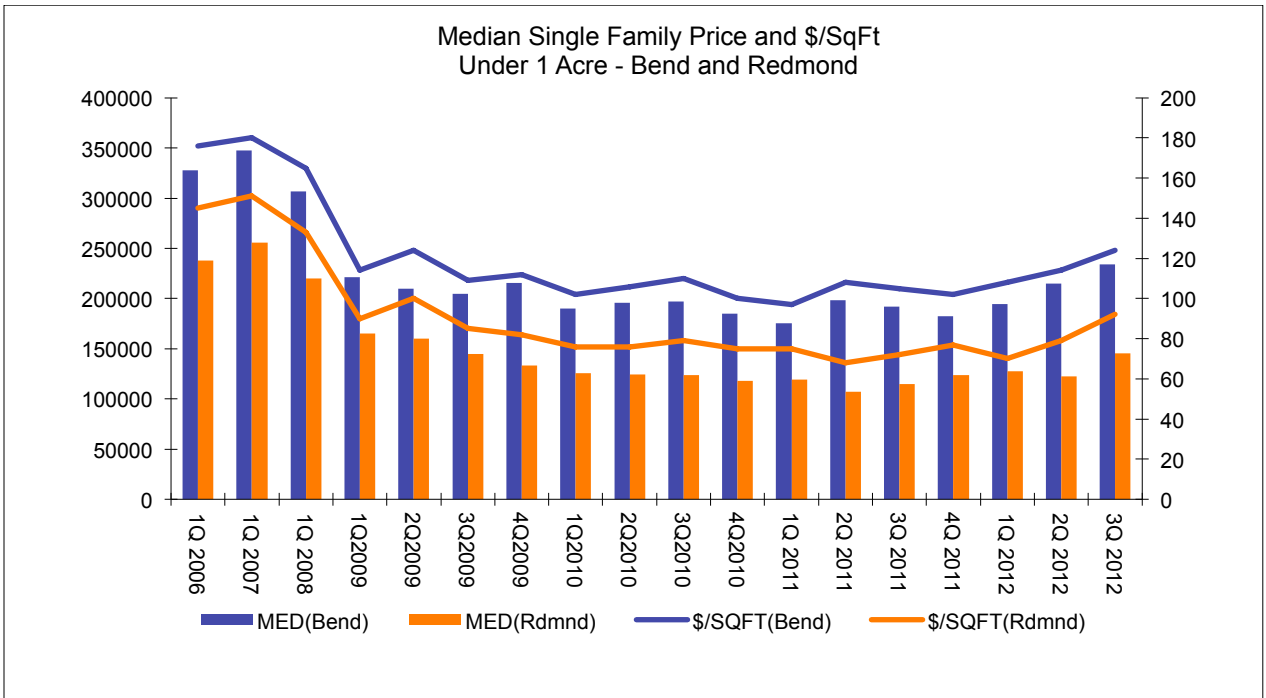
Source: Central Oregon Association of Realtors

**Figure 15: Number of Transactions and Days on the Market, Single Family Over 1 Acre, Bend and Redmond**

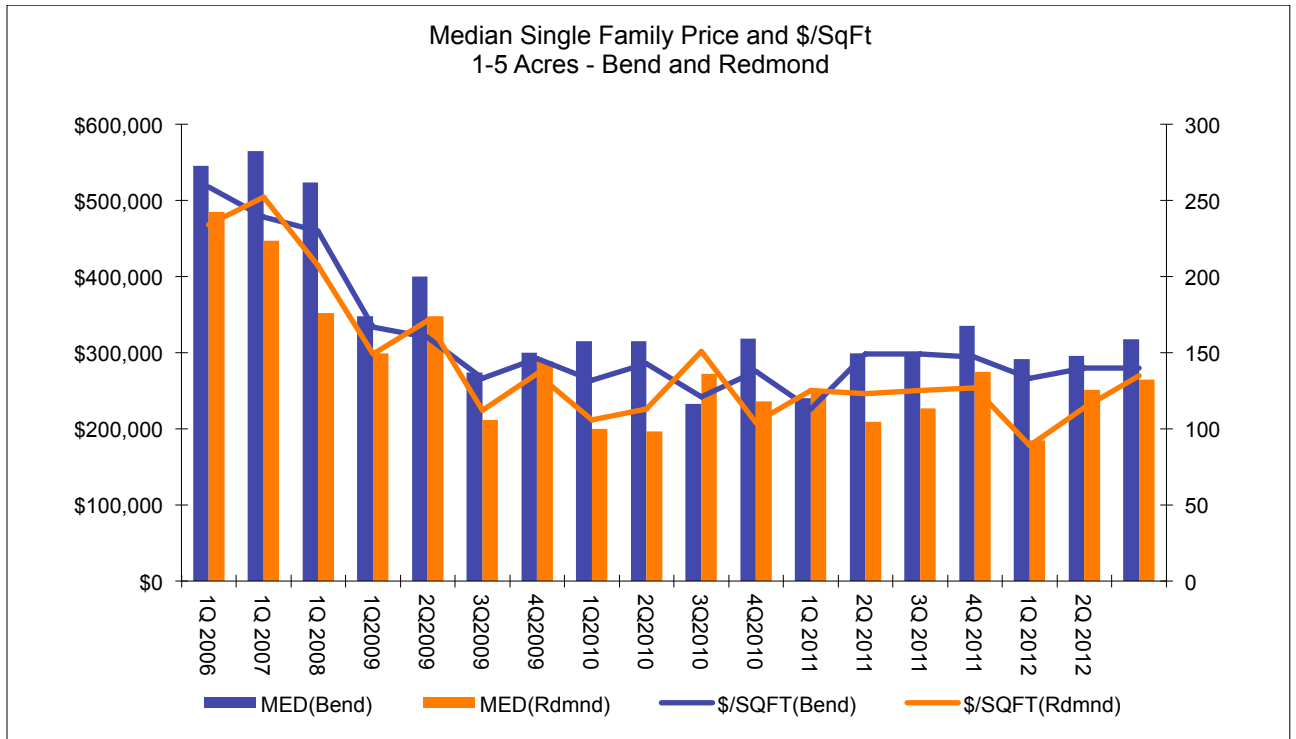


For sales under an acre, the median home prices for Bend and Redmond both increased during the third quarter of 2012. Over the past year the Bend market under and acre increased by 21.7 percent and the Redmond market increased 26.3 percent for home sales under an acre. For sales over one acre, Bend increased 6.7 percent while Redmond increased by 16.8 percent since third quarter of 2011.

**Figure 16: Median Single Family Price and \$/SqFt Under 1 Acre, Bend and Redmond**



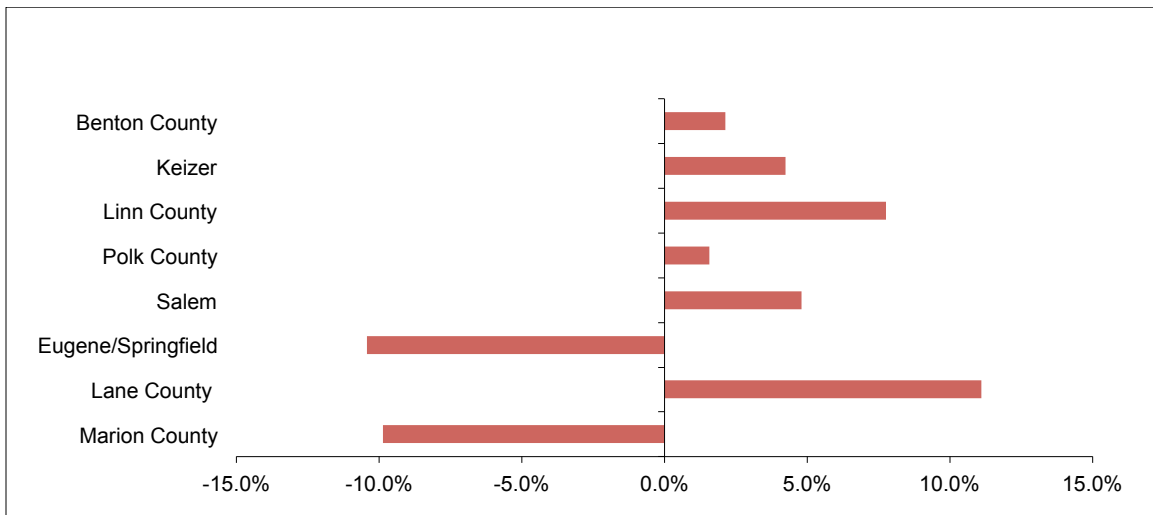
**Figure 17: Median Single Family Price and \$/SqFt, Over 1 Acre, Bend and Redmond**



**WILLAMETTE VALLEY**

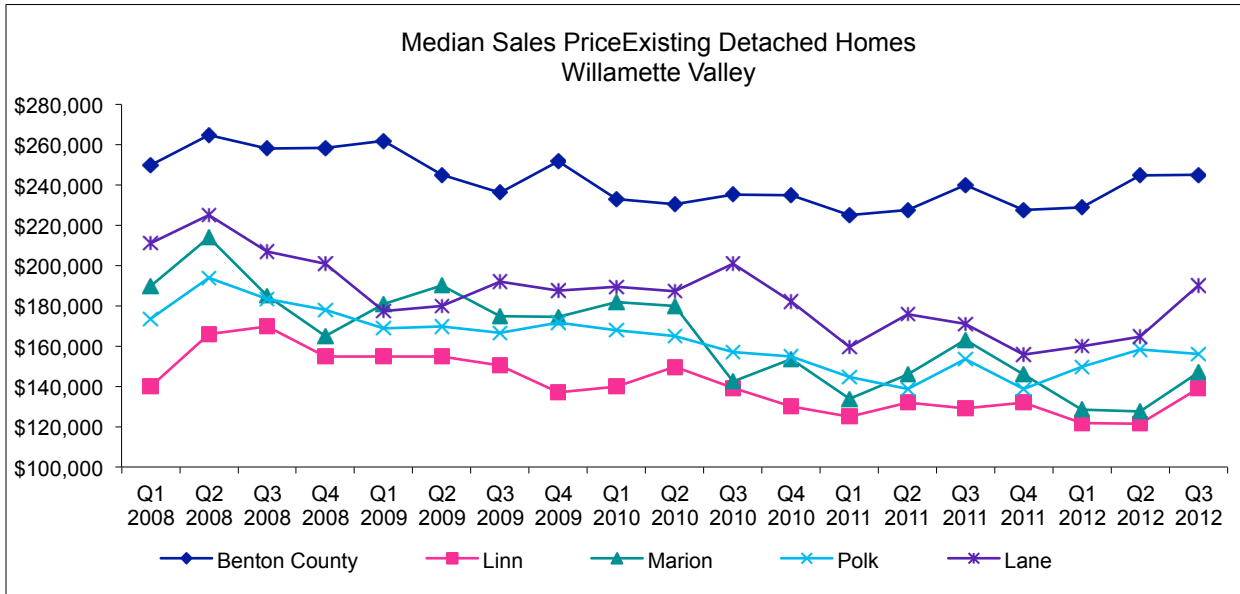
Marion County sales prices decreased 9.9 percent since the third quarter of 2011 to a median sold price of \$147,000. Salem and Keizer increased year over year by 7.7 percent and 2.2 percent respectively. Benton County increased 2.1 percent over the past year to a median price of \$245,000.

**Figure 18: Annual Appreciation Rates of Existing Detached Homes, Willamette Valley from Q3 2011 to Q3 2012**



Source: Willamette Valley MLS

**Figure 19: Median Sales Price Existing Detached Homes, Willamette Valley**

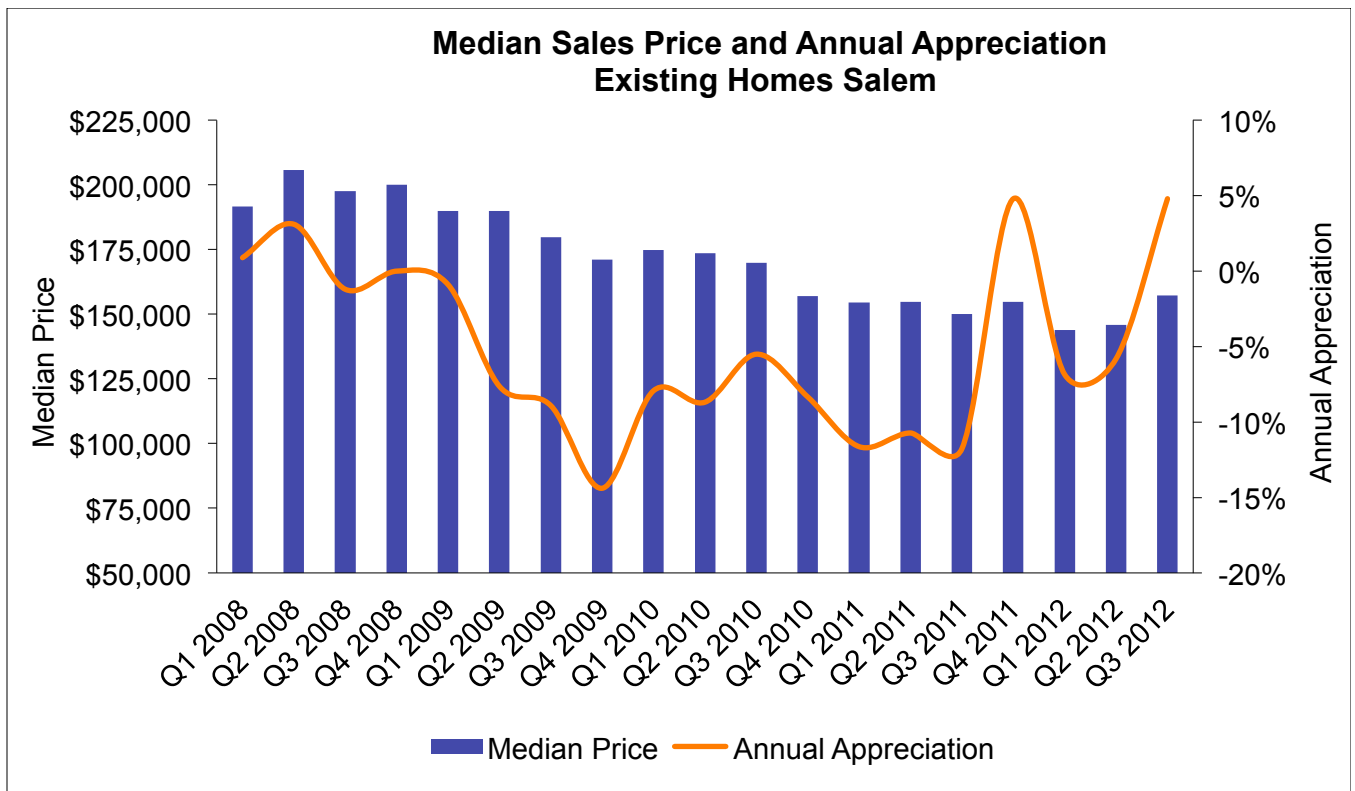


Source: Willamette Valley MLS

**SALEM**

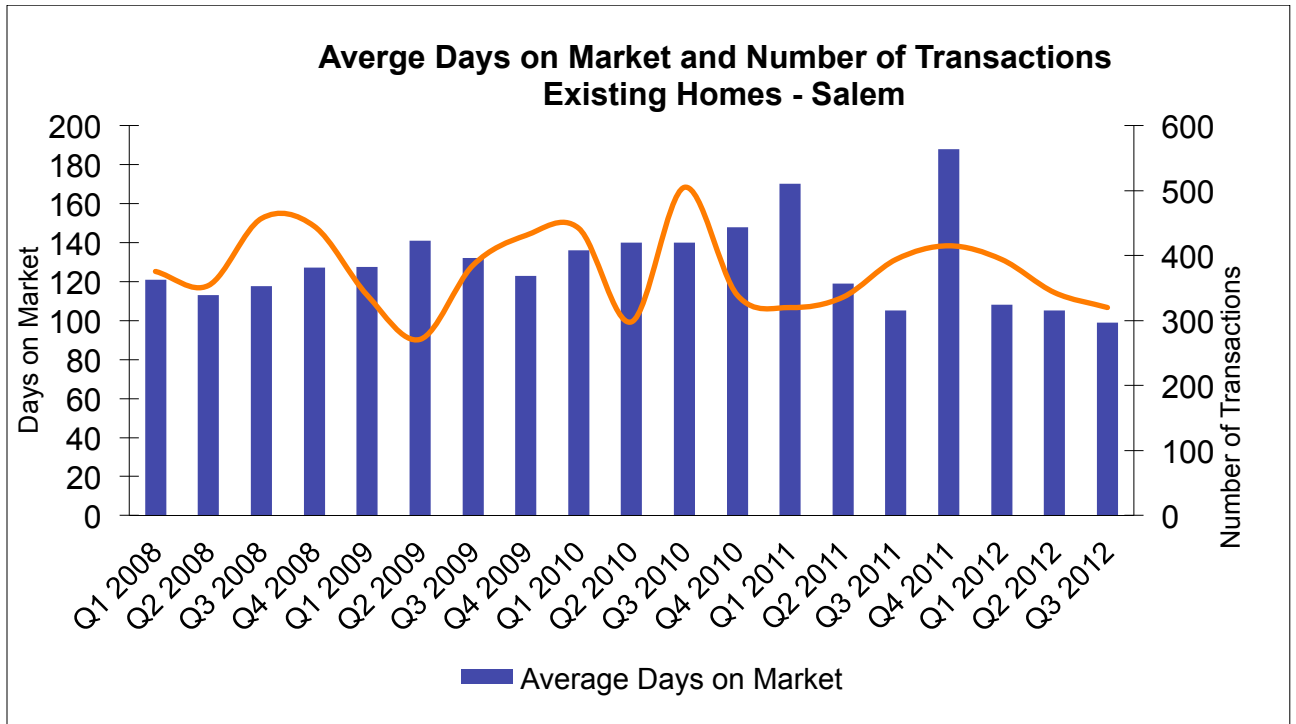
Salem’s housing market again experienced annual depreciation of 4.8 percent year over year in the third quarter and the number of days on the market decreased. The median sale price increased to \$157,200 and the number of transactions increased by over 23 percent from the third quarter of 2011. The average number of days on market decreased from 105 in the second quarter to 99 in the third quarter of 2012.

**Figure 20: Median Sales Price and Annual Appreciation, Existing Homes, Salem**





**Figure 21: Average Days on Market and Number of Transactions, Existing Homes, Salem**

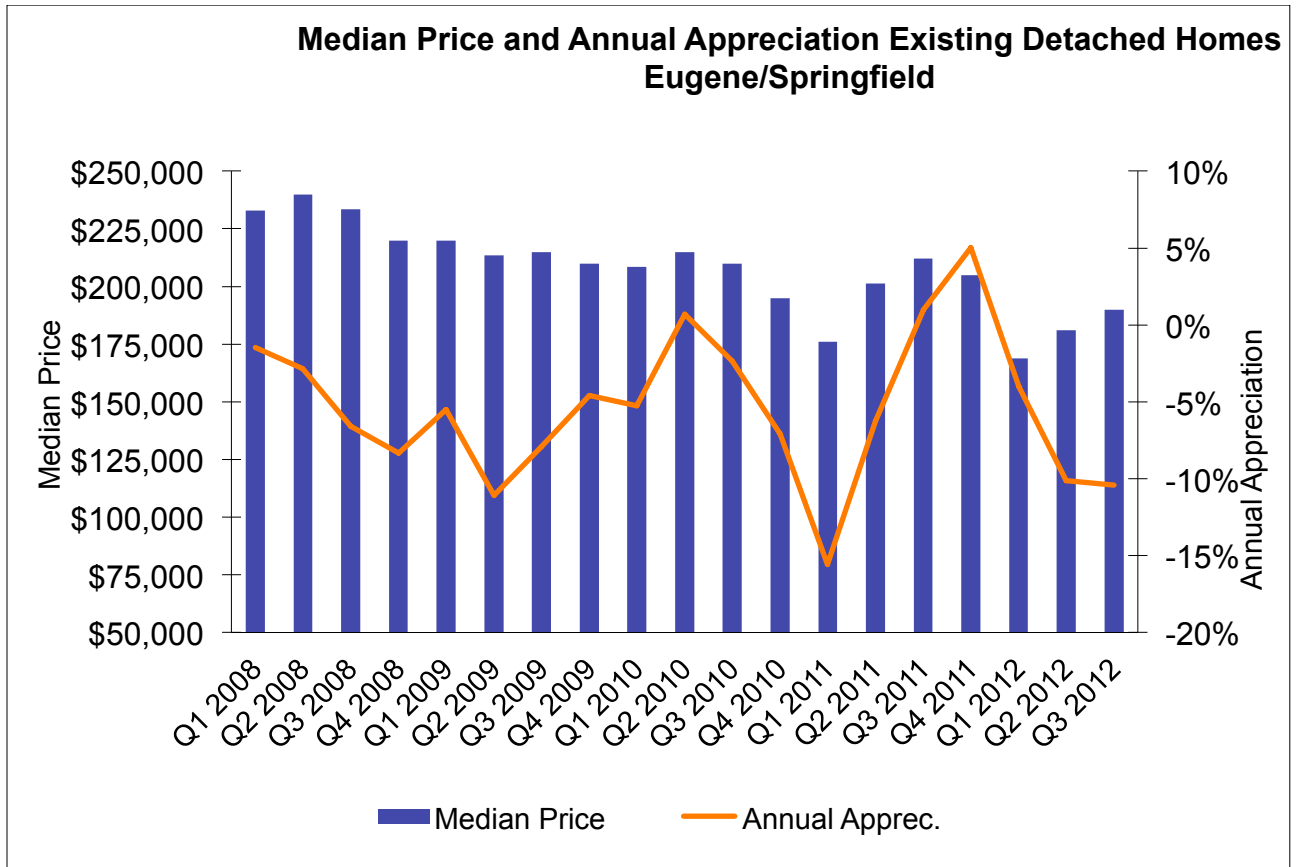


**EUGENE/SPRINGFIELD**

Home prices in the Eugene/Springfield area increased 5 percent from the second quarter of 2012 to \$190,000. Values decreased 10.42 percent since the third quarter of 2011.

Lane County prices decreased 6.8 percent from the previous quarter to a median price of \$191,000. They increased year over year by 11.11 percent from \$171,000 in third quarter of 2011.

**Figure 22: Median Price and Annual Appreciation Existing Detached Homes, Eugene/Springfield**



Source: RMLS

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## MULTIFAMILY MARKET ANALYSIS

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EVAN ABRAMOWITZ

RMLS Student Fellow

Master of Real Estate Development Graduate Student

The apartment market in Portland remains strong as vacancies remain low, but many new projects are coming soon. Since 4<sup>th</sup> quarter 2010 Portland area rents have increased 6 percent to 7 percent annually. Strong rental demand has persisted as fewer buyers are drawn to the single-family market. According to the 2012 Barry Report: “The apartment market has everything going for it, with increasing rents, increasing income, low vacancies, financing which is readily available, relatively slow apartment construction, and good investor demand.” The report projects stronger performance in the market in 2012 and 2013 and forecasts that we are in the midst of a “two to four year sweet spot in the market and the real estate cycle.” In the past three years the vacancy rate has declined from 5.9 percent to 3.6 percent.

On the supply side, construction for multifamily in 2012 has increased significantly from 2011 and 2010, but is still below historical figures. From January to September there have been multifamily building permits issued for 2,083 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 to 2008 an average of 4,700 units came online annually. Half of the units being built are in the close-in areas where vacancy is lowest. The high demand for rentals is expected to persist over the next several years and absorb the new construction

■ 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.

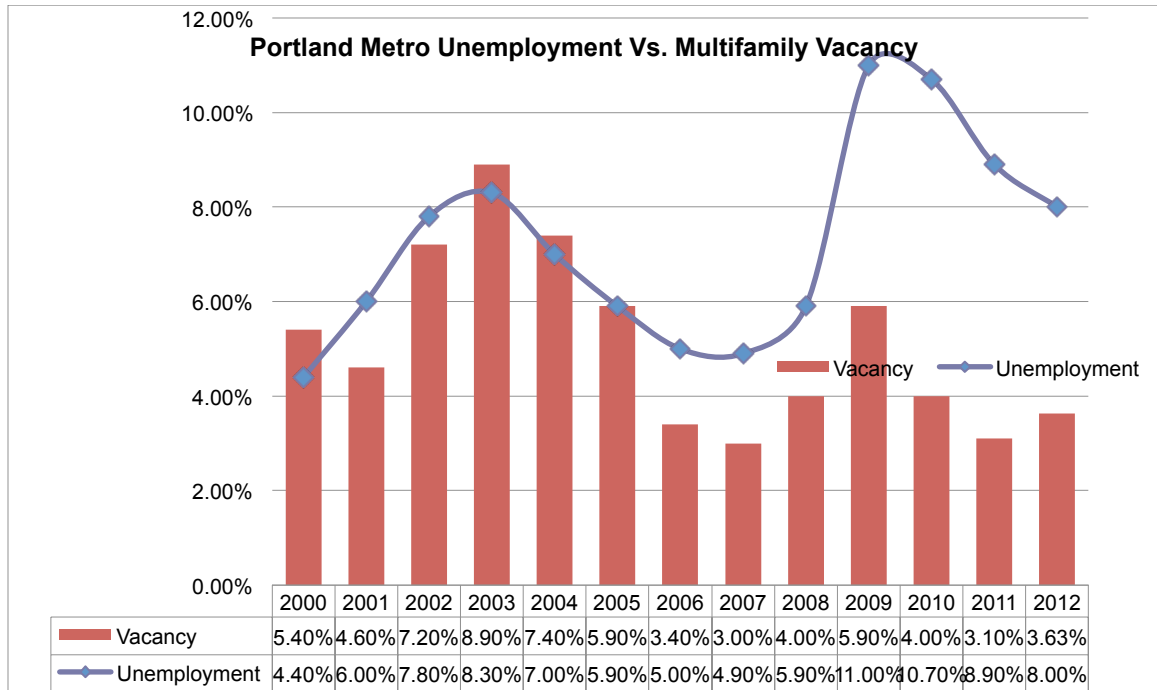
projects. New construction has begun to ramp up as more projects are approved in the coming year. The market is projected to remain in balance absorbing approximately 2,000 units annually over the next three or four years, and vacancy rates are projected to remain low and market conditions should remain strong for property owners.

The U.S. apartment market finished the third quarter with an annual effective rent growth rate of 3.64 percent in September, while the occupancy rate climbed to 94.55 percent, according to Axiometrics Inc, an apartment market research company. Revenue growth, which combines the effective rent and occupancy growth into one number, measured 1.05 percent from the beginning to the end of the third quarter, as compared to 1.08 percent over the same period in 2011.

The question going forward is how the apartment market will perform as new supply continues to enter the market at an increasing pace,” said Jay Denton, vice president of research for Axiometrics. “The delivery number will continue to escalate for the foreseeable future as it climbs back to the relatively stable level the apartment market experienced from 1999 to 2008. Because of seasonality, as well as some potential impact from new supply, we expect year-to-date (YTD) effective rent growth to decline the rest of this year and finish near 3.60 percent in December.”

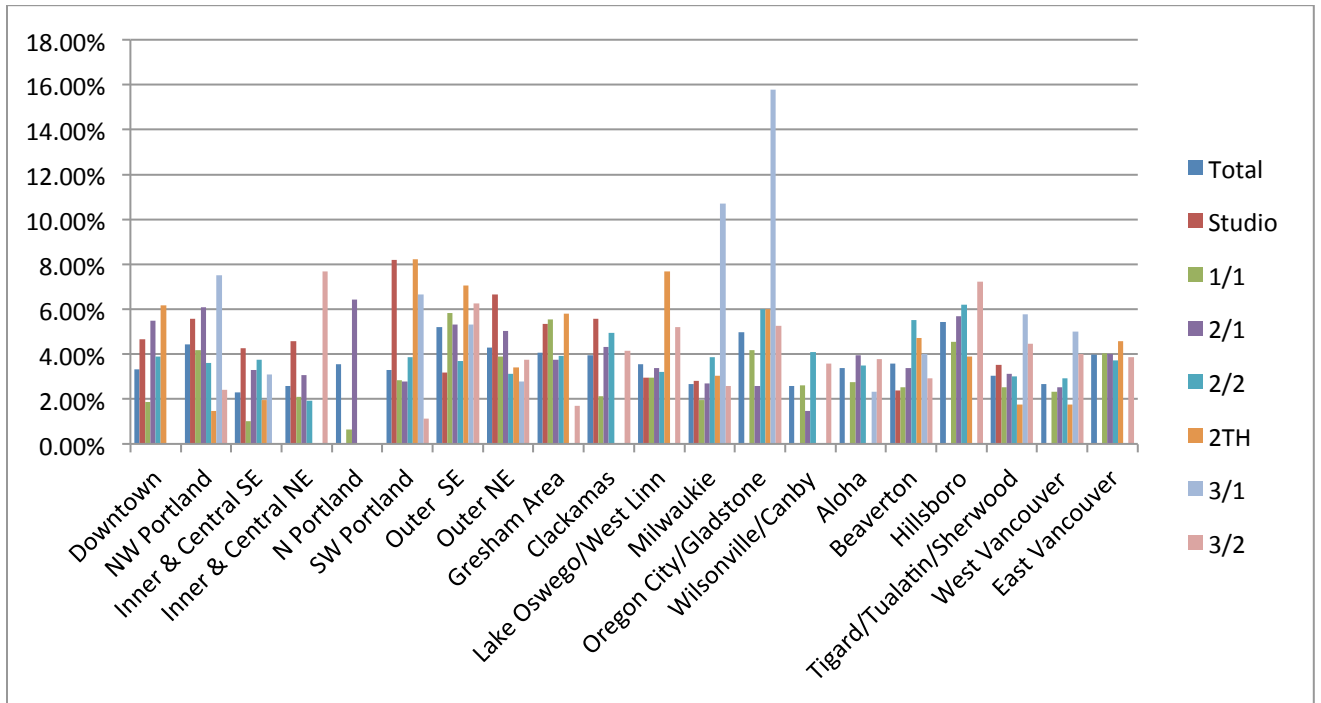
Unemployment rates are positively correlated with vacancies as shown in the chart below. Portland currently has an unemployment rate of 8.0 percent, which is lower than the state average of 8.9 percent but higher than the national average of 7.8 percent. There were approximately 12,400 jobs added in the Portland area between January-September 2012, according to the Portland Business Journal.

**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 5.42 percent in Hillsboro and the lowest was Inner & Central SE at 2.29 percent. The highest vacancy rate among studios was SW Portland at 8.2 percent, while four submarkets reports 0 percent vacancy for studios. The highest vacancy rate for 1 BD, 1 BA was Outer SE at 5.83 percent, while the lowest was N Portland with 0.65 percent. For 2 BD, 1 BA the highest vacancy was N Portland at 6.44 percent and the lowest was Wilsonville / Canby at 1.48 percent. Six submarkets had a 0 percent vacancy rate among 3 BD, 1 BA, but many of these were based on less than 100 units surveyed, as 3 BD / 1 BA units are relatively unusual. Downtown, N Portland, and Inner NE reported 0 percent for 3 BD / 2 BA, while Inner NE had a 7.69 percent vacancy rate for 3 BD / 2 BA.

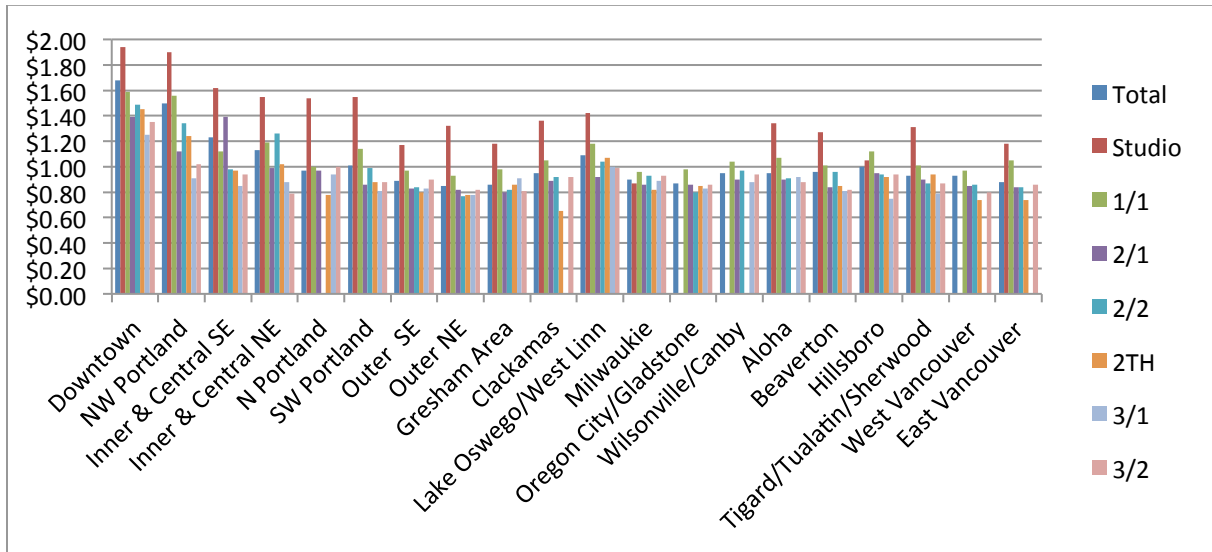
**Figure 2: Vacancy Rates by Submarket Fall 2012 Portland Metropolitan Area**



Source: MMHA

The submarket with the highest overall rent/SF is downtown Portland with a \$1.68 average, followed by NW Portland at \$1.50. 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 \$1.94 and the lowest was Milwaukie at \$0.87. The highest rent/SF for 1 BD, 1 BA was Downtown at \$1.59 and the lowest was Outer Northeast at \$0.93. The highest rent/SF for 2 BD, 1 BA was downtown at \$1.39 and the lowest was \$0.80 in the Gresham area.

**Figure 3: Rent / SF by Submarket Fall 2012 Portland Metropolitan Area**



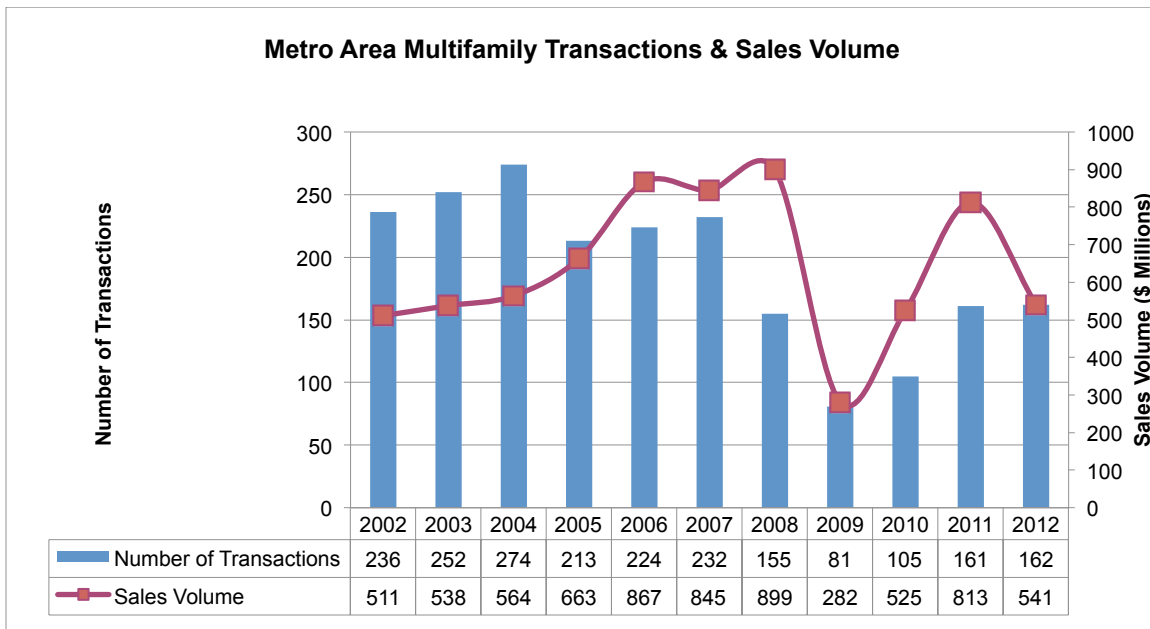
Source: MMHA

In 2011 there were 26 institutional transactions, which was the highest total in ten years, according to MMHA. This trend is not projected to continue as the majority of the product in Portland is Class B and C quality properties based on location and condition of the building. 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 third quarter the sold price per unit was \$71,400. The average number of units sold per property was 28 in second quarter 2012 and 32 in the third quarter.

There have been ten deals thus far in 2012. In the third quarter the Alexan Villebois in Wilsonville (275 units) sold for \$30.4 million, Forest Rim in Tualatin (300 units) sold for \$42.1 million, Access 15 (202 units) in NE Portland sold for \$48.6 million, and Forest Creek (160 units) in NW Portland sold for \$25.7 million.

The number of transactions and sales volume has rebounded since 2009. In 2011 there were 161 transactions and \$813 million in sales volume compared with 105 transactions and \$525 million in 2010. This is 65 percent more transactions and 64 percent increase in sales volume. Through the end of September 2012, there have been 162 deals that have closed and \$541 million in volume, which already exceeds the volume transacted in 2010. Experts are projecting that the increases in sales volume and transactions will continue to be strong in 2012 and over the next several years.

**Figure 4: Multifamily Transactions and Sales Volume, Portland Metropolitan Area, September 2012 Year to Date**

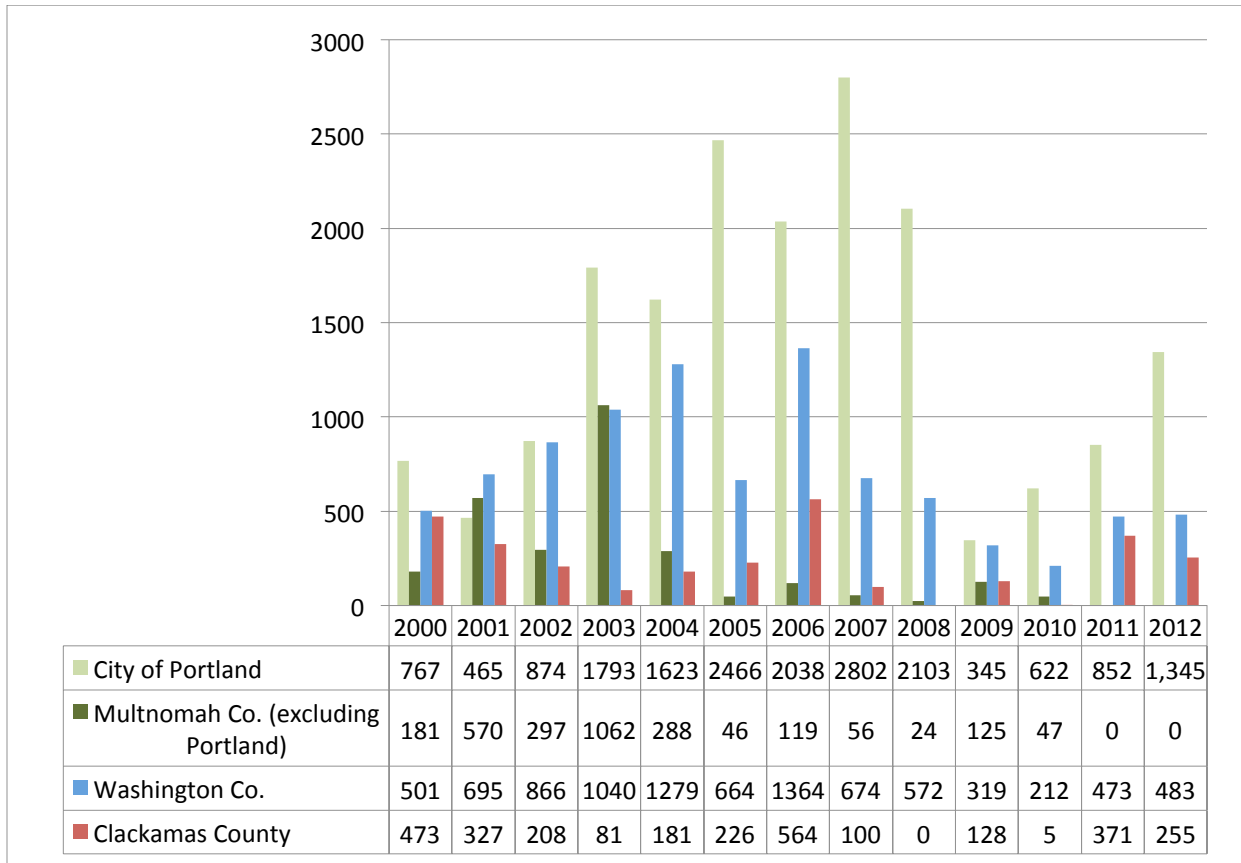


Source: Costar / Joseph Bernard Investment Real Estate

Through the first nine months of 2012, multifamily building permits have increased within the City of Portland. Permits have been issued for 1,345 multifamily units built in the City, which is already the highest total since 2008. In 2012, there are 21 new apartment projects with 2,619 units slated to open. There are approximately 2,924 market rate apartment units in 26 different complexes that are currently leasing up or under construction now and into 2013. The majority of projects are in the suburban west side and close-in eastside markets. These are the areas that have market rents that can support the high costs and risks associated with new construction. New development for multifamily rebounded in 2011 with a total of 1,696 units built. However this number is still significantly lower than 2003-2008. In order to get back in balance the market needs 5,000 to 7,000 apartment units, and it will take developers three years to produce this supply, according to the Barry Report.



**Figure 5: Multifamily Building Permits Issued, September 2012 Year to Date**



Source: US Census

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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 third quarter brought a continuation of positive trends in Portland's 2012 office market. The CBD and suburban markets all saw positive net absorption and slowly falling vacancy rates, signaling a slow but steady recovery from the recession. Demand driven by tech industries has been accompanied by other office-using industries, adding to the total office space occupied in the quarter. Speculative building remains low, as an ample supply of existing space is yet to be absorbed. Despite the slow recovery, vacancy rates remain high in many districts, keeping some developers on the sidelines.

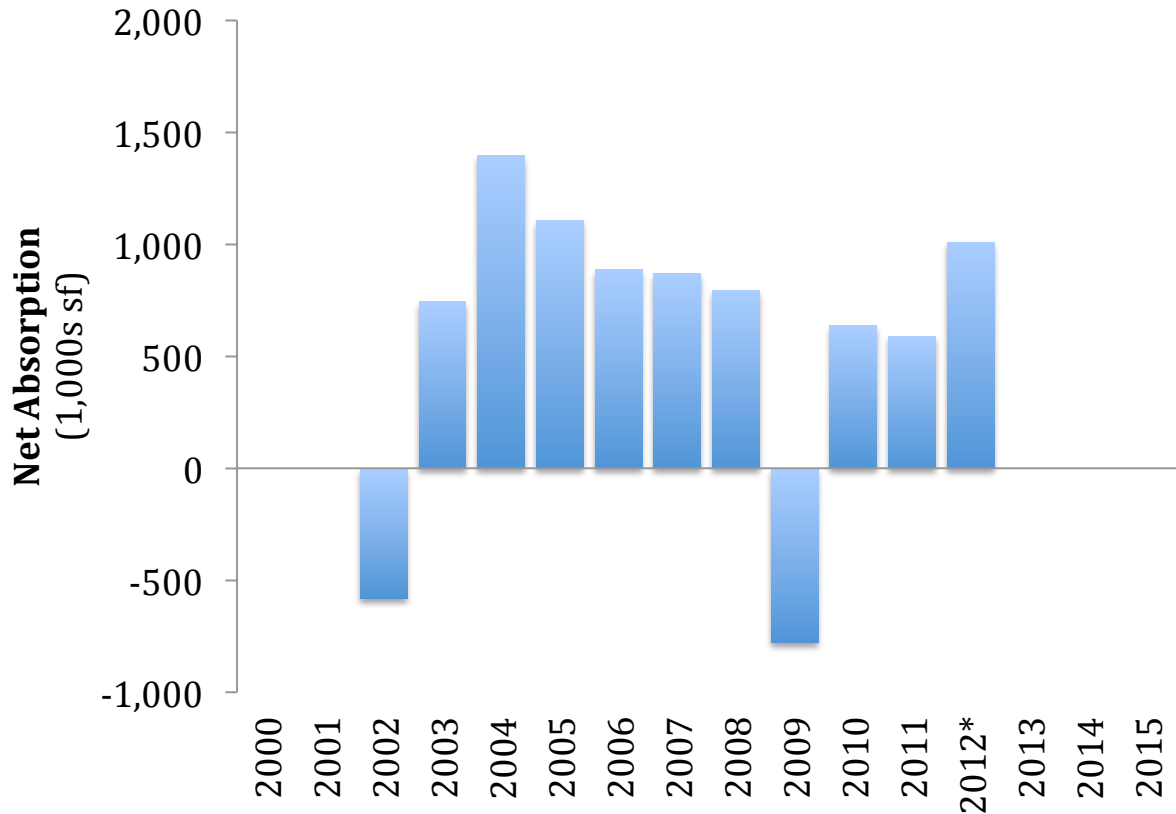
Parts of the U.S. economy have improved in the third quarter. Consumer confidence rose to its highest level in seven months in September. Despite these advances, much uncertainty remains for the American economy. The unemployment rate has stagnated between 8.1 percent and 8.3 percent in 2012, and has remained virtually unchanged in the third quarter. Growing concerns over the European debt crisis, unemployment and the impending election have all contributed to the slowdown of America's economic recovery.

Locally, a number of key leases and sales have helped to bolster the Portland economy. In August, software company Salesforce.com announced that it has chosen the Portland area for a new office. Local unemployment statistics remain relatively flat, with unemployment holding steady at 8.1 percent for the quarter.

■ 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.

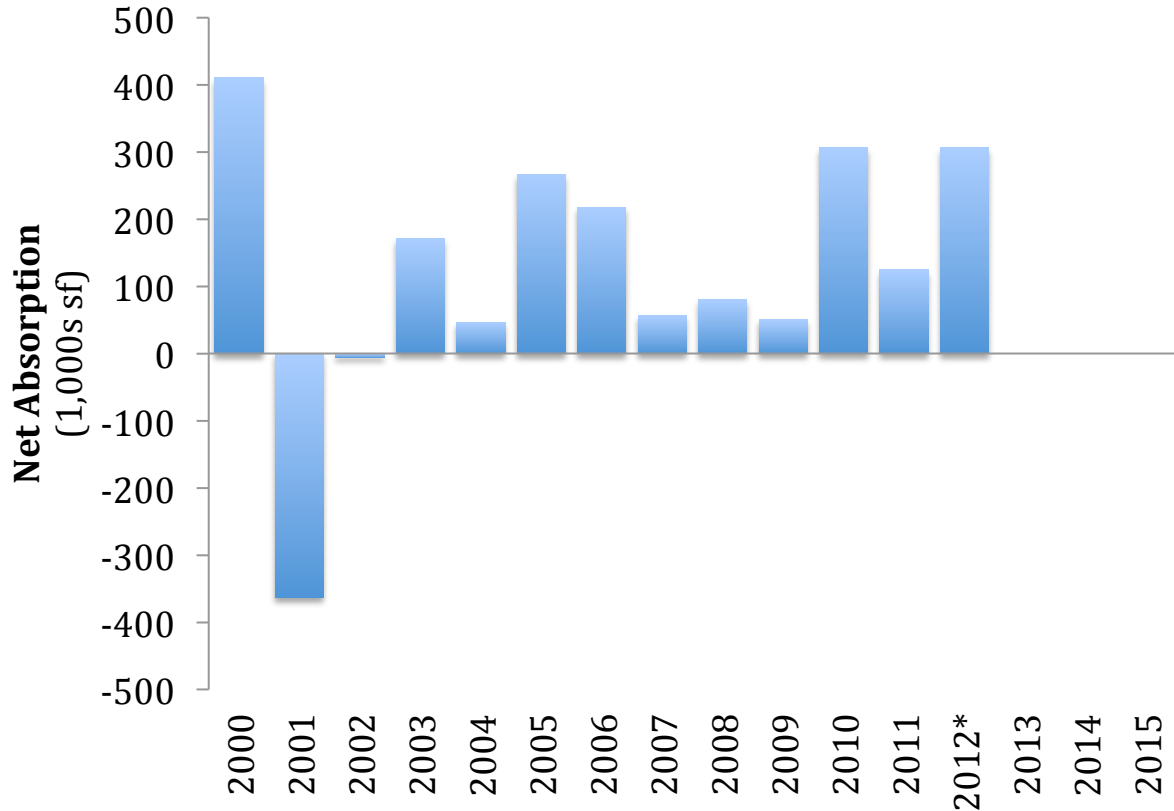
Nevertheless, a Brookings Institution report ranked Portland ninth in comparison with other American cities in overall economic strength. Overall, the economic news and statistics for the third quarter in the Portland office market support the conclusion that things are improving.

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



\*Year-to-date  
Source: Jones Lang LaSalle

In the office market, Jones Lang LaSalle reports a 6 basis point decrease in market-wide vacancy to 13.5 percent, down from 14.1 percent in the second quarter. YTD net absorption has pushed past the one million square foot mark for the first time since 2005. Most of this activity has been in the west suburbs, with the CBD responsible for less than 10 percent of this activity. Even so, the central city has benefitted from lower vacancy rates than most of the suburban markets.

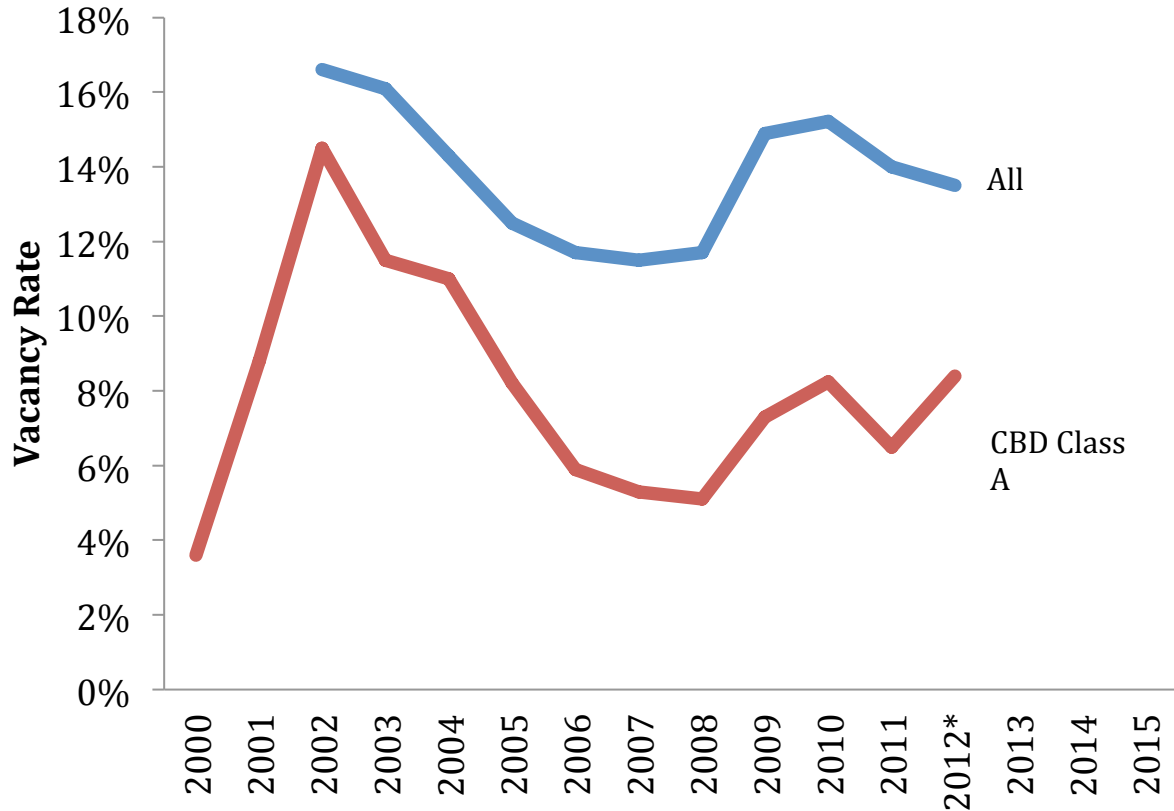
**Figure 2: Class A overall net absorption, Portland office market**

\*Year-to-date

Sources: Jones, Lang & LaSalle, NAI Norris, Beggs & Simpson, CBRE

Class A net absorption is 306,215 square feet according to Jones Lang LaSalle. This represents over half of the overall net absorption for the year to date. This number is expected to rise through the end of the year.

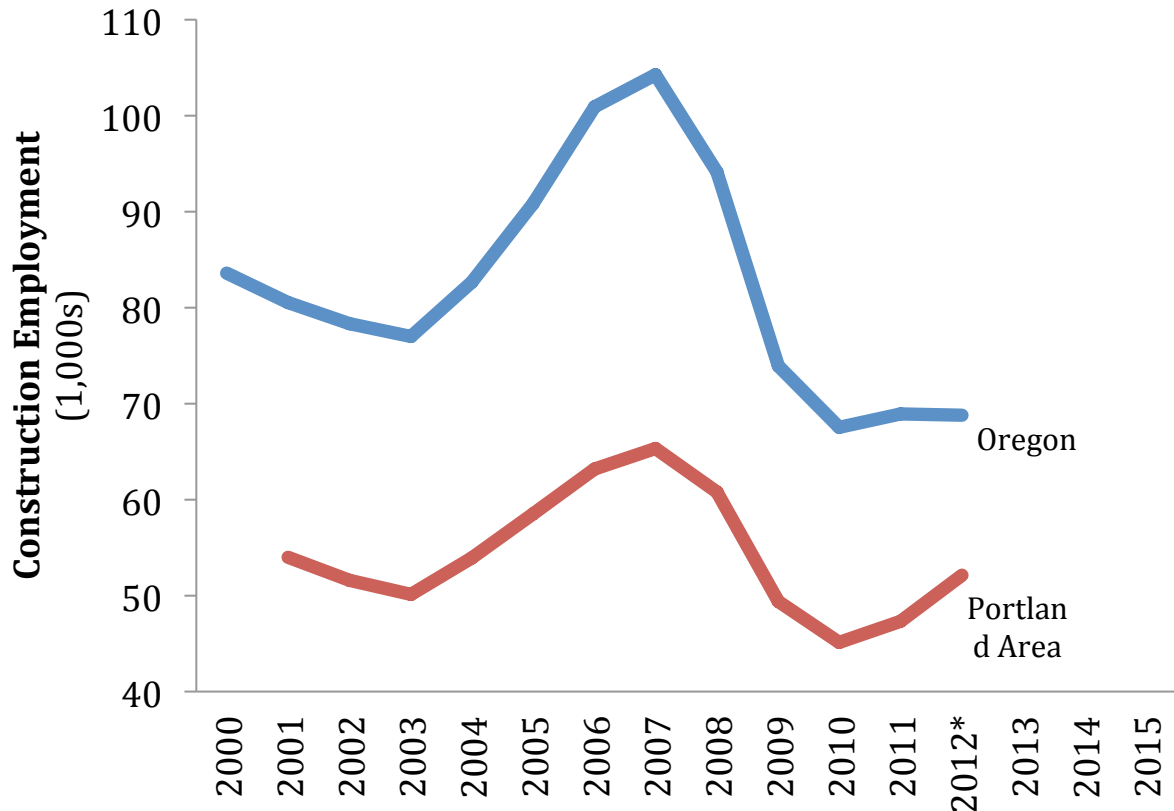
Overall vacancy rates in the CBD have been on the rise 2012 and have been increasing for the past 12 months. Adding to the Class A inventory will be the newly renovated Edith Green building, which will bring 323,000 square feet of LEED Platinum Class A office space to the Portland market. Net absorption in the CBD is strong, and demand for these types of spaces is expected to be robust.

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

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

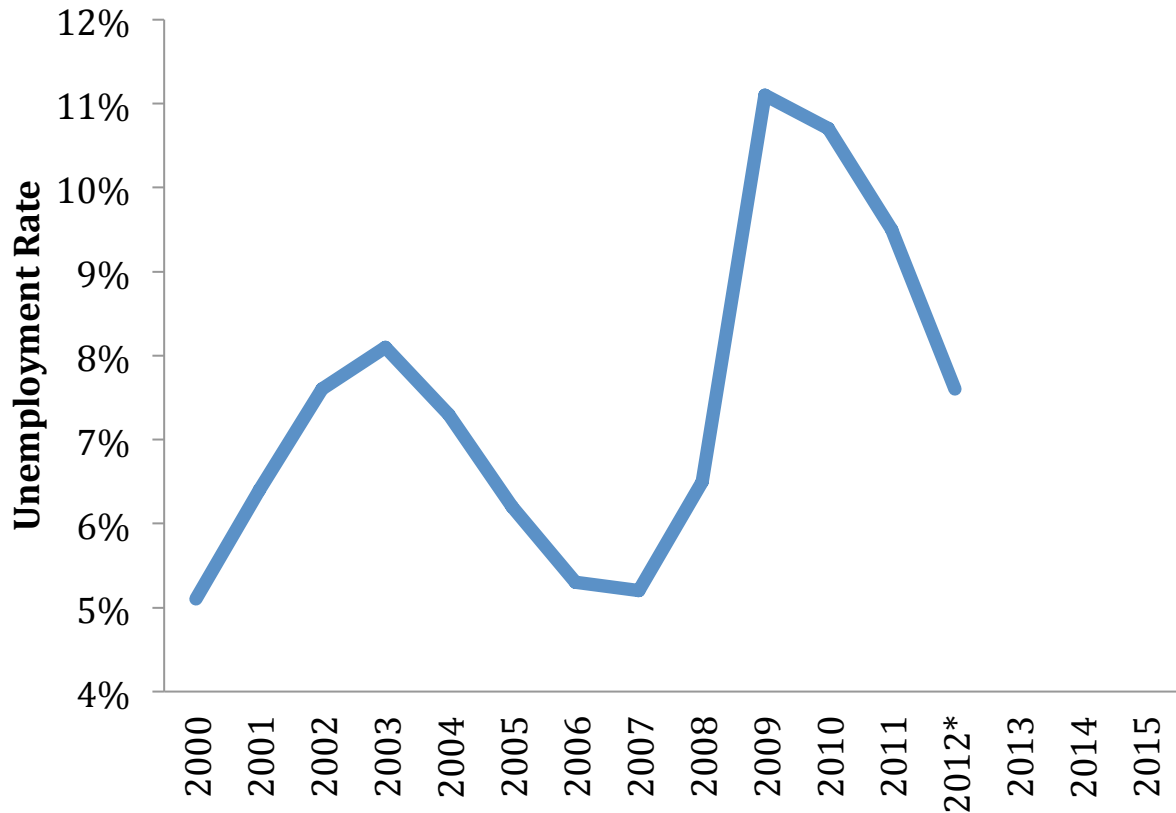
CBD vacancy rates have been steadily rising while submarket vacancy rates have been falling. Vacancy rates for class A space in the CBD have risen throughout 2012 as companies have relocated or vacated their spaces in favor of the suburbs or Pearl locations. Suburban office space rates have been more affordable since the recession, with vacancy rates holding at above 20 percent. Vacancy rates are expected to remain steady or rise in the CBD with the impending completion of the Edith Green building.

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



Source: Oregon Employment Department

Construction employment is currently at a seasonally adjusted 68,800, with the Portland metro area accounting for 52,100 of these positions. Since the end of the second quarter, Portland has seen a slight rise in construction employment while the state has seen a slight dip. Current construction on the new transit bridge south of the Markham bridge is expected to continue into 2014 with substantial completion scheduled for that year. Multifamily projects conceived during the earlier months of 2012 are expected to break ground soon, adding to the number of construction jobs in the area.

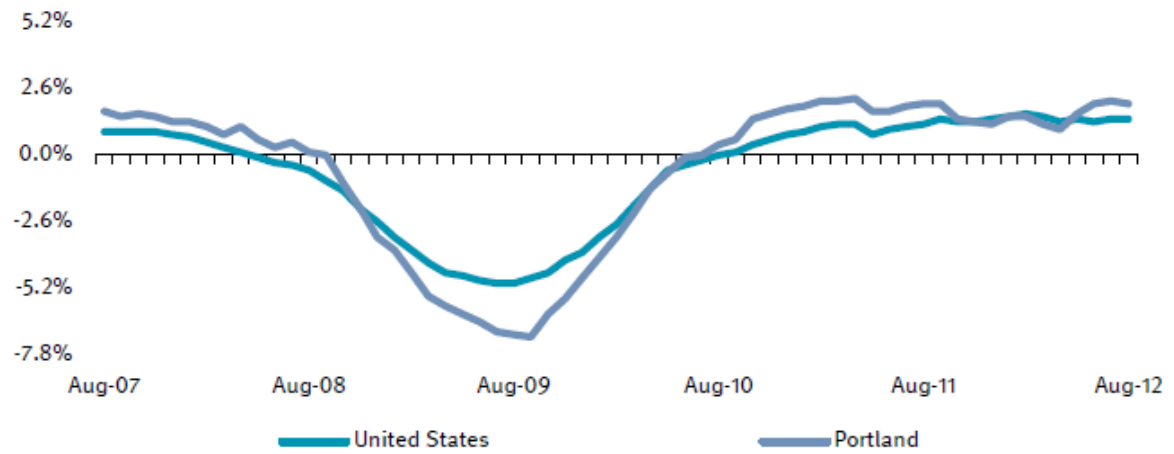
**Figure 5: Unemployment rate, Oregon**

Source: Oregon Employment Department

Oregon's unemployment rate has dropped to 7.6 percent. While the seasonally adjusted number is higher (8.1 percent), both numbers have been dropped slightly during Q3. While these numbers are still historically high, this is the lowest unemployment in Oregon since the figure peaked in 2009 at an average of 11.1 percent. National unemployment remains at a seasonally adjusted 7.8 percent, with recent reports finding positive news for the nations employment outlook. CBS news reports that unemployment rates have fallen in 95 percent of all US cities in September.

**Payroll Employment**

Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change

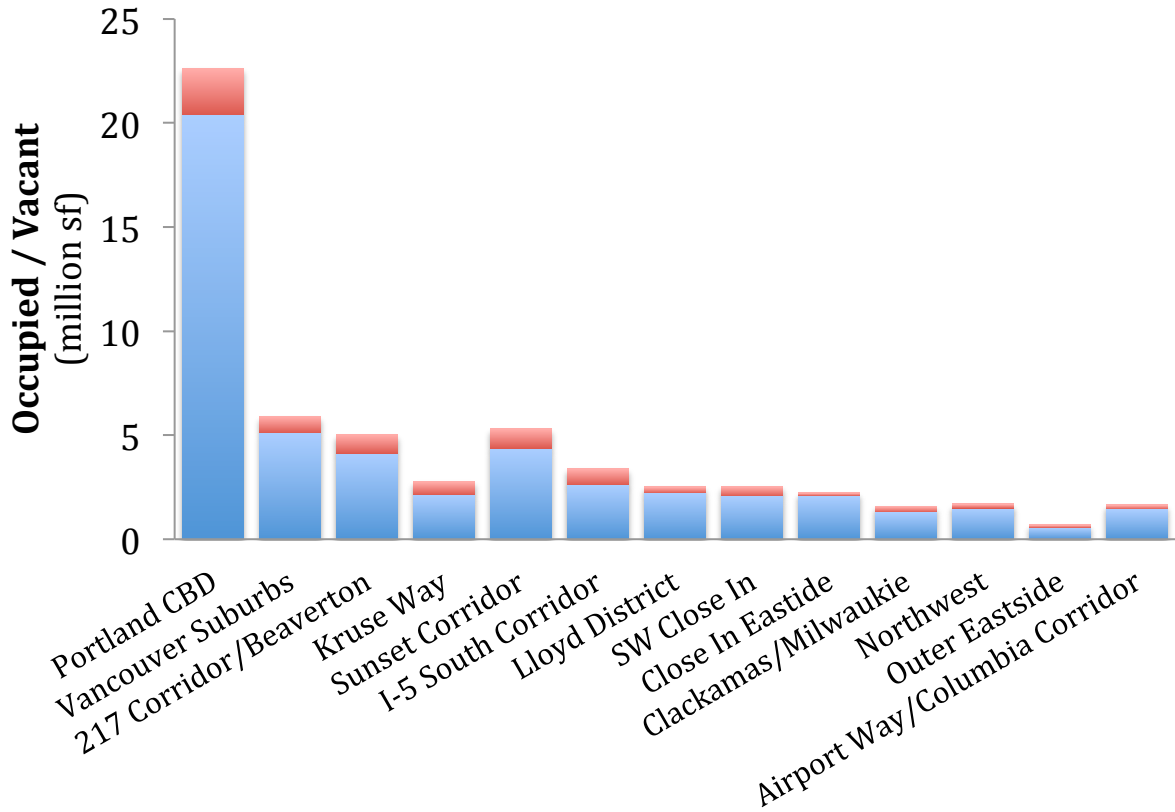


Source: U.S. Bureau of Labor Statistics

Construction and mining, professional services, hospitality and technology are expected to drive employment numbers to more favorable levels in the fourth quarter. Three “new enterprise” zones were recently approved by the state which will allow businesses to earn tax breaks for investment in their respective neighborhoods. Any business that builds new operations or expands in an enterprise zone can avoid paying property taxes for three to five years in return for creating jobs. Salesforce.com’s decision to locate an office in Portland was reportedly due to a high concentration of younger, educated workers.



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



Source: Jones Lang LaSalle

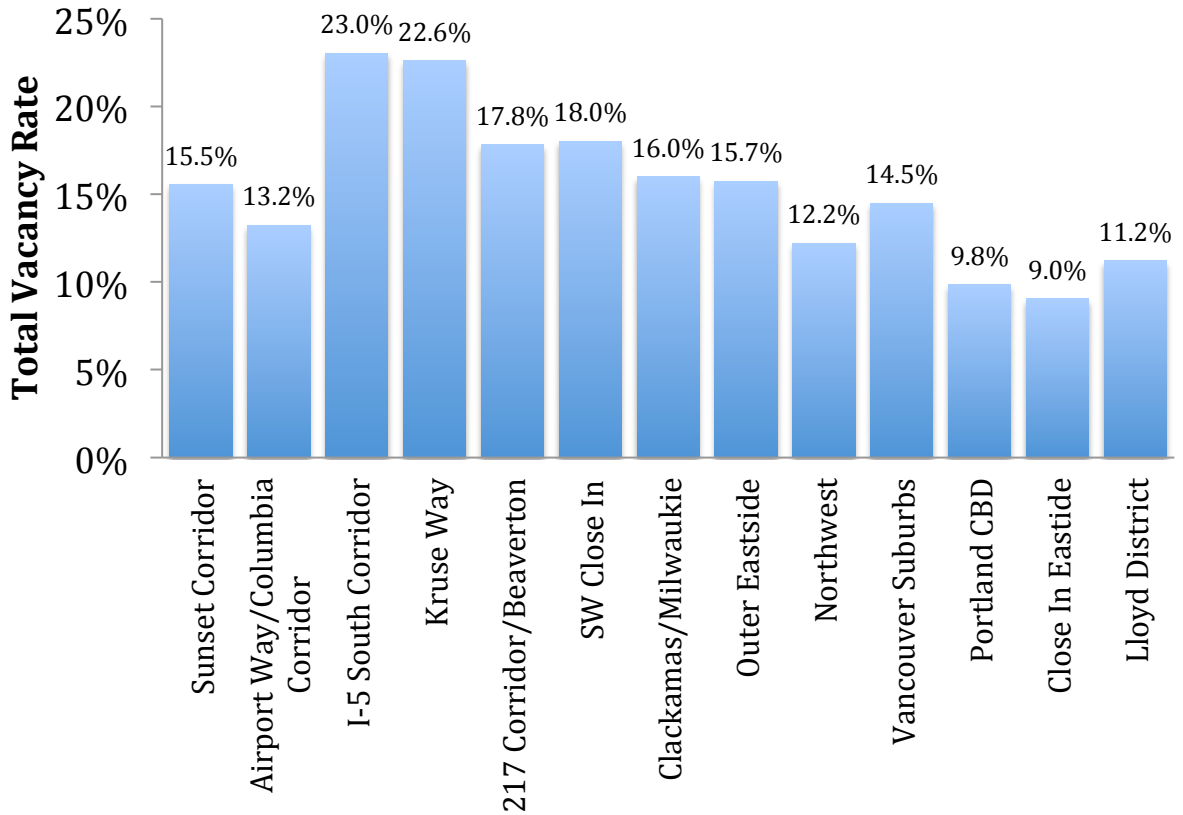
Nearly every submarket in the metro area saw a small increase in lease rates in the third quarter. Vacancy rates inches downwards.

Suburban submarkets have bottomed out, with growth in net absorption and small drops in vacancy, especially in class A space. Despite a ten basis point improvement in vacancy rates in suburban submarkets, the vacancy rates remain in the high teens or above 20 percent in Hillsboro, Kruse Way, Tualatin, Vancouver and Washington Square. The close-in east side, Lloyd and CBD submarkets continue to enjoy vacancy rates that are below those of the other dominant submarkets.

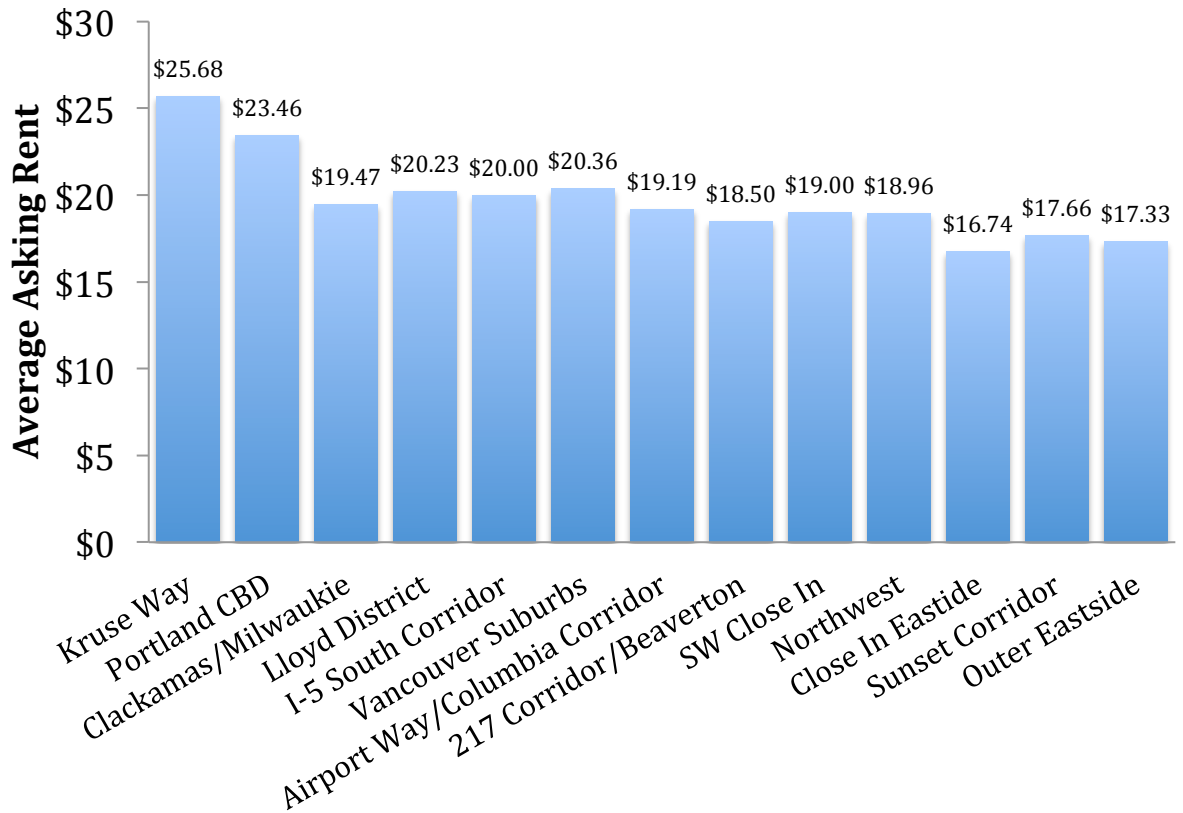
The sunset corridor enjoyed a two percent drop in vacancy rate in Q3, owing primarily to Grass Valley’s lease of 52,000 square feet at Tanasbourne Commerce Center.

The lack of supply in the CBD of class A space is a problem that is likely to persist in the months to come, and continue until new class A space is constructed. Currently there is 315,000 square feet of new office space in the pipeline, per NAI Norris, Beggs & Simpson. With no new class A space available to the market in the near future, the trend of improving vacancy rates in the suburbs is likely to continue for the rest of the year.

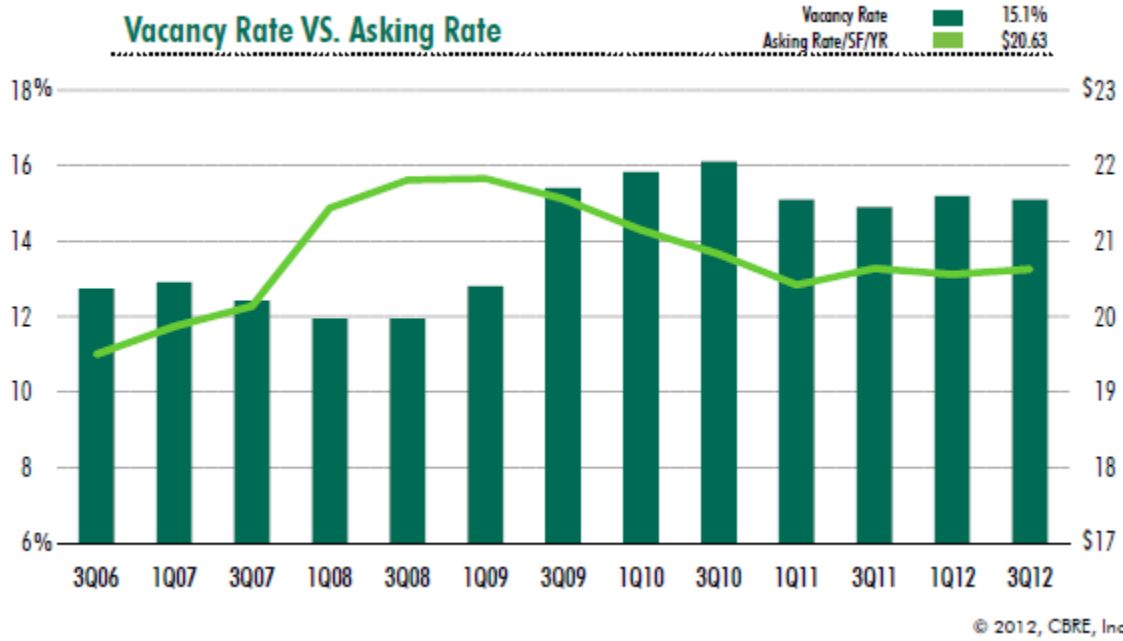
**Figure 7: Submarket vacancy rates**



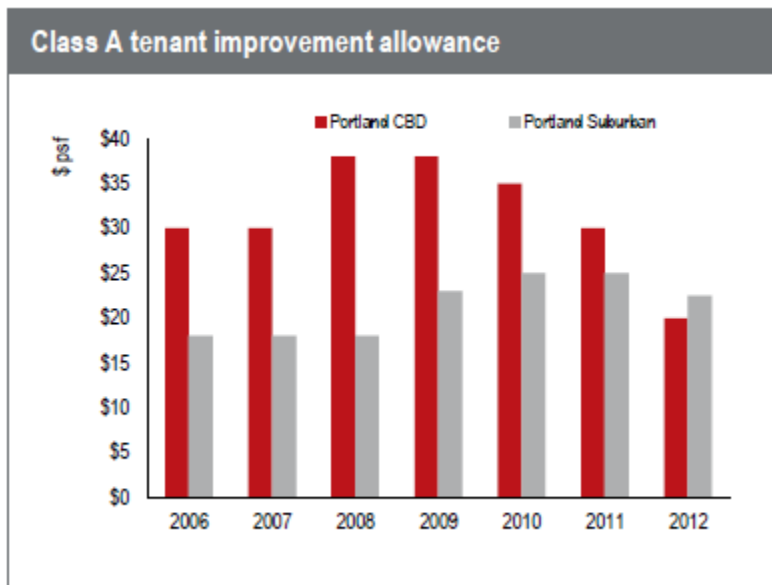
**Figure 8: Submarket average asking rents**



Suburban rents continue to drag along the bottom, but most submarkets posted small gains since Q2. Landlords are hopeful that this is the signal that the bottom has hit. Concessions are likely to continue in the suburbs until vacancy rates drop. Hillsboro reported the largest increase in average asking rents in Q3 at \$19.23 per square foot, up \$.25 from Q2.

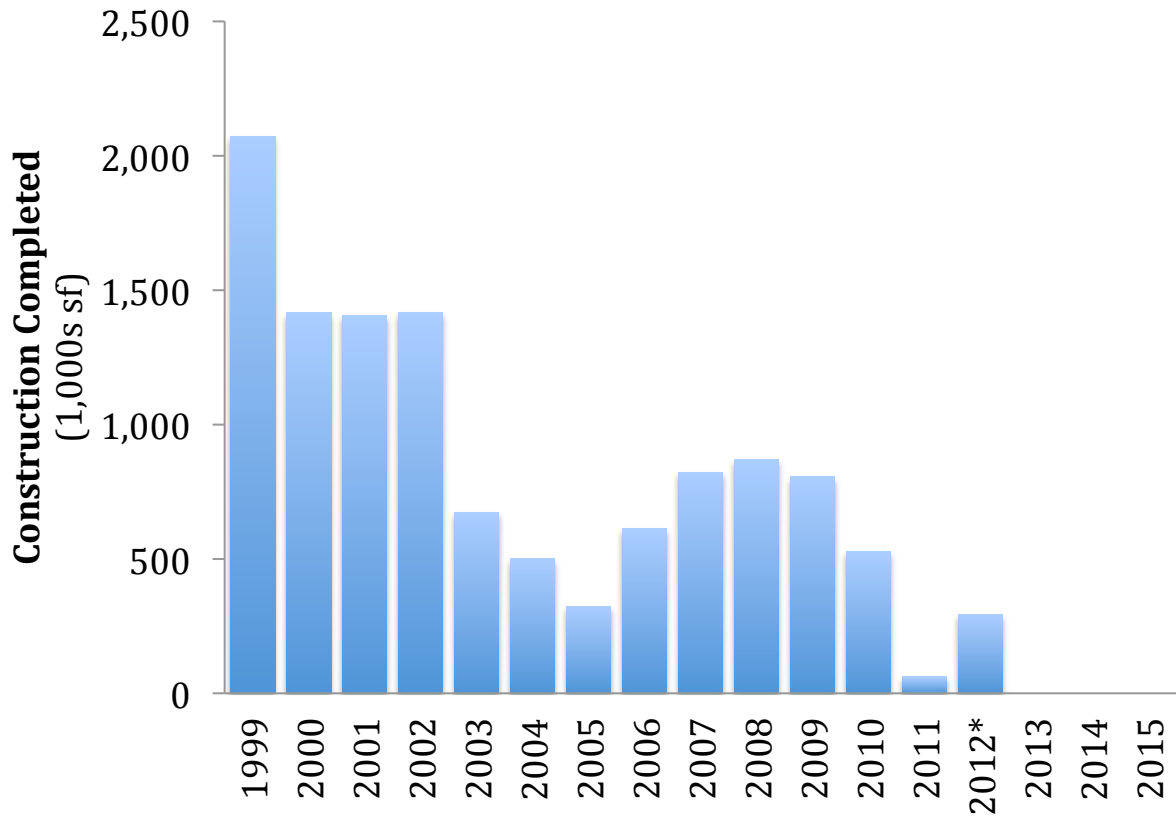


Source: CB Richard Ellis



Source: Jones Lang LaSalle

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



Source: Jones Lang LaSalle

Jones Lang LaSalle reports a total of 292,260 square feet of new supply constructed so far in 2012. This is historically not a high number, but it is a significant improvement from 2011. If current trends continue, we should see this number climb in future quarters. 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.

**Table 1: Major lease transactions, first quarter 2012**

<b>Lessee</b>	<b>Property</b>	<b>Submarket</b>	<b>Square Feet</b>
Comcast of Tualatin Valley	Tigard Business Center	217 Corridor/ Beaverton	82,750
Grass Valley	Tanasbourne Comm	Hillsboro, OR	51,056
Tri-Met	Harrison Square	Portland, OR	50,723
GE Healthcare	Rock Creek Corporate	Sunset Corridor	413,585
Daimler Truck America	Montgomery Park	Portland, OR	38,489

One of the most significant transactions in the third quarter was the sale of the CH2M building in the CBD to Portland investment firm Skanlan Kemper Bard. The firm plans to renovate the building, purchased on September 13<sup>th</sup> for \$38,700,000. In Beaverton, the OHSU Knight Cancer Institute sold for \$23,700,000.

The third quarter has showed continued improvement in the Portland office market by most measures. Rental rates have collectively climbed \$.09 to \$19.31 per square foot, continuing the upward rise in 2012. The Portland area has added an average of 2400 per month since the beginning of 2012. This trend is expected to continue as 2013 approaches. While there is still much ground to be made up that was lost during the recession, there is ample evidence of modest upward pressure on absorption and lease rates that is expected to continue. ■

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## RETAIL MARKET ANALYSIS

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GEORGE S. McCLEARY

Owner, MRE Properties

RMLS Fellow, Master of Real Estate Development Candidate

The retail market remained mostly flat in the third quarter with some negative indicators coupled with positive signs for future growth. NAI Norris, Beggs & Simpson reports a slight decrease in vacancy to 6.82 percent citywide and 38,117 square feet of positive absorption, while CBRE reported an increase in vacancy from 7.2 percent to 7.8 percent, and negative net absorption of 168,711. Cushman & Wakefield and Kidder Mathews also reported negative absorption of 210,859 square feet and 340,308 square feet, respectively. By most measures, the retail market appears to have emerged from the worst periods of the recession while still leaving much room for improvement.

Oregon's economy remains in a state of slow recovery, with activity expected to pick up in 2013. As job growth continues on an upward trend, the retail sector should see increased demand as consumers return to the market. Consumers are spending cautiously on news of moderate job creation and a slow turn-around in the housing market. Consumer confidence is expected to rise alongside news of job creation and a residential housing market turnaround. Retailers hope this will spur leasing activity and raise retail occupancy during the fourth quarter, leading to more robust demand in 2013.

■ 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.

Should the positive economic news continue, Cushman & Wakefield predict that rental rates should rise by early 2013.

Construction activity continues to remain very low, with vacancy rates discouraging speculative building. As occupancy rates stabilize, construction is expected to rise in 2013.

### Major Lease Transactions

Tenant:	Building:	Size (SF):	Submarket:
ReStore	Plaza 205	21,175	122nd/Gresham
Craft Warehouse	Gresham Station - Building E	25,095	122nd/Gresham
Pacific Lifestyle Furniture	16305 NW Cornell Road	18,000	Sunset Corridor

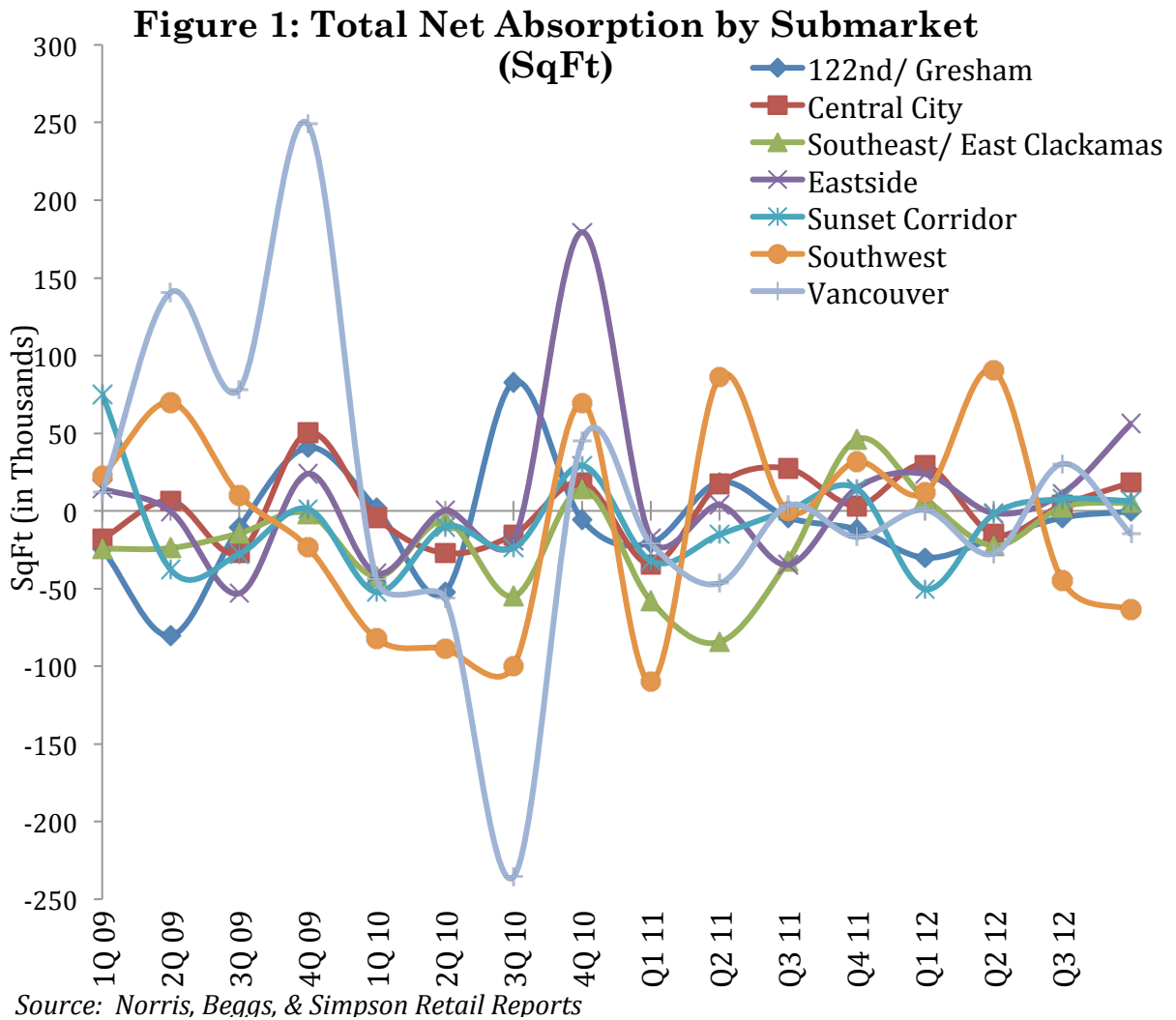
Source: CoStar, Oregonian, Portland Business Journal, Daily Journal of Commerce

### Major Sale Transactions

Buyer:	Building:	Price:	Submarket:
R I Salmon Creek LLC	Salmon Creek Square	\$8,000,000	Vancouver
New Fishers Mercantile LLC	16209 SE McGillivray Boulevard	\$4,000,000	Vancouver
Retail Opportunity Investments Corp.	30060 SW Boones Ferry Road (6 properties)	\$2,265,000	Southwest

Source: CoStar

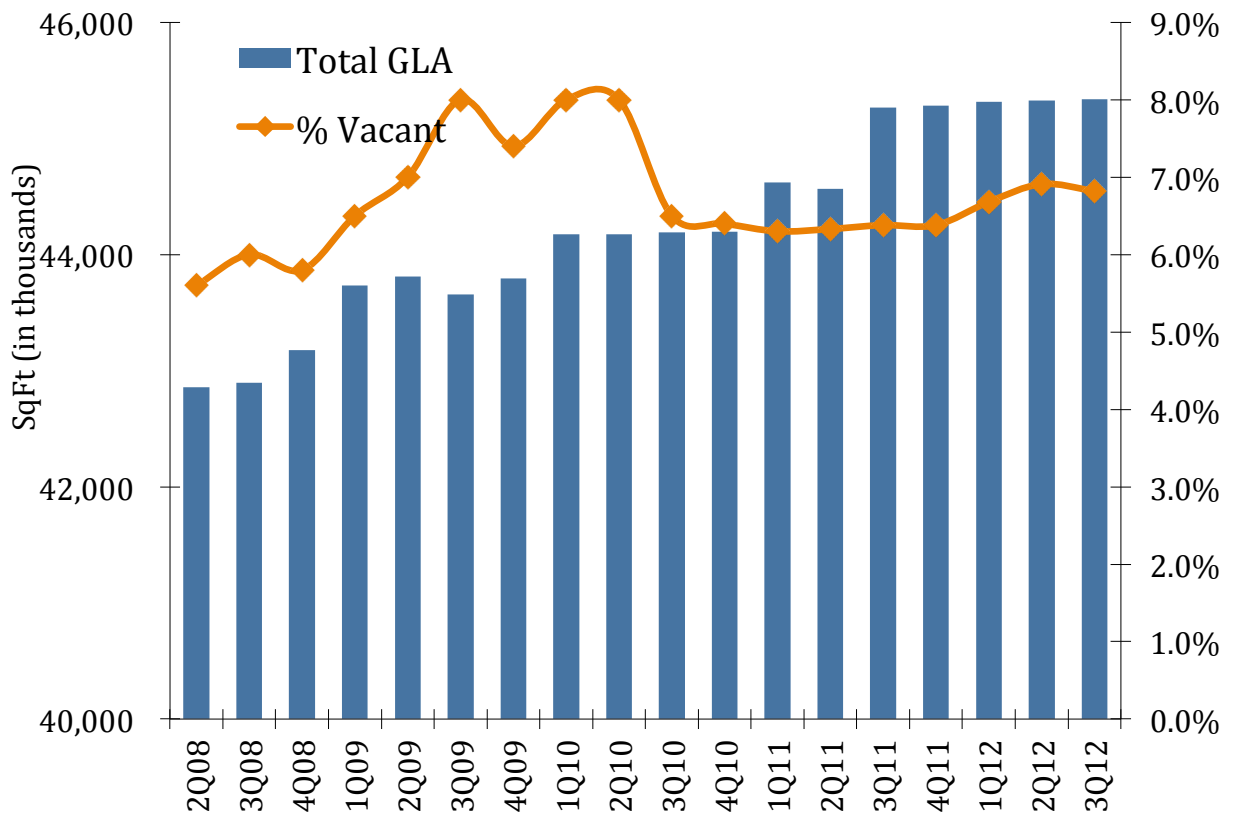




Norris, Beggs & Simpson report negative net absorption in five of the seven major submarkets. The central city lost the most, reporting a negative 21,060 square feet. 122<sup>nd</sup>/Gresham led all submarkets with a gain of 53,419 square feet of positive net absorption. The Sunset Corridor was not far behind, with 43,209 square feet of positive net absorption. The Eastside, Clackamas, Southwest and Vancouver all experienced losses of 6,086, 2,411, 17,456 and 11,498 square feet, respectively. The primary contributor to the negative net absorption in the third quarter was Target vacating 117,500 square feet at Glisan Street Station. However, this will be offset somewhat when Target moves into its new space in the Galleria in the CBD.

Kidder Mathews reports a lower vacancy rate of 5.8 percent, with a quarterly net absorption of negative 340,308. This is the lowest of the vacancy rates reported by the major brokerage houses, and well below the national average of 9 percent. The negative absorption reported from the second and third quarters in 2012 has reportedly erased the gains from the previous four quarters.

**Figure 2: Total Gross Leasable Area (GLA) and Vacancy (%)**



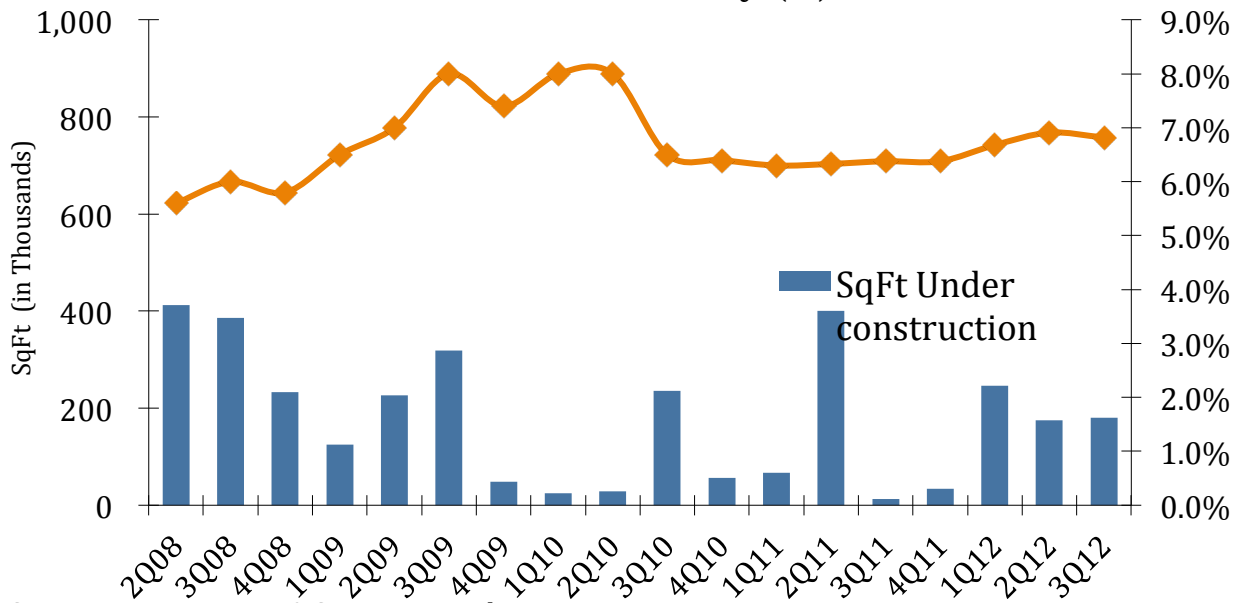
Source: Norris, Beggs, & Simpson Retail Reports

The total amount of gross leasable area (GLA) has remained relatively flat over the past four quarters, with little square footage delivered to the market. This past quarter saw a mere 7,690 square feet delivered to the market, according to Norris, Beggs & Simpson’s report. Vacancy rates have remained relatively flat for nearly two straight years, but have had a slight uptick in

the past three quarters. Negative absorption, Internet sales and weak market fundamentals have inhibited recovery.

Grocery chains continue to expand in the metro area, with New Seasons' announcement that it will occupy 34,500 square feet at Grant Park Village, a new multifamily development planned for NE Broadway and 32<sup>nd</sup>. WalMart has continued expansion of its neighborhood grocery product, with a 43,000 square feet grocery planned at Vancouver Plaza. Plans for additional locations at Fourth Plain and Grand, North Portland and Gresham are all in the works. Grocery Outlet is moving into the space formerly occupied by Albertson's at the Northgate Village Shopping Center on Hazel Dell and NE 99<sup>th</sup>. On October 10, 2012, Jantzen Beach saw the opening of a new Target store, complete with grocery section.

**Figure 3: SqFt of Retail Space Under Construction and Vacancy (%)**



Source: Norris, Beggs, & Simpson Retail Reports

While there was very little new construction delivered during Q3, there has been a slight increase in the amount of construction in the pipeline. The second half of 2011 had almost no new construction planned, with developers sidelined by a soft market. This year has carried numbers that would not qualify as a resurgence in the market, but nonetheless represent movement in the right direction. Historically, the numbers being delivered to the

market have been very low for some time, leading experts to predict a contraction in vacancy rates in years to come. The destruction of existing buildings will also contribute to this eventual rebound in the market.

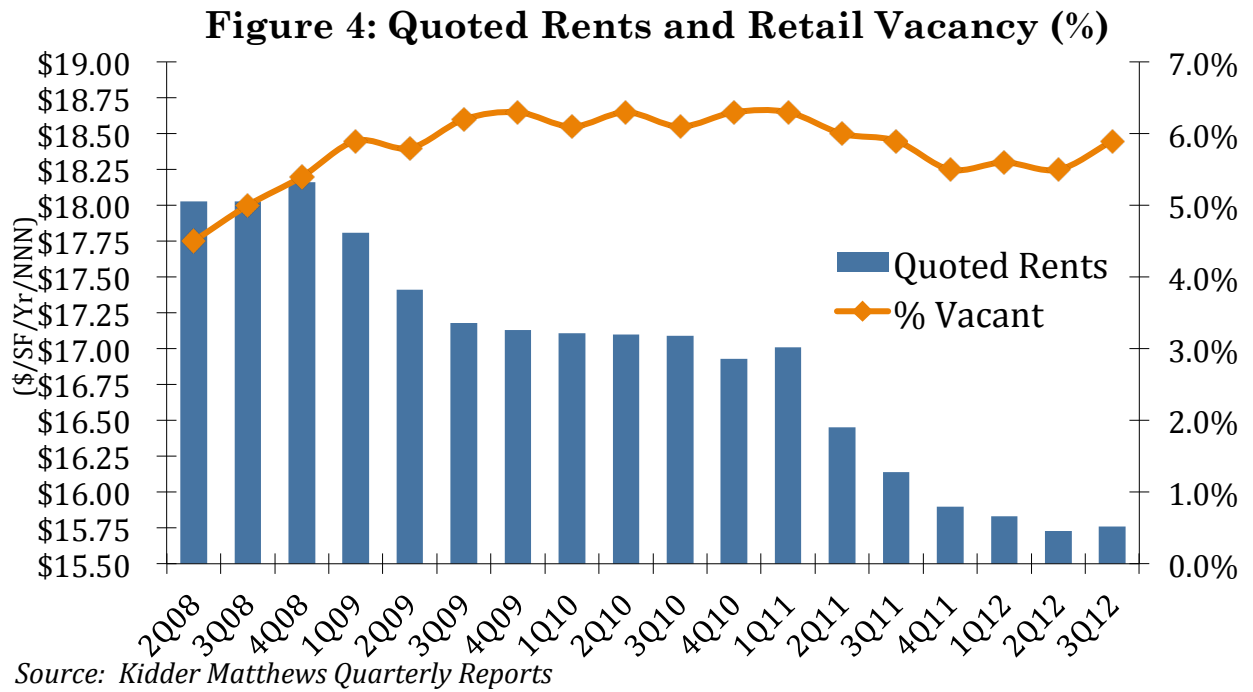


Source: Kidder Mathews Retail Reports

### SIGNIFICANT LEASE TRANSACTIONS

Size (SF)	Tenant	Address	City
40,085	Orchard Supply Hardware	9770 SW Scholls Ferry	Tigard, OR
25,500	TJ Maxx	Jantzen Beach	Portland, OR
25,095	Craft Warehouse	Gresham Station	Gresham, OR
21,175	ReStore	Plaza 205	Portland, OR
19,758	Undisclosed	18625 SE McLoughlin	Milwaukie, OR

Source: CBRE Retail Reports



Kidder Mathews reports a small uptick in vacancy in the third quarter, coupled with a slight increase in rents.

According to the U.S. Department of Commerce, retail sales jumped 1.1 percent in September, which has been taken as a sign of increased consumer confidence. Low inflation and rising job numbers have contributed to a consumer confidence that has reached a five year high. It is predicted by the National Retail Federation that holiday retail sales will increase 4.1 percent nationally year over year. Retailers are expected to hire 585,000 to 625,000 seasonal workers, which is comparable to last year. Larger retailers such as Kohl’s, Toys “R” Us, The Gap, Home Depot, Sears and Target are all participating in local job fairs and are expected to hire nationwide.

Oregon’s retail market has demonstrated resilience during tough economic times, but has not rebounded with the same vigor as other types of real estate. With little construction, improving market fundamentals and increased consumer confidence, it is likely that 2013 will be a better year for retailers. A continued turnaround in the housing market, steady job creation and an easing of worries over Europe and the “fiscal cliff” could spur

increased confidence in landlords and retailers alike. Larger retailers are expanding, and landlords are renovating existing spaces rather than constructing new ones. When rents reach the levels of previous years, it is expected that renewed investment will return to retail properties. ■

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## INDUSTRIAL MARKET ANALYSIS

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GEORGE S. McCLEARY

Owner, MRE Properties

RMLS Fellow, Master of Real Estate Development Candidate

Market fundamentals gained positive momentum in the third quarter of 2012, marking a slow but steady climb out of the recession for industrial/flex properties. Vacancy has remained relatively flat, with rates at just one tenth of a percent below the second quarter of 2012. Some submarkets have dropped a full percentage point or more. Positive net absorption is reported by all major brokerage houses, on pace to surpass or meet 2011 levels.

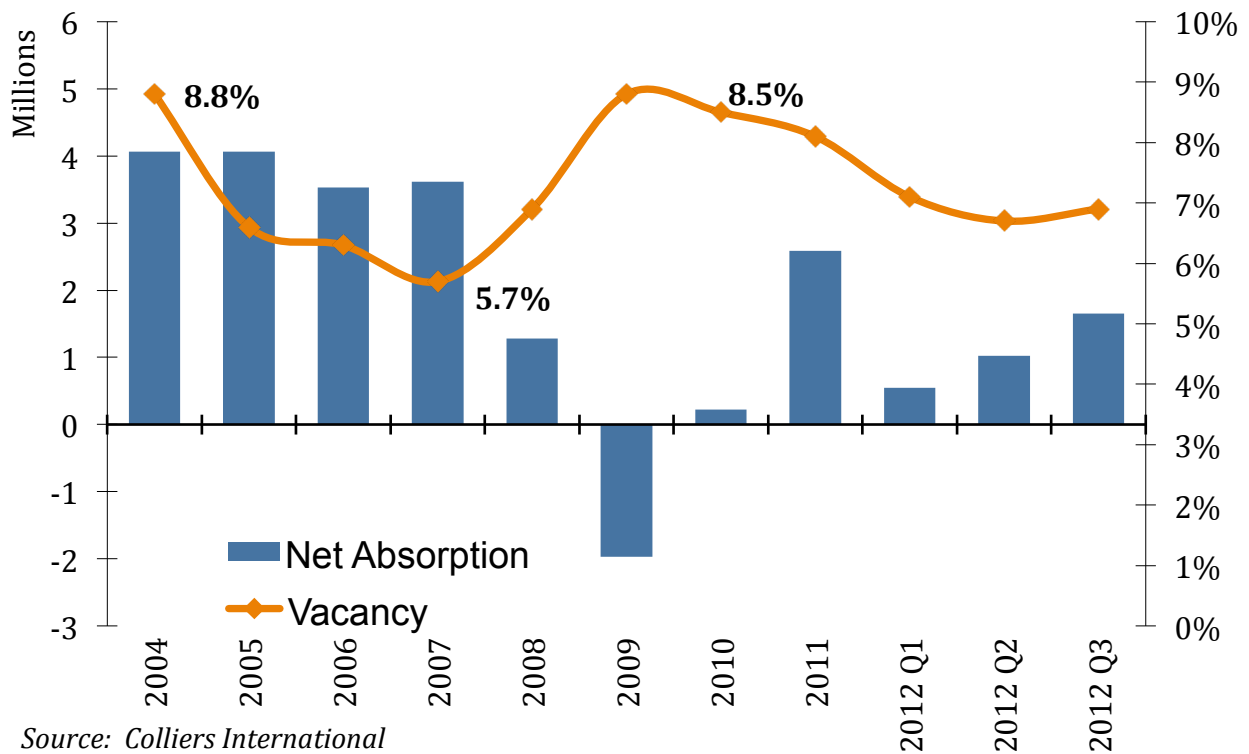
Economically, Oregon appears to be improving. The U.S. Bureau of Labor Statistics reports that Portland added 17,800 jobs during the past year, an increase of 1.8 percent. At this point the metro area has regained 45,800 of the 82,800 jobs lost since hitting bottom in late 2009. This is due in part to jobs added in manufacturing. CBRE reports that 500 jobs were added in August, split evenly between durable and non-durable goods. This is the sixth consecutive month of growth, with an average of 1,200 jobs added per month.

Rents are generally still not supportive of speculative construction, as has been the case for the past four years. Developers have constructed facilities, but nearly all development has been built-to-suit. This is expected to continue through the fourth quarter, with market fundamentals eventually arriving at levels that support speculative development.

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2012 is currently on pace to surpass 2011 in terms of overall net growth, reports Grubb & Ellis. This positive outlook is expected to last through the end of the year into 2013, with continued robust demand and strong export growth.

**Figure 1: Overall Industrial Net Absorption (SqFt) and Vacancy (%) for Portland Market**



Colliers reports that despite positive net absorption of 140,339 square feet, the delivery of 381,975 square feet of new product outweighed leasing activity and led to a 13 basis point uptick in vacancy to 6.9 percent. This is reportedly a result of subdued activity in the B and C class market. While this data differs somewhat with that of other brokerage houses, the consensus appears to be that vacancy is relatively flat, with other metrics moving in a more positive direction. Since 2009, market vacancy has steadily decreased, and net absorption has steadily risen. Most agree that this flattening of the vacancy rate will be a temporary plateau as the rate slowly drops.

Class A space continues to drive current leasing activity. Current vacancy is disproportionately weighted towards class B and C space, presenting challenges in the quarters to come, reports Colliers International.



**Table 2: Major Industrial Transactions, 3rd Quarter, 2012**

Tenant	Property	SqFt	Submarket
Vetris	Leveton Corporate Campus	140,000	Tualatin
Communications Test Design	Birtcher Center	124,154	Fairview, OR
Pomegranate Publishing	Southshore Corporate Park	84,192	Gresham, OR
KGP Logistic	29899 SW Boones Ferry	77,000	I5 South Corridor
Comcast of Tualatin Valley	10831 SW Cascade Ave	43,363	217 Corridor
Rexel Taylor	20121 SW 95th Pl	41,000	I5 South Corridor
Boxes and Foam	10100 SW Allen Blvd	36,000	Portland

\*Source: NAI Norris Beggs & Simpson, CB Richard Ellis, and Kidder Matthews Industrial Quarterly Reports

Vetris signed a lease for 140,000 square feet at the Leveton Corporate Campus in Tualatin. Suburban markets like Tualatin and Hillsboro fared well in the third quarter, with positive net absorption and below-market vacancy rates. This trend is expected to continue through the end of the year.

<b>Major Sale Transactions</b>			
Buyer:	Building:	Price:	Submarket:
Watumull Properties Corporation	10965 SW Commerce Circle, Building A	\$8,044,400	Southwest I-5
Summit Properties Inc.	7431 and 7451 NW Evergreen Parkway	\$6,900,000	Southwest Sunset
Watumull Properties Corporation	Summit Portal Way Building	\$4,835,000	North/Northeast

Source: C

Source: NAI Norris, Beggs & Simpson

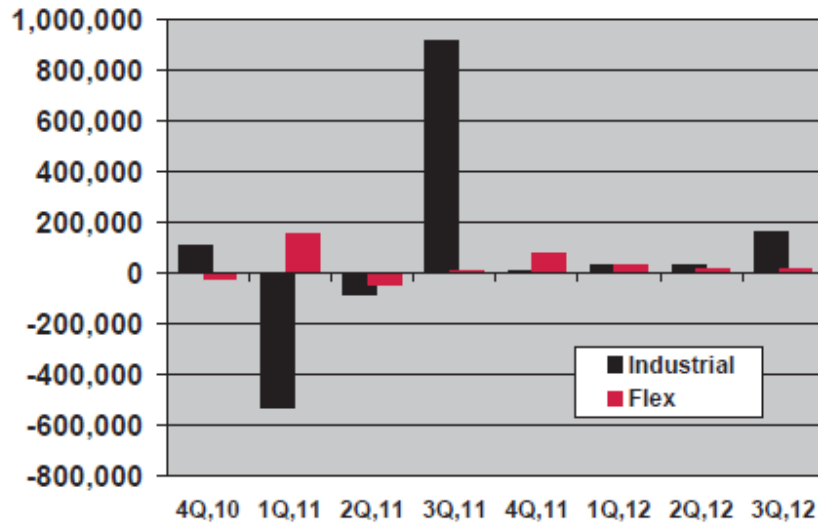
<b>SALES ACTIVITY</b>					
PROJECT	CITY	SALES DATE	SALES PRICE	PRICE/SF	TRANSACTION TY
Oregon Commerce Parks Portfolio	Various	08/10/2012	Undisclosed	N/A	Investm
Tualatin Corporate Center	Tualatin	08/13/2012	\$25,150,000	\$82.19	Investm
Summit Portal Way Building	Portland	07/02/2012	\$4,835,000	\$57.43	Investm
Columbia Commerce Park - Bldg IV	Portland	08/03/2012	\$4,590,000	\$24.44	Investm

Source: Colliers International

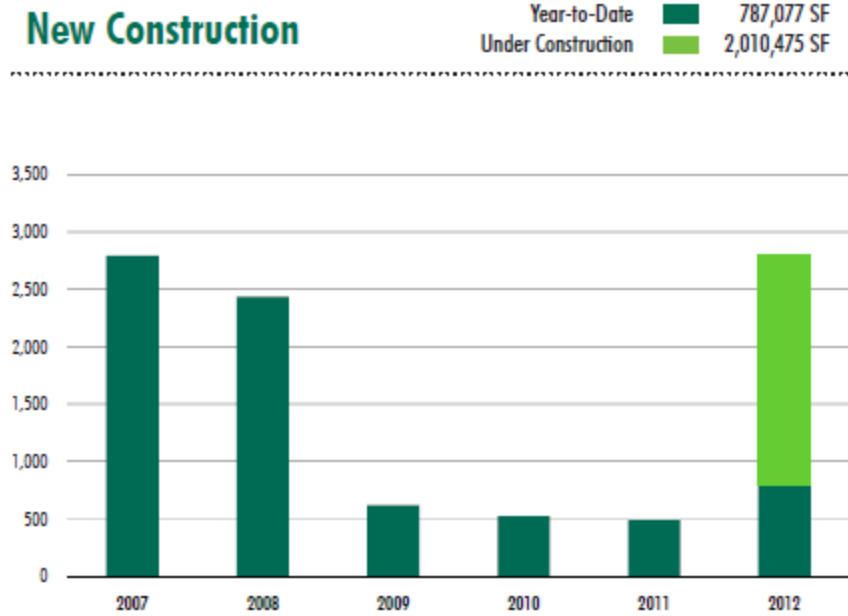
The 1.2 million square feet Oregon Commerce Park portfolio was acquired in August by Washington Holdings from International Airport Centers at an undisclosed price. Sales activity was slower in the third quarter in comparison with

other quarters, with Colliers reporting only 16 properties sold in excess of \$500,000. Total transaction volume was \$55.2 million, down from previous 2012 quarters.

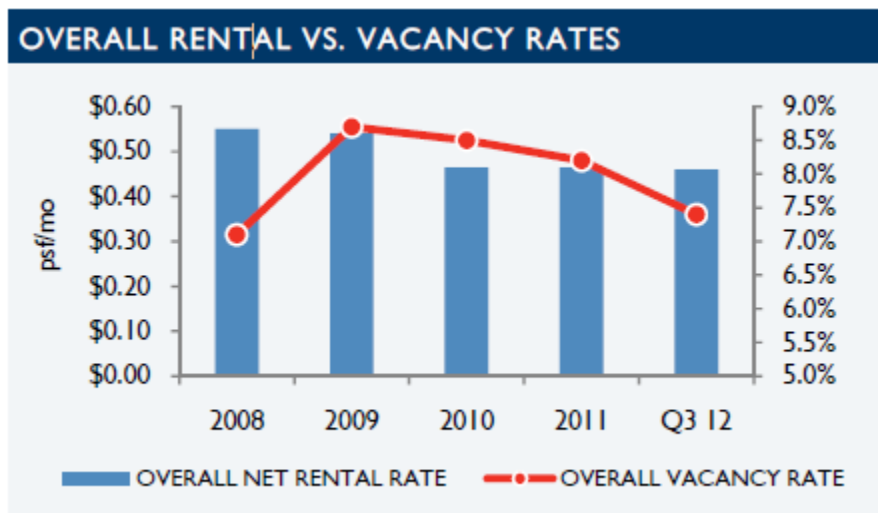
### Absorption Comparison (SF)



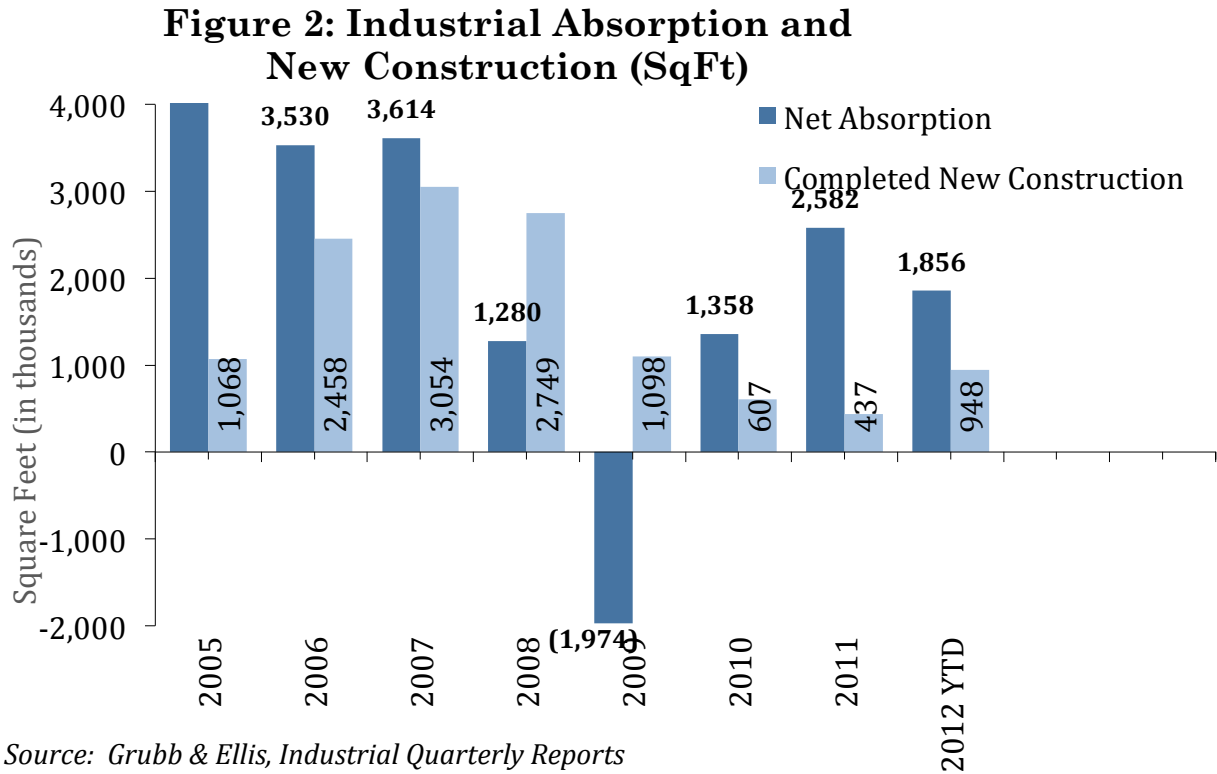
Source:Norris, Beggs & Simpson



Source: CBRE



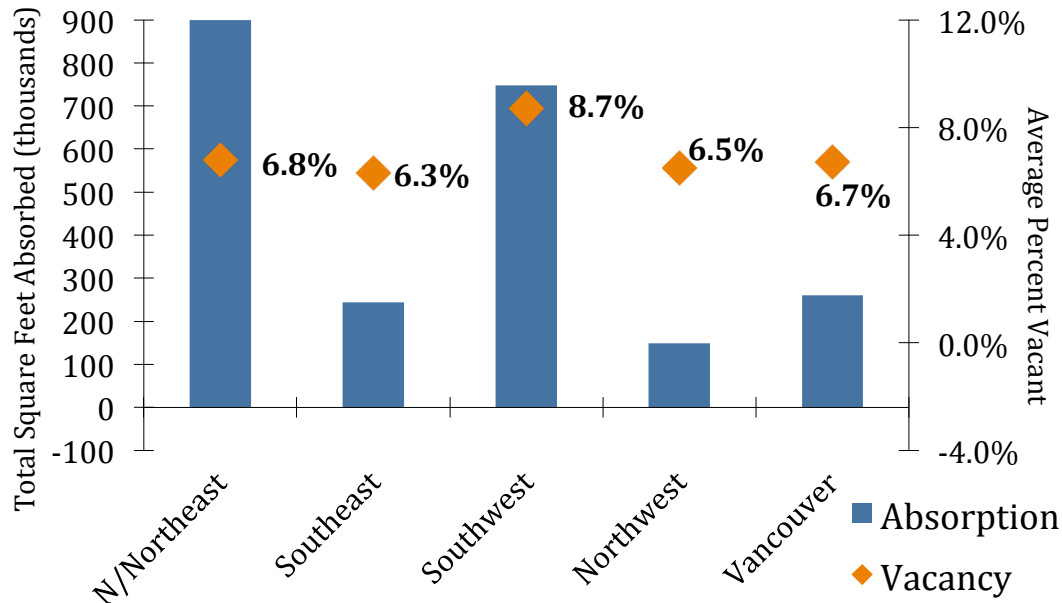
Source: Cushman & Wakefield



Portland has enjoyed its ninth consecutive quarter of positive net absorption since the third quarter of 2010. The tightening supply of large, quality warehouse and distribution space will have positive implications for increasing rates and renewed construction activity, reports Colliers International. Additionally, there is a shortage of developable land for industrial projects, and any large site will require a minimum of 18 months to be ready to build.

Cushman and Wakefield predict that this shortage of developable land will likely lead to the redevelopment of existing properties. This, combined with the urban growth boundary and the robust demand for class A space should lead to renovation of existing class B and C spaces as the market tightens.

**Figure 3: Submarket Vacancy and Overall Absorption, Q3 2012**



Source: Cushman and Wakefield, Q3 2012 Industrial Quarterly Report

Rental rates for industrial space are ranging from \$.032 to \$.045 for a shell, with an office surcharge of \$0.70/sf to \$0.80/sf. Tigard/Lake Oswego, Airport Way, Northeast Portland and Vancouver are achieving the highest rates, while Swan Island, Macadam and Camas submarkets achieve the lowest. Kidder Matthews reports that the Hillsboro market has seen a rise in rents as a result of demand from contractors for warehouse space near the Intel Ronler Acres expansion project. The Rivergate submarket has not stabilized, reports Kidder Matthews, as much of the activity in recent years has been driven by local businesses. Outside companies have been reluctant to move in, due to minimal supportive services and a relatively small employee base. It is predicted that continued tightening of the market will lead to higher occupancy in Rivergate as cost savings is factored into future leases.

Most of the new construction in the pipeline is build to suit, with very little speculative construction. Kidder Matthews reports that NRA has increased only 1.2 percent since the third quarter of 2009. Absorption is likely to continue to surge, with downward pressure on vacancy rates. Many questions remain with regards to the national and local economies leading most firms to believe that the outlook is one of slow, steady progress. ■