2-2014

Center for Real Estate Quarterly, Volume 8, Number 1

Portland State University. Center for Real Estate

CENTER FOR REAL ESTATE

Quarterly Report

Volume 8, Number 1 Winter 2014

A publication of Portland State University
Available for download at: http://www.pdx.edu/realestate/research_quarterly.html

CONTENTS

SUMMARY AND EDITORIAL

ERIC FRUITS

Editor and Adjunct Professor, Portland State University

In this issue of the *Quarterly Report*, we welcome **Scott Holden**, who will be providing analysis of the residential and multifamily markets. He is a senior relationship manager at First Republic Bank and is working towards the Master of Real Estate Development degree through Portland State University's School of Business where he is an RMLS Student Fellow.

Our **state of the economy** report finds that Oregon ranked as the number one destination among people who moved from one state to another in 2013. According to United Van Lines' annual migration study, more than 61 percent of all interstate moves involving Oregon were for people coming to live in the state. Inbound migration was primarily from California, Arizona, Texas, Washington and New Mexico. This in-migration has help to fuel the state's housing rebound.

The housing rebound has been one major driver of the economy in recent years. Two of the hardest hit housing markets, Bend and Medford, have begun growing strongly in the past 18 months, and declines have halted in many other housing-dependent 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 president and chief economist at Economics International Corp., a Portland-based consulting firm. 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.

On the other hand, a run-up in mortgage rates and strong home price appreciation in 2013 slowed housing recovery later in the year. Housing affordability declined sharply and would-be buyers found themselves priced out of the mortgage market. As such, our **residential market analysis** shows that housing permits, starts, and sales all flattened out in recent months. With mortgage rates stabilizing, it is hoped that this slowdown will be temporary and the overall housing market will continue its recovery.

Migration has helped feed demand for apartments in the region. Our **multifamily market analysis** reports that Portland area vacancy rates are among the lowest in the nation, with most submarkets have vacancy rates between 2 percent and 4 percent. These low vacancy rates have fed multifamily construction, but not so much that there should be concerns of overbuilding.

Our **office market analysis** reports that the Urban Land Institute ranked Portland 11th in the nation among "Markets to Watch" for real estate investment in 2014 and is tied with San Francisco and New York for having the lowest office vacancy rate in the U.S. at 11.1 percent. At $19.81, market wide average asking rent is the highest in six years. The **industrial market** came in strong in the fourth quarter of 2014 with vacancies of 5.7 percent and rents generally trending upward. Our **retail market analysis** finds positive trends during the final quarter of 2013, with stable vacancies of 5.4 percent, and rents ticking up to $16.20 per square foot. In 2013, net absorption was 50 percent higher than the year before and construction deliveries were up 5 percent with total square footage up 7 percent, during the same time period.

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. ■

THE STATE OF THE ECONOMY

Angela Guo

Portland State University

The United States economy in the fourth quarter of 2013 appears to have a more robust foothold pointing to a healthier outlook for 2014. Much of the uptick is due to a pickup in personal consumption expenditures. One weak spot in the fourth quarter was related to government spending, dragged down by the Federal government shutdown that lasted nearly three weeks at the start of the quarter.

With the unemployment rate decreasing and output increasing, the Federal Reserve has begun tapering back on its multibillion-dollar-a-month asset buying spree. Some economists note that much of the change in unemployment is because of reduced labor force participation—now at a 30 year low. With the addition of relatively low inflation, it is argued that that inflation should be higher before the Fed fully implements a tapering program. On the other hand, some argue that the Fed's $4 trillion buying program has created precarious bubbles in areas such as the emerging markets and commercial real estate and thus should wind down more quickly.

The Economist reports that households continue to be the mainstay of the recovery as they are making steady progress in reducing their over-indebtedness. The ratio of household debt to disposable income fell from 126 percent in 2007 to 100.6 percent in the third quarter of 2013, according to the Fed. A ratio of around 90-95 percent was more common before the recent boom.

■ Angela Guo is a Master of Real Estate Development candidate and has been awarded the Center for Real Estate Fellowship. 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 WORLD AND U.S. ECONOMY

The International Monetary Fund (IMF) anticipates an overall strengthening of the world economy, with output growth of 3.7 percent in 2014 and 3.9 percent in 2015. The IMF reports that China's growth will decelerate slightly from 7.5 percent in 2014 to 7.3 percent in 2015. (Figure 2)

Figure 2: IMF World Growth Projections, January 2014

			Projections		**Difference from Oct '13 WEO Projections**	
	2012	2013	2014	2015	2014	2015
World Output	3.1	3.0	3.7	3.9	0.1	0.0
Advanced Economies	1.4	1.3	2.2	2.3	0.2	-0.2
United States	2.8	1.9	2.8	3.0	0.2	-0.4
Euro Area	-0.7	-0.4	1.0	1.4	0.1	0.1
Germany	0.9	0.5	1.6	1.4	0.2	0.1
France	0.0	0.2	0.9	1.5	0.0	0.0
Italy	-2.5	-1.8	0.6	1.1	-0.1	0.1
Spain	-1.6	-1.2	0.6	0.8	0.4	0.3
Japan	1.4	1.7	1.7	1.0	0.4	-0.2
United Kingdom	0.3	1.7	2.4	2.2	0.6	0.2
Canada	1.7	1.7	2.2	2.4	0.1	-0.1
Other Advanced Economies	1.9	2.2	3.0	3.2	-0.1	-0.1
Emerging and Developing Economies	4.9	4.7	5.1	5.4	0.0	0.1
Central and Eastern Europe	1.4	2.5	2.8	3.1	0.1	-0.2
Commonwealth of Independent States	3.4	2.1	2.6	3.1	-0.8	-0.7
Russia	3.4	1.5	2.0	2.5	-1.0	-1.0
Excluding Russia	3.3	3.5	4.0	4.3	-0.1	-0.1
Developing Asia	6.4	6.5	6.7	6.8	0.2	0.2
China	7.7	7.7	7.5	7.3	0.3	0.2
India	3.2	4.4	5.4	6.4	0.2	0.1
Latin America and the Caribbean	3.0	2.6	3.0	3.3	-0.1	-0.2
Brazil	1.0	2.3	2.3	2.8	-0.2	-0.4
Mexico	3.7	1.2	3.0	3.5	0.0	0.0
Middle East, North Africa,						
Sub-Saharan Africa	4.8	5.1	6.1	5.8	0.1	0.1
South Africa	2.5	1.8	2.8	3.3	-0.1	0.0

Source: International Monetary Fund, World Economic Outlook, January 2014

While the world began to recover from the global economic crisis, emerging markets had seen their economies eclipsing recoveries in the U.S., Europe, and Japan. However, with the Fed tapering of its easy money program, the rising U.S. interest rates will likely draw investor cash from around the globe in search of higher returns. Thus, as the continued demand for investments in advanced countries increases, the IMF warns that emerging economies could struggle with the climbing U.S. interest rates, a shift that could lead capital to exit developing countries.

As the global market continues to rebalance, the IMF reports that the United States leads the recovery of the world economy. The U.S. economic recovery accelerated in the second half of 2013 as consumer spending, business investment and net exports all posted strong gains. The U.S. economy grew at an annual rate of 4.1 percent between July and September, an upward revision from the previous estimate of 3.6 percent, and the fastest pace since 2011. Most economic indicators in November and December were also strong, suggesting a relatively robust fourth quarter.

Figure 3: United States Annual Economic Growth, Actual and Forecast, 2013–2018

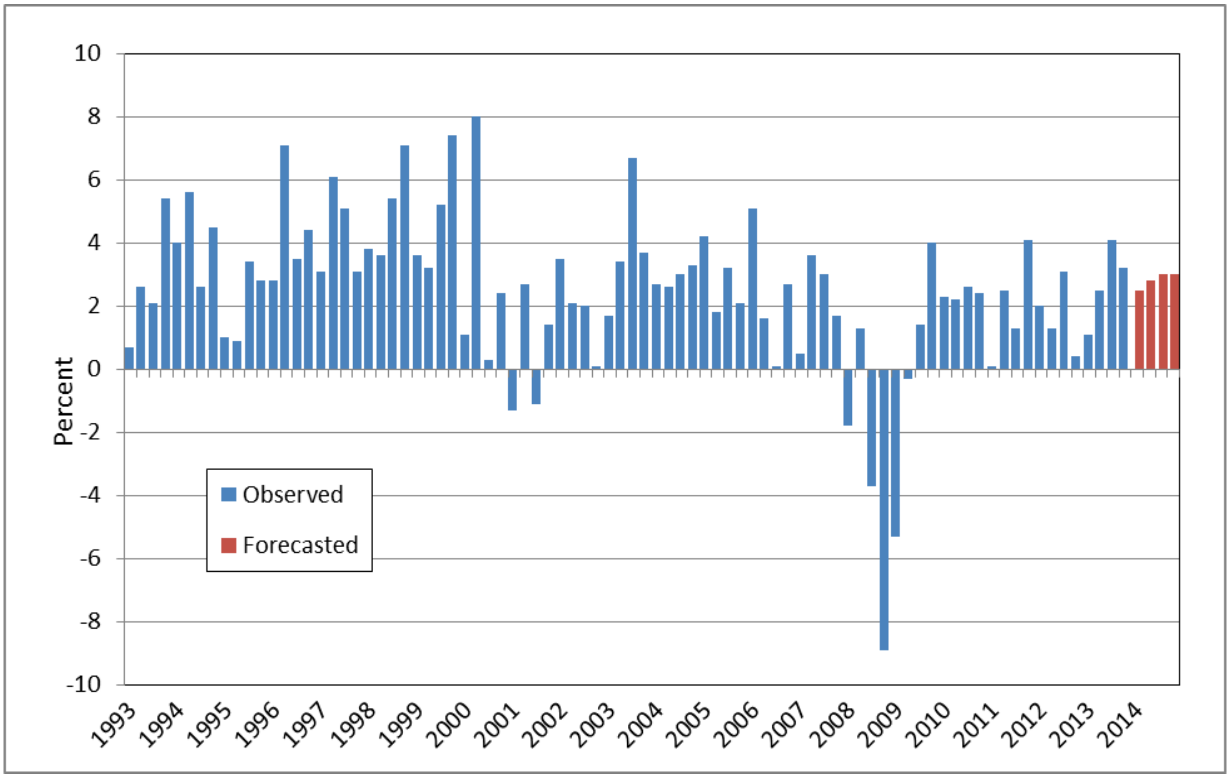
%	2013	2014	2015	2016	2017	2018
GDP	1.9	2.6	2.4	2.5	2.4	2.6
Private consumption	2.1	2.4	2.2	2.3	2.4	2.0
Government consumption	-2.0	0.1	0.2	0.2	0.2	0.4
Gross fixed investment	5.3	8.0	6.5	6.5	6.4	6.8
Exports of goods & services	2.4	3.1	3.5	3.8	3.7	4.1
Imports of goods & services	1.6	3.6	3.9	4.5	5.4	4.2
Domestic demand	1.8	2.7	2.5	2.6	2.7	2.6
Agriculture	2.1	2.0	2.5	2.9	2.9	2.9
Industry	2.5	2.8	3.0	2.5	2.4	2.4
Services	1.8	2.6	2.3	2.5	2.4	2.6

Source: Economist Intelligence Unit, January 2014

In 2013, GDP grew from 1.1 percent in the first quarter, 1.7 percent in the second quarter, 4.1 percent in the third quarter and 3.2 percent in the fourth, the U.S. Bureau of Economic Analysis (BEA) reports. The BEA reports that the increase in real GDP in the fourth quarter primarily reflected positive contributions from personal consumption expenditures (PCE), exports, nonresidential fixed investment, private inventory investment, and state and local government spending that were partly offset by negative contributions from federal government spending and residential fixed investment. Imports, which are a subtraction in the calculation of GDP, increased.

The Economist Intelligence Unit forecasts that real GDP will have a growth of 2.6 percent in 2014, before a gradual monetary tightening that will slow the rate slightly to around 2.5 percent in 2015-18.

Figure 4: Gross domestic product, Annualized Percent Change, 1993–2014

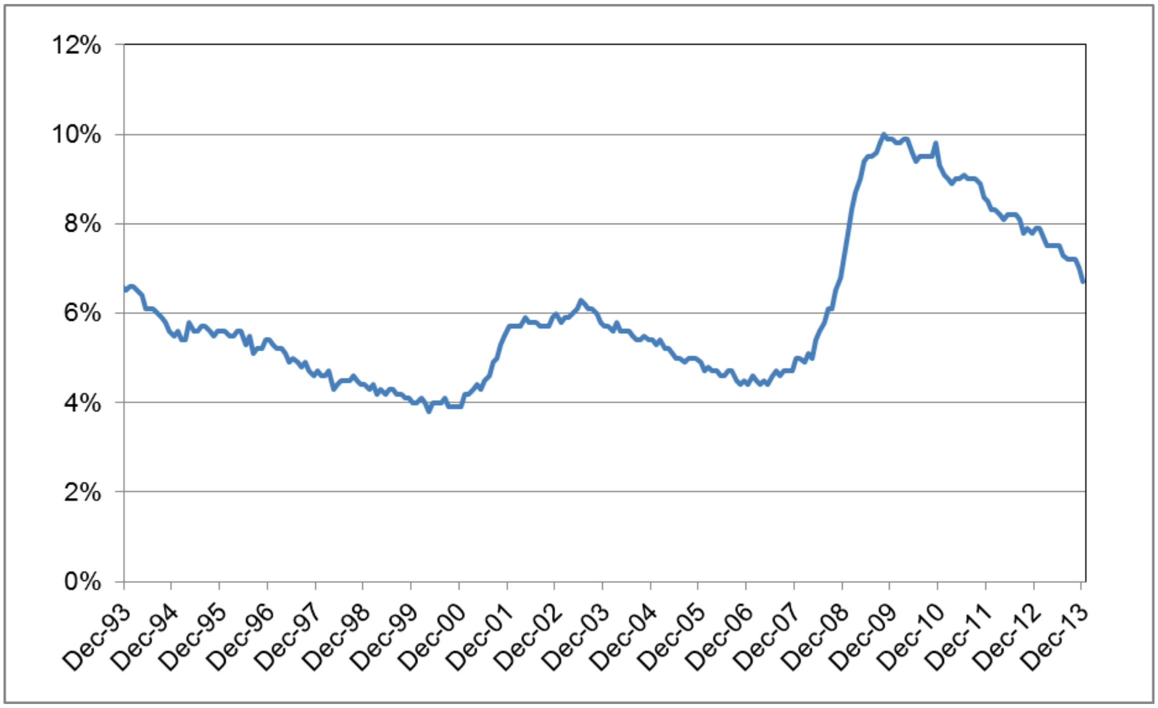


Source: Bureau of Economic Analysis and Wall Street Journal Economic Forecasting Survey

U.S. employment increased modestly in the fourth quarter. The quarter began strong with employment gains of 237,000 in October and 274,000 in November. A week report of 75,000 net new jobs in December was weaker than expected and dragged down the quarterly average.   Industry sectors that reported the most growth in December were:

- Retail Trade (+55,000); retail trade added an average of 32,000 jobs per month in 2013,
- Professional and business services (+19,000); employment growth in this industry averaged 40,000 per month in 2013, and,
- Wholesale trade (+15,000); added an average of 8,000 jobs per month in 2013.

Figure 5: Unemployment Rate, United States



Source: Bureau of Labor Statistics

The U.S. created a total of around 2.3 million net new jobs during 2013. At this pace, full employment in the U.S. is remains several years away.

The U.S. unemployment figures are continuing to creep down, declining 0.5 percent since September 2013, to 6.7 percent in December 2013, according to the Bureau of Labor Statistics. The unemployment rate reached their lowest rates since late 2008. As seen in Figure 5, U.S. unemployment hovered between 4 percent and 6 percent from the mid-1990s until the recession that began in late 2008 when it spiked to 10 percent in October of 2009.

The jobs being created, however, are not the ones that were lost before the recession. While two-thirds of the jobs lost during the recession were middle-income jobs, about half of those created since have been low-wage sectors like tourism, hospitality and retail sales. Furthermore, while the decline in unemployment has been viewed as a sign of an improving economy, a portion of the decline in unemployment has been attributed to a decline in labor force participation. (Figure 6)

Some of the improvement in the unemployment rate is illusory. While employment is slowly improving, the recession has also caused millions to drop out of the labor force. While retiring Baby Boomers explain some of the drop in labor force participation rate, the recession exacerbated the decline.

Figure 6: Labor Force Participation Rate, United States

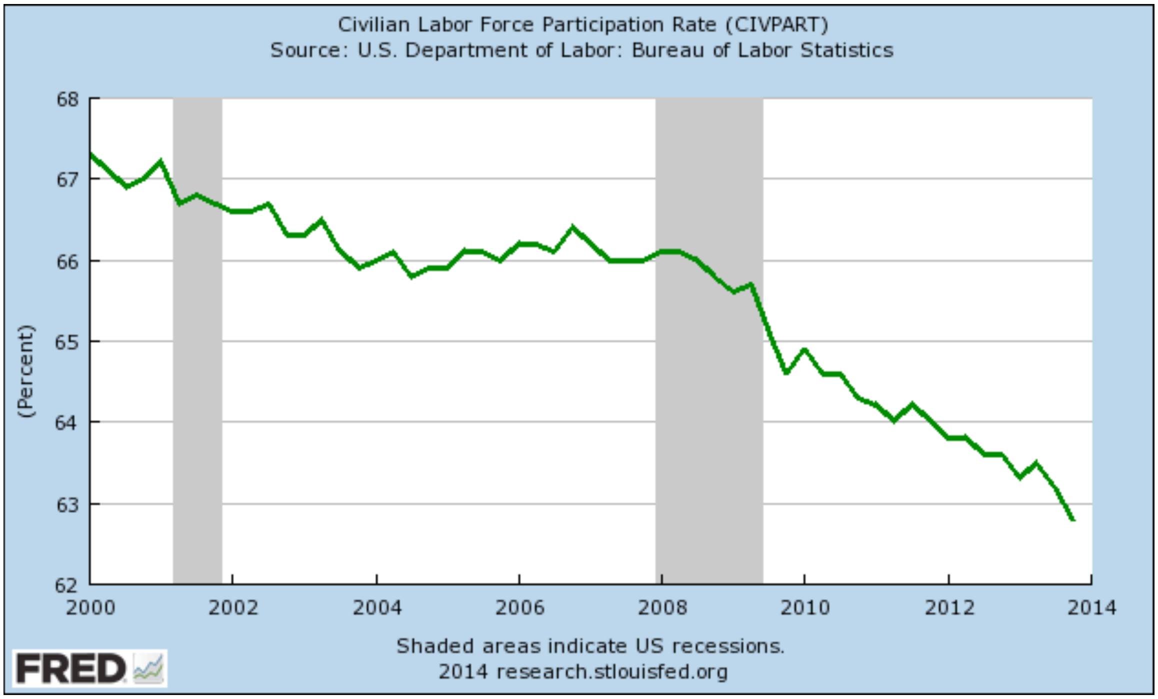
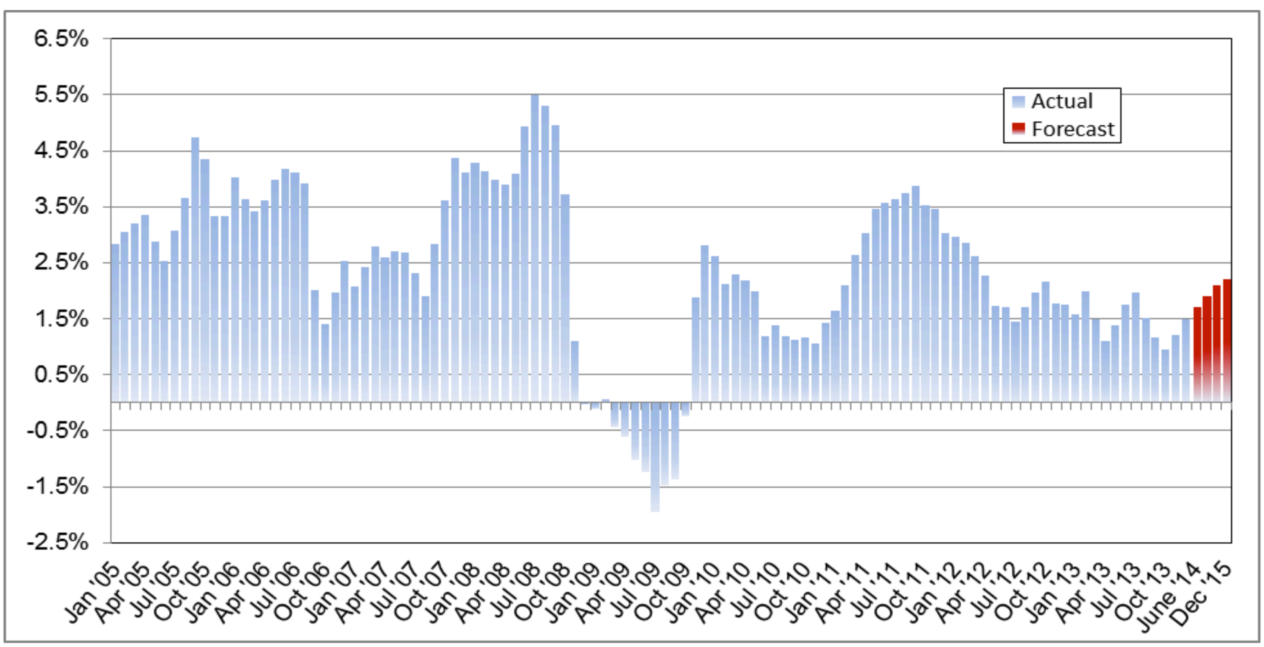


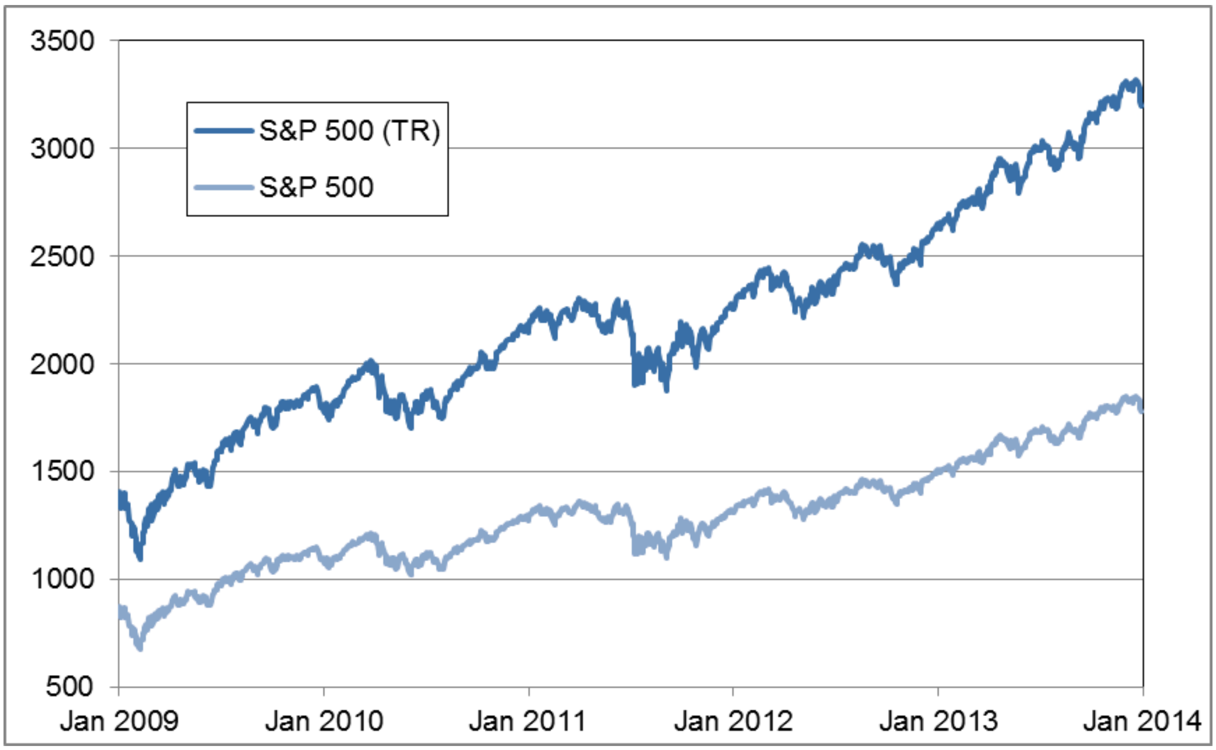
Figure 7 United States Inflation Trend, Annual Change in Consumer Price Index



Source: United States Bureau of Labor Statistics and Wall Street Journal Economic Forecasting Survey

The U.S. Bureau of Labor Statistics (BLS) reported that the Consumer Price Index for All Urban Consumers (CPI-U) increased 0.3 percent in December on a seasonally adjusted basis. Over the last 12 months, the all items index increased 1.50 percent (Figure 7). Moreover, in 2013, the BLS stated that the CPI rose 1.5 percent after a 1.7 percent increase in 2012. This is lower than the 2.4 percent average annual increase over the last ten years. This is the first time the CPI has gone up less than 2.0 percent for consecutive years since 1997-98. The Wall Street Journal forecasts that inflation rates will stay below 2.5 percent through 2015.

Figure 8: Standard & Poor's 500 stock index, 5-years



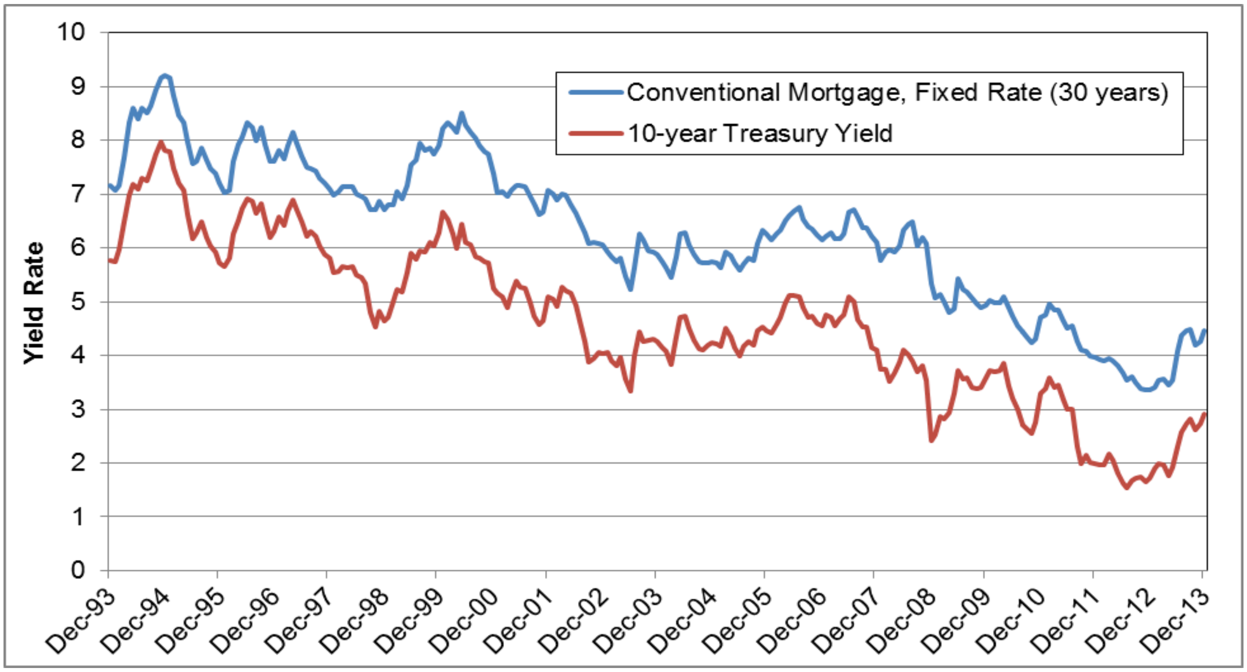
Source: S & P Dow Jones Indices, McGraw Hill Financial

Standard & Poor's long-term outlook on the U.S. credit rating to remains as "stable" and the U.S. still holds an AA+ status—which is one notch below the AAA score that the U.S. held until 2011.

Stocks finished the fourth quarter of 2013 at record highs but have been since retreated for their first monthly decline since August, in the wake of weak earnings reported by companies as well as the mounting concerns about the declining currencies in emerging markets. The S&P 400 is down nearly 4 percent for January 2014, which is the biggest decline since May 2012. (Figure 7).

Much of the reaction by the stock market is due to the decision of the Federal Reserve to buy Treasuries and mortgage bonds in an effort to drive down long-term interest rates and spur spending, hiring and investment. In December, the Fed decided to reduce the bond-buying program by $10 billion to $75 billion, but in the final meeting headed by the outgoing Bernake, the Fed announced a unanimous decision to further reduce the easy money program to $65 billion a month.

Figure 9: 10-year U.S. Treasuries vs. Conventional 30-Year Mortgage Trends, 1993–2013



Source: Federal Reserve Bank

Yields for the 10-year Treasury note increased from 2.81 in September to 2.9 in December 2013. Mortgage rates, which are closely tied to 10-year Treasury yields, began climbing in the second quarter of 2013. In April, the 30-year fixed rate was 3.45 percent. Conventional 30-year fixed rate mortgages went from 4.49 percent in September to 4.46 percent in December 2013.

Figure 10: Trade and U.S. dollar, January 2014

January, 2014	Trade balance		Current-Account Balance			Currency Units, per $		
	latest 12 months ($bn)		latest 12 months ($bn)		% of GDP	Dec 31st	year ago	% change
United States	-716.1	(Oct)	-412.9	(Q3)	-4.0	-	-	
China	+266.5	(Nov)	+14.7	(Q3)	+1.9	6.05	6.23	-2.9%
Australia	+15.8	(Oct)	-51.3	(Q3)	-2.6	1.12	0.96	16.7%
Japan	-97.4	(Oct)	+41.2	(Oct)	+1.0	105	86.5	21.4%
Canada	-8.3	(Oct)	-59.9	(Q3)	-3.1	1.06	1.00	6.0%
Sweden	+8.8	(Nov)	+34.3	(Q3)	+6.0	6.42	6.51	-1.4%
Switzerland	26.3	(Nov)	+79.9	(Q3)	+12.6	0.89	0.92	-3.3%
Britain	-170.3	(Oct)	-94.9	(Q3)	-3.5	0.6	0.62	-3.2%
Euro Area	+190.8	(Oct)	+270.7	(Oct)	+2.0	0.73	0.76	-3.9%
Germany	+256.3	(Oct)	+254.0	(Oct)	+6.9	0.73	0.76	-3.9%
Belgium	+13.1	(Oct)	-12.6	(Sept)	-1.0	0.73	0.76	-3.9%
France	-80.5	(Oct)	-45.5	(Oct)	-1.9	0.73	0.76	-3.9%
Netherlands	+58.0	(Oct)	+83.6	(Q3)	+10.6	0.73	0.76	-3.9%
Italy	+36.9	(Oct)	+16.3	(Oct)	+0.5	0.73	0.76	-3.9%
Spain	-20.0	(Oct)	+10.4	(Oct)	+0.8	0.73	0.76	-3.9%

Source: The Economist

OREGON AND THE PORTLAND AREA

Oregon ranked as the number one destination among people who moved from one state to another in 2013. According to United Van Lines' annual migration study, which tracked 129,000 moves in the United States in 2013, more than 61 percent of all interstate moves made in Oregon were for people coming to live in the state. The continued migration to the Pacific Northwest of young professionals and retirees are attributed to the availability of amenities such as public transit, green space and the local arts and entertainment scene. Inbound migration was primarily from California, Arizona, Texas, Washington and New Mexico, in descending order. Oregon's 2012-2013 population growth is estimated at 0.91 percent, significantly higher than U.S. population growth for the same time period of 0.73 percent.

The Oregon Office of Economic Analysis (OEA) states that Oregon's economy is steadily improving, much like the rest of the nation with recent job growth in Oregon's private sector being faster than the national private-sector growth. Oregon's job growth in 2013 was much stronger than in the prior two years. In 2013, 37,700 jobs were added, compared with 22,000 in 2012 and 18,400 in 2011.

The largest increase in nonfarm payroll employment (seasonally adjusted figures) since December 2012 were in the categories of Trade, Transport and Utilities (+8,500), Professional and Business Services (+7,500), Construction (+6,000), and Leisure & Hospitality (+5,800).

Figure 11: Oregon Job Growth, Nonfarm Payroll Employment, Seasonally Adjusted, Thousands

				Change From	
	Dec-13	Nov-13	Dec-12	Nov-13	Dec-12
Construction	76.0	76.4	69.2	-0.4	6.8
Manufacturing	175.8	175.5	172.5	0.3	3.3
Trade, Transport and Utilities	328.0	327.6	319.5	0.4	8.5
Financial Activities	89.1	88.9	90.0	0.2	-0.9
Professional and Business Services	206.5	204.9	199.0	1.6	7.5
Educational and Health Services	244.6	244.2	240.7	0.4	3.9
Leisure and Hospitality	178.2	178.2	172.4	0.0	5.8
Other Services	59.2	58.3	57.1	0.9	2.1
Government	289.1	287.9	289.2	1.2	-0.1
Total	1,687.5	1,683.1	1,649.8	4.4	37.7

Source: Oregon Employment Department

The OEA reports that in December, “Oregon's unemployment rate fell as more people were able to find jobs and there were fewer unemployed. There were nearly 132,000 Oregonians unemployed compared with approximately 160,000 a year earlier. This drop of more than 28,000 individuals since December 2012 was good news for many families in the state and for many sectors of Oregon’s economy.”

Figure 12: Portland-Vancouver-Hillsboro MSA, nonfarm payroll employment, not adjusted for seasonality

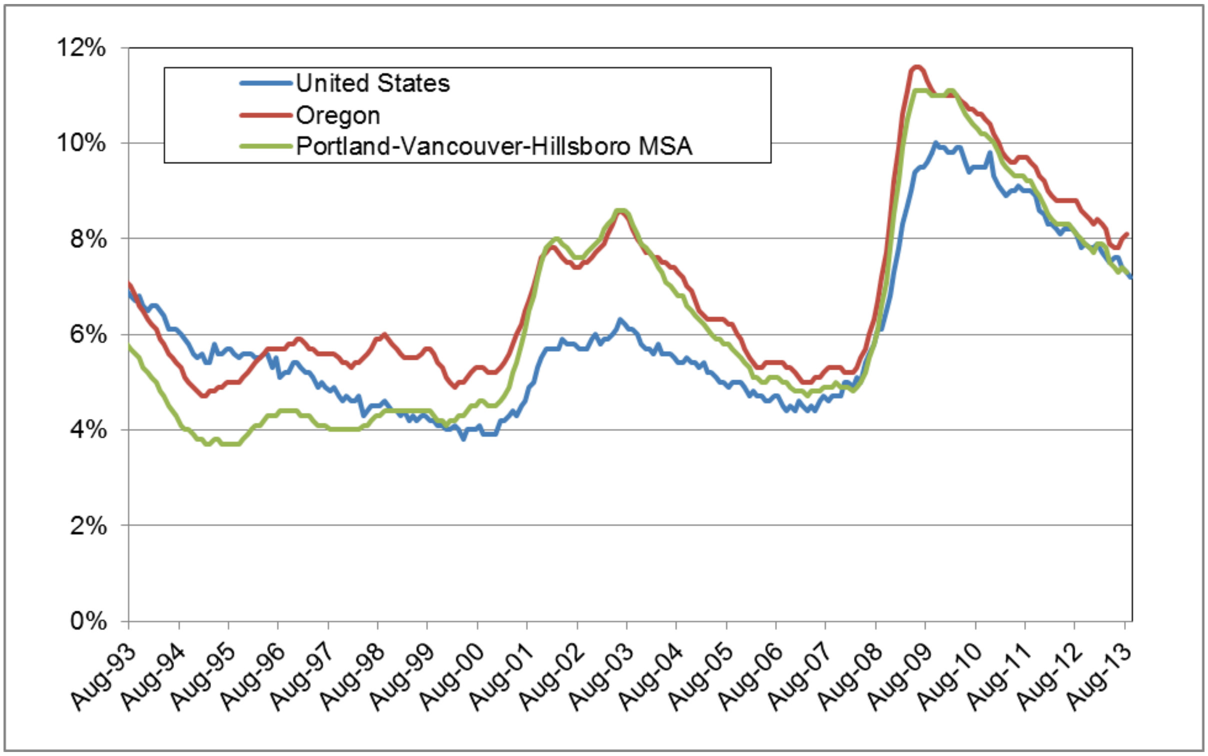
	Aug 2013		Sept 2013		Oct 2013		Nov 2013		Dec 2013	
Total Non-farm Employment	1,028,200		1,030,100		1,036,200		1,040,700		1,039,400	
Unemployment rate	7.3%		7.3%		7.0%		6.8%		6.6%	
Mining and Logging	1,000	0.0%	1,000	0.0%	900	-10.0%	900	0.0%	900	0.0%
Construction	53,700	0.8%	54,900	2.2%	54,300	-1.1%	52,700	-2.9%	51,700	-1.9%
Manufacturing	117,900	0.3%	116,700	-1.0%	116,700	0.0%	116,500	-0.2%	115,900	-0.5%
Trade, Transportation, & Utilities	198,600	-0.1%	198,200	-0.2%	198,500	0.2%	202,900	2.2%	204,500	0.8%
Information	23,100	-0.4%	23,000	-0.4%	22,900	-0.4%	23,300	1.7%	23,600	1.3%
Financial Activities	63,700	-1.4%	63,000	-1.1%	62,200	-1.3%	61,600	-1.0%	62,000	0.6%
Professional & Business Services	148,800	-0.4%	147,800	-0.7%	146,600	-0.8%	146,100	-0.3%	145,600	-0.3%
Educational & Health Services	143,700	1.3%	147,600	2.7%	150,000	1.6%	150,500	0.3%	150,100	-0.3%
Leisure and Hospitality	108,100	0.5%	105,000	-2.9%	101,600	-3.2%	101,800	0.2%	101,500	-0.3%
Other Services	37,800	1.6%	37,700	-0.3%	38,000	0.8%	37,800	-0.5%	38,200	1.1%
Government	132,500	-1.2%	135,200	2.0%	144,500	6.9%	146,600	1.5%	145,400	-0.8%

Source: Oregon Employment Department

Locally, between August to December, 2013, the industries with the majority of Portland-Vancouver-Hillsboro MSA employment growth were in Government (+12,900), Education & Health Services (+6,400), and Trade, Transportation & Utilities (+5,900), as seen below in Figure 12.

In December alone, job gains were concentrated in three of the 11 major industries: professional and business services (+1,600 jobs), government (+1,200) and other services (+900).

Figure 12: Unemployment rate, national and local



Source: Bureau of Labor Statistics and Oregon Office of Economic Analysis

Oregon's unemployment rate typically treads above the national rate and in December was 7.0 percent, slightly higher than the national rate of 6.7 percent for the same month (Figure 12). Portland-Vancouver-Hillsboro MSA has observed persistent growth in employment in recent years and, although more volatile than both the national and state unemployment rates, had unemployment remain steady at 6.6 percent in December on a seasonally adjusted basis. ■

RESIDENTIAL MARKET ANALYSIS

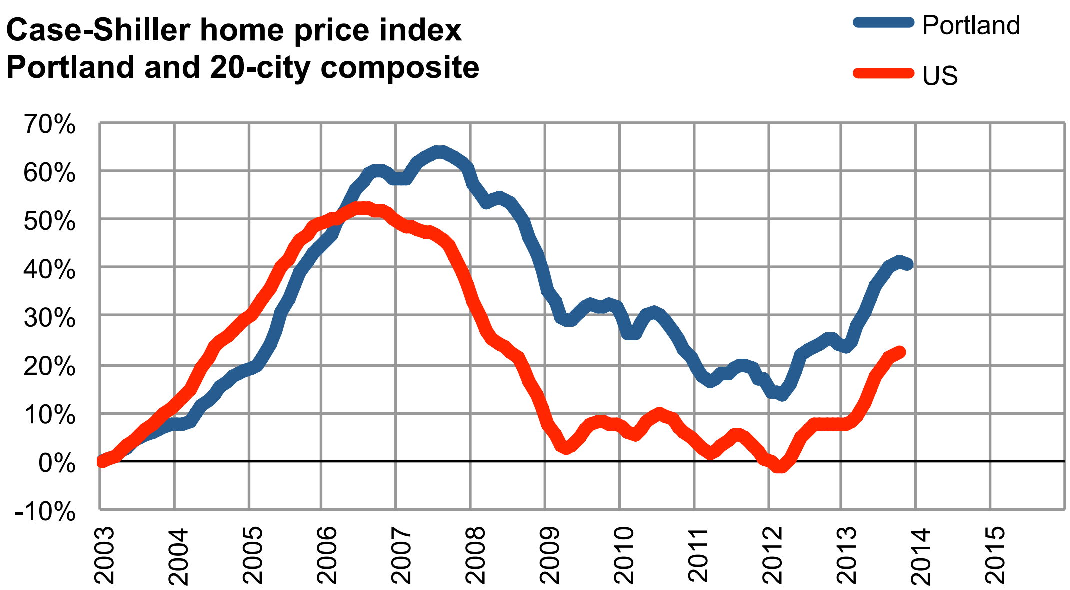
Scott Holden

RMLS Student Fellow
Master of Real Estate Development Graduate Student

Existing home sales in the United States edged up in December and median prices maintained strong growth, according to the National Association of Realtors. For all of 2013, there were 5.09 million sales, which is 9.1 percent higher than 2012. It was the strongest performance since 2006 when sales reached a high of 6.48 million at the close of the housing boom.

Lawrence Yun, NAR chief economist, said housing has experienced a healthy recovery over the past two years. "Existing home sales have risen nearly 20 percent since 2011, with job growth, record low mortgage interest rates and a large pent up demand driving the market," he said. "We lost some momentum toward the end of 2013 from disappointing job growth and limited inventory, but we ended with a year that was close to normal given the size of our population." Housing inventory fell to 1.86 million existing homes available for sale which is a 9.3 percent decline and a 4.6 month supply at current pace.

■ Scott Holden is a Senior Relationship Manager at First Republic Bank. 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.



Across the 20 metro areas included in the Standard & Poor's/Case-Shiller Index prices were up 13.7 percent in November from a year earlier. In the Portland area, prices were up 12.5 percent from a year earlier but down 0.3 percent for the month. Nine of the 20 cities surveyed saw a monthly decline in prices in November, while nine others saw prices rise. Two showed no change. Every city surveyed showed prices rising year-over-year.

Regionally the west performed better in terms of increase in units sold and increase in median sales price followed by followed by the South. While the Northeast and Midwest both showed increases in median prices the number of units sold declined.

Inventory remains low at 3.2 months and Realtors continue to report a lack of quality inventory.

New construction and infill projects are competing for buildable land and lots driving prices up for both raw lots and finished product.

Table 1: Regional Home Sales and Prices, 2013 Fourth Quarter

Region	Sales	Year-Over-Year Change	Median Price	Year-Over-Year Change
Northeast	640,000	-1.5%	$239,300	3.6%
Midwest	1,110,000	-4.3%	$150,700	7.0%
South	2,030,000	3.0%	$173,200	8.9%
West	1,090,000	4.8%	$285,000	16.0%

Table 2: Median Home Values of Existing Detached Homes, 2013 Fourth Quarter

	U.S.	West	Portland Metro Area
December 2012 Median Sales Price	$180,250	$245,700	$247,900
December 2013 Median Sales Price	$197,900	$285,000	$267,300
% Change in Median Sales Price	9.8%	16.0%	12.8%
% Change in Number of Sales Dec 2012- Dec 2013	1.9%	4.8%	14.3%

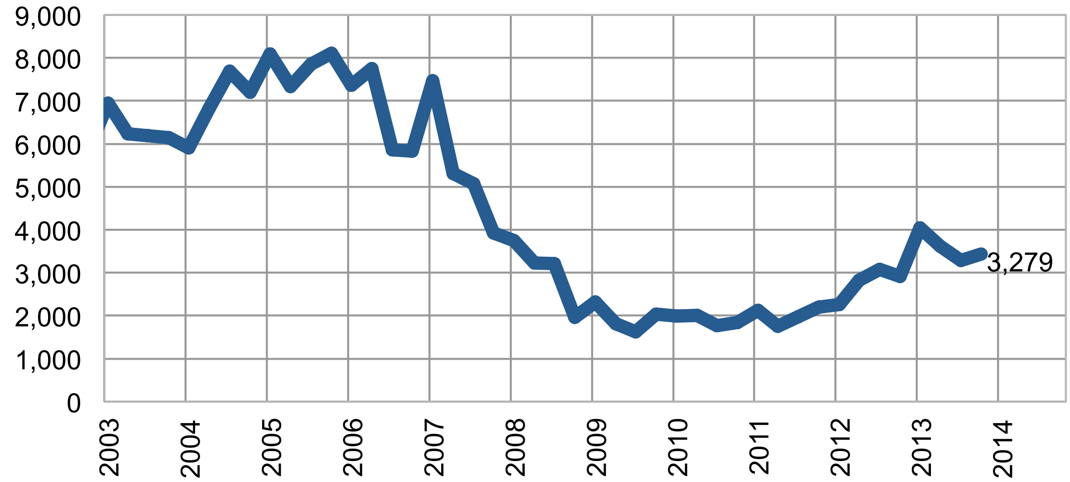
Table 3: Year-Over-Year Changes in Portland Market

	2012:4Q	2013:4Q	% Change
New			
Days on market	80	71	-11%
Median price	$308,626	$350,000	13%
Units sold	669	534	-20%
Existing			
Days on market	76	80	5%
Median price	$242,000	$271,500	12%
Units sold	4,659	4,725	1%

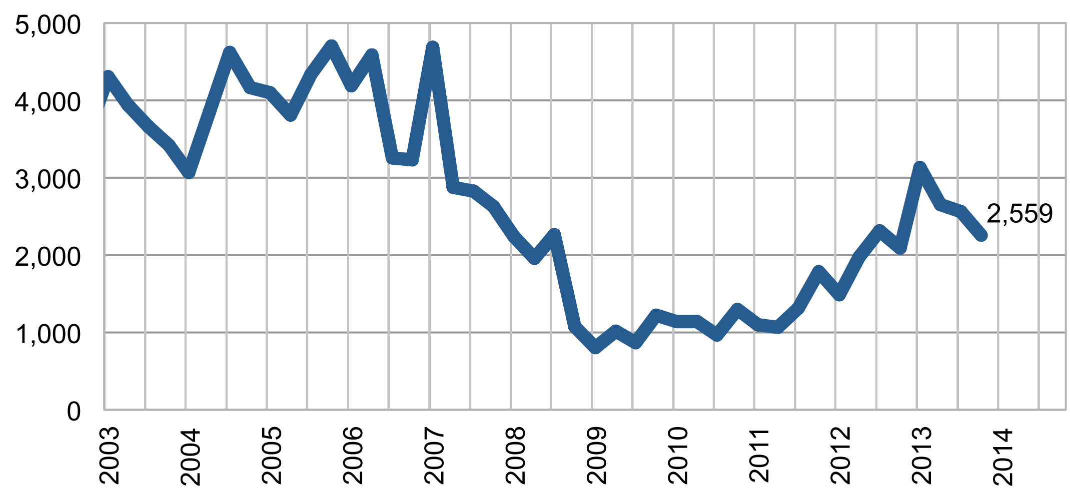
PERMITTING ACTIVITY

Residential building permit activity picked up in 2013. Statewide, permits were 30 percent higher in 2013 than in 2012. The Portland area saw an increase of 35 percent, while Bend experienced a 65 percent increase in permitting activity. Eugene and Medford saw increase of 20 percent to 25 percent.

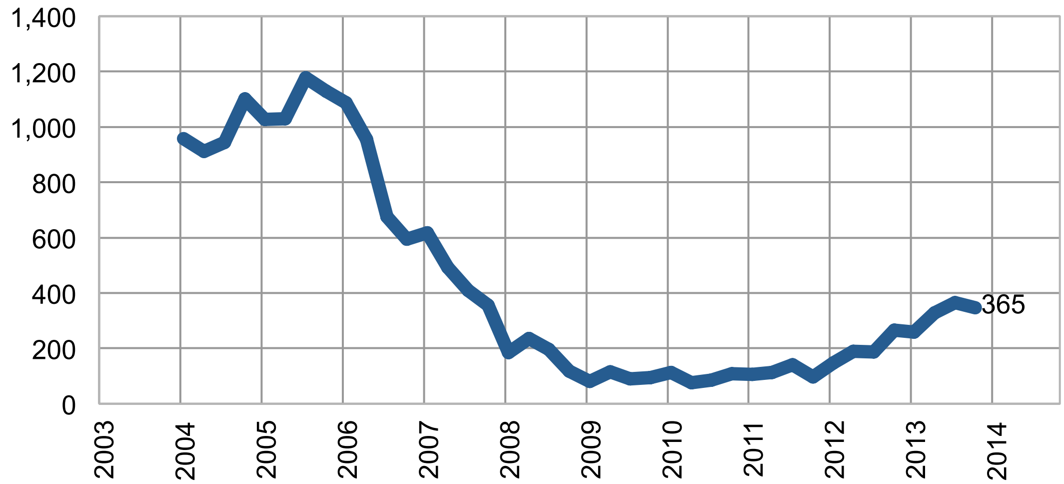
Building permits for new private housing, quarterly
Oregon, statewide



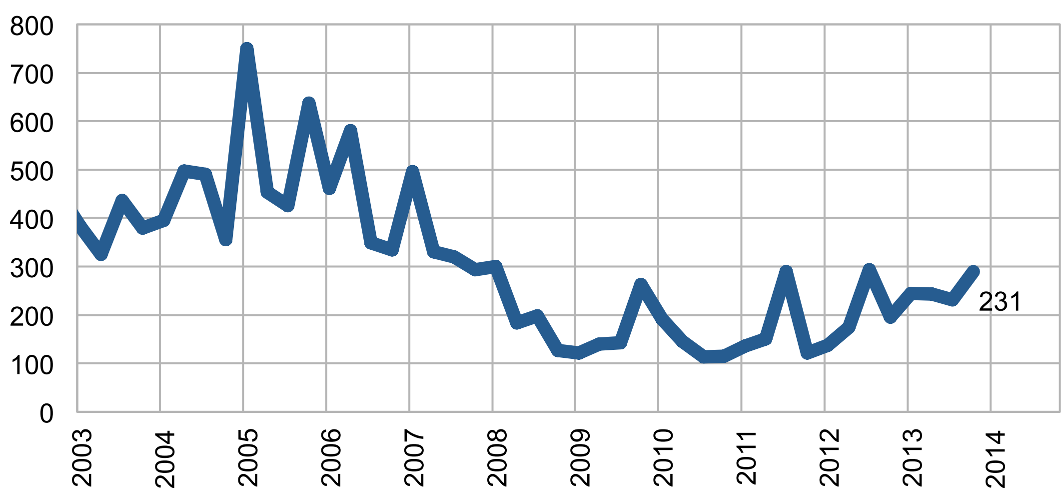
Building permits for new private housing, quarterly
Portland-Vancouver-Beaverton MSA

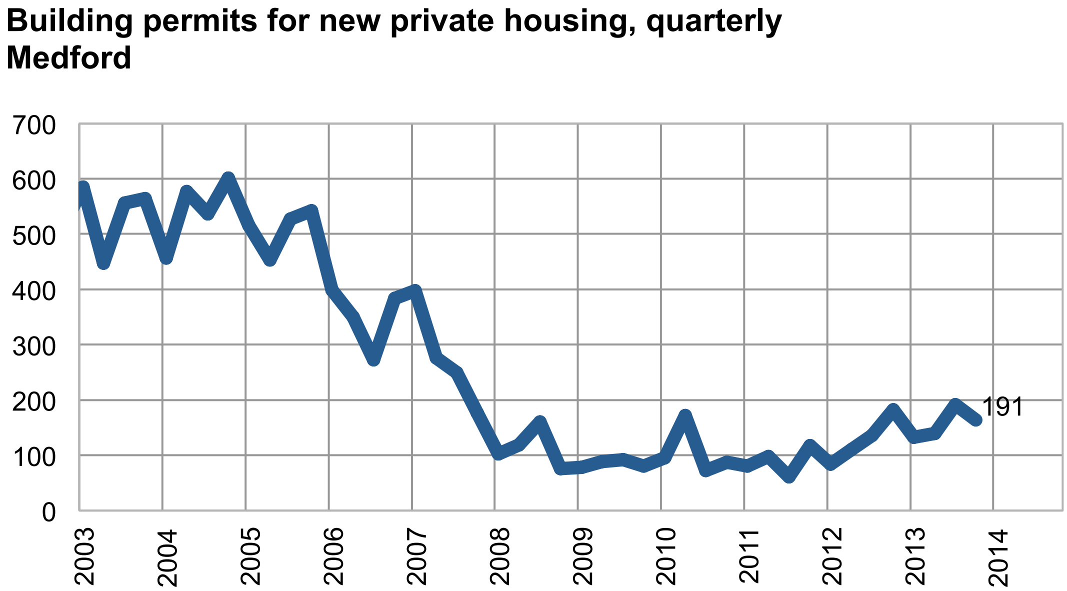


Building permits for new private housing, quarterly
Bend



Building permits for new private housing, quarterly
Eugene-Springfield



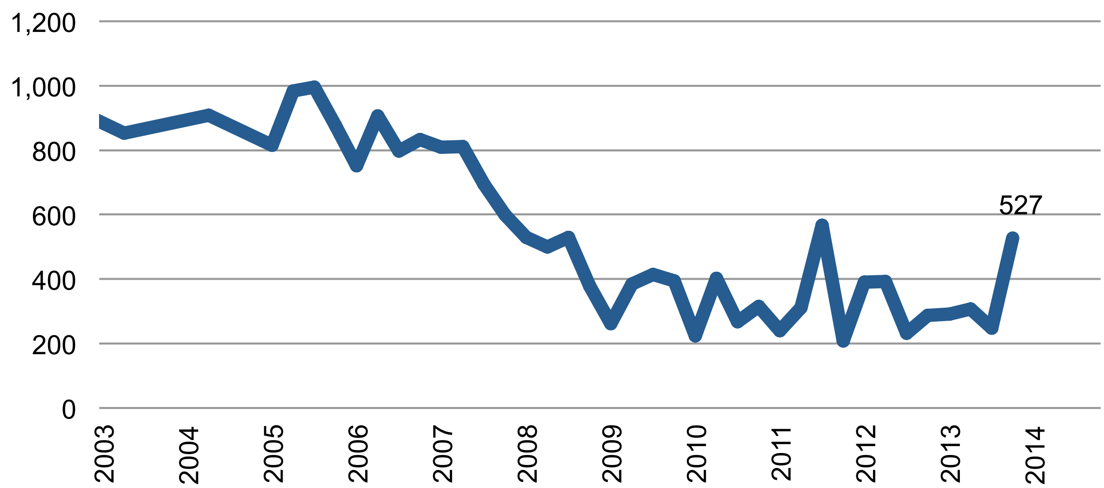


PORTLAND

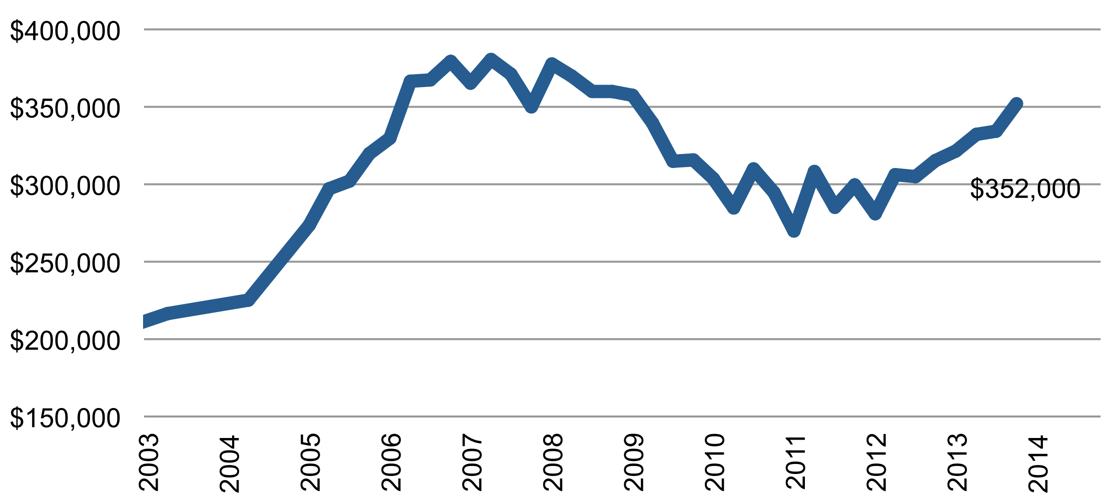
Buyers closed on purchases of 527 new detached homes and 4,719 existing homes. The number of transactions in are up 15 percent from the same quarter last year. Median prices were $352,000 for new homes, up 11.6 percent from last year. The median price of existing homes was $272,000, or 5 percent lower than the same quarter last year.

Sellers are obtaining 98.3 percent of their asking price and on average closing the transactions within 60 days of listing the house on the market.

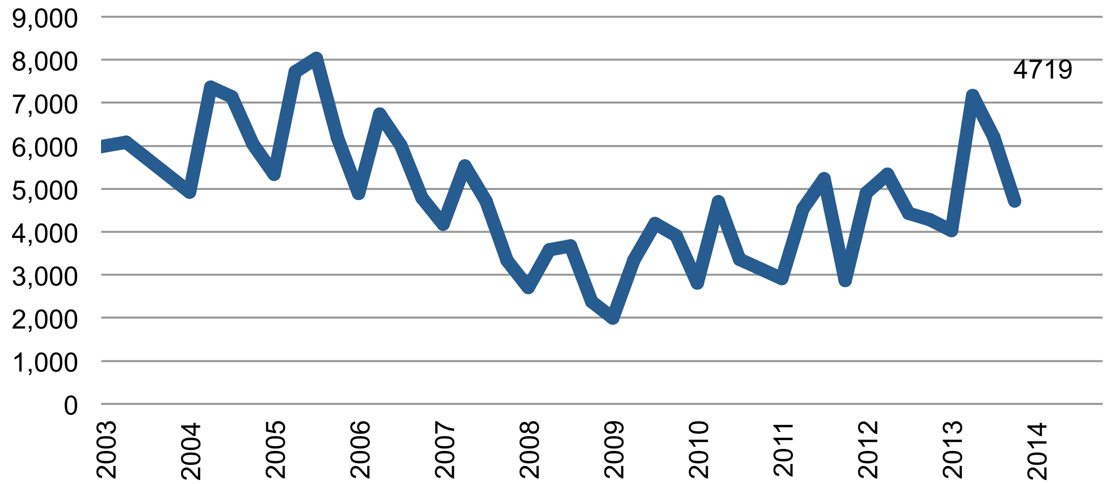
Number of transactions
Portland metro, new detached homes



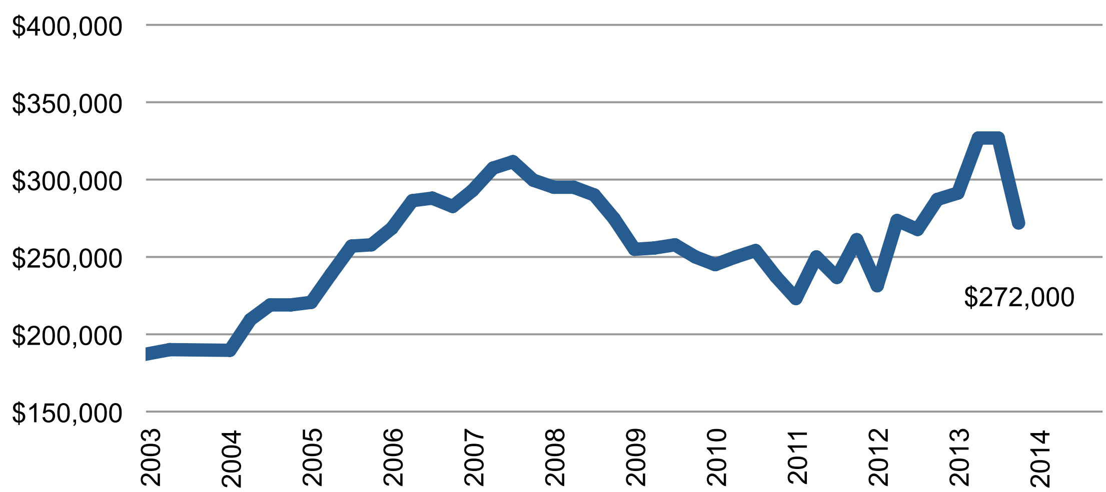
Median sales price
Portland metro, new homes



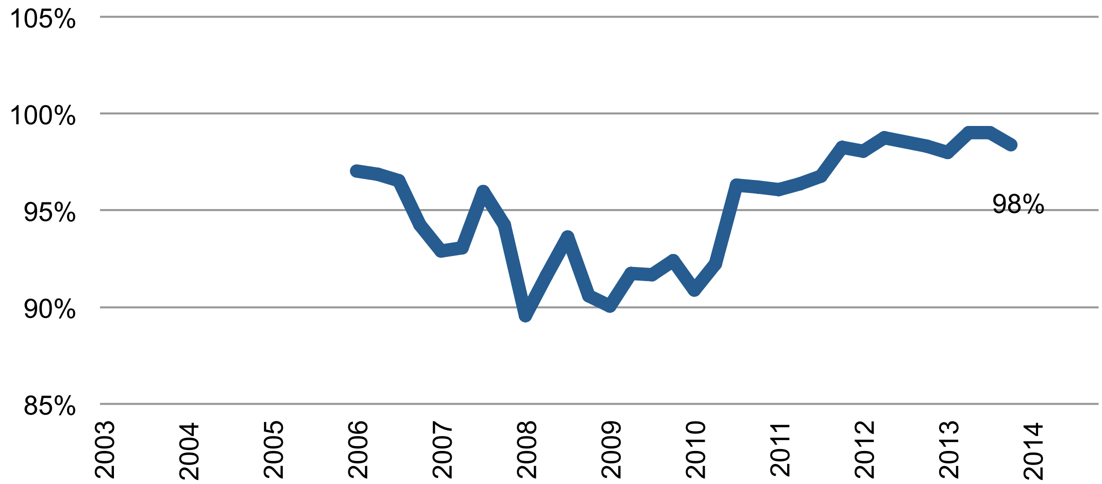
**Number of transactions
Portland metro, existing homes**



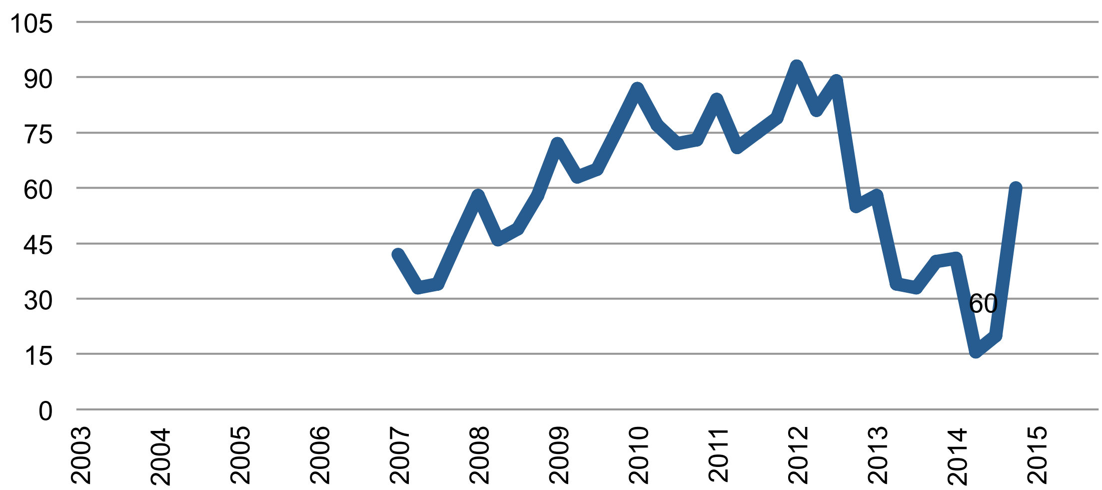
**Median sales price
Portland metro, existing homes**



Ratio of sales price to list price
Portland metro, existing homes



Days on market
Portland metro, existing homes

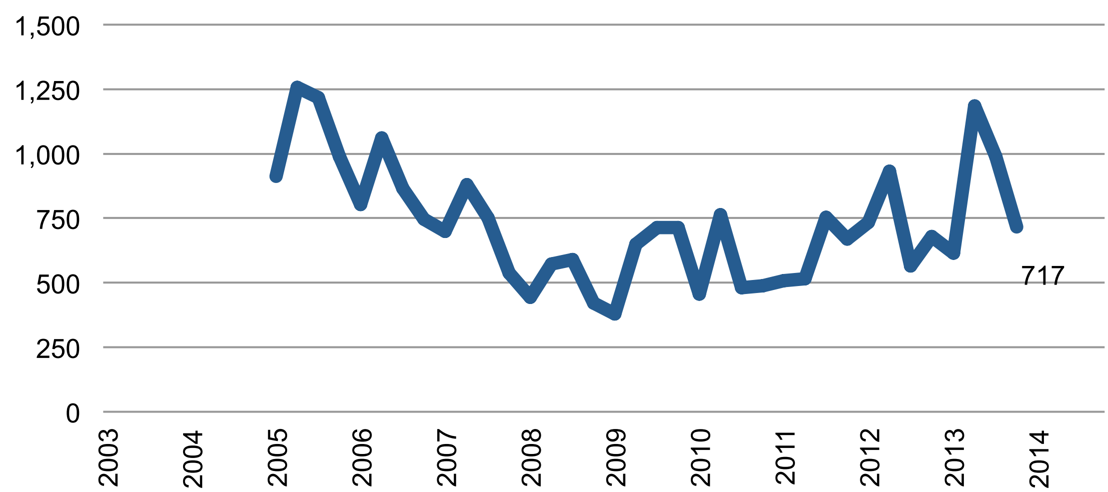


VANCOUVER

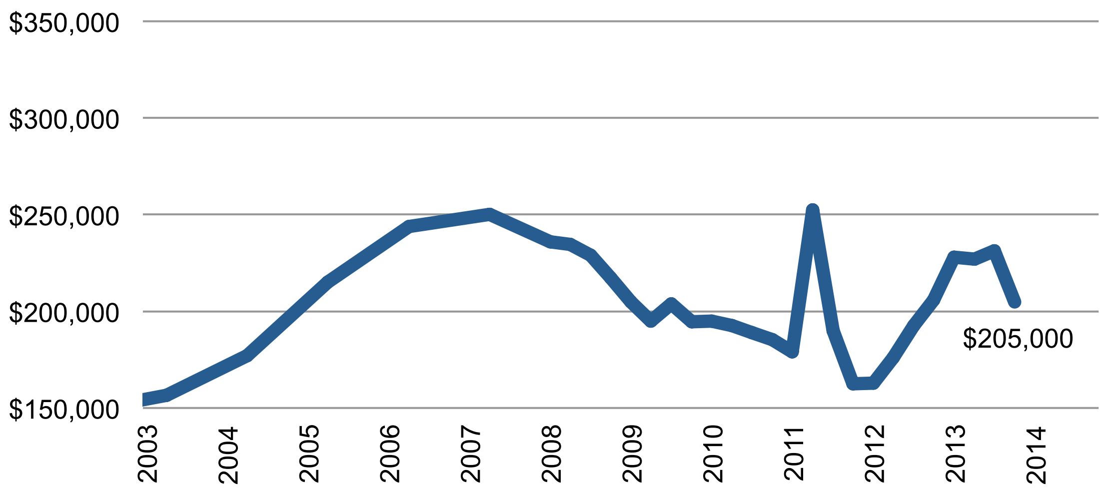
In Vancouver, the median home price in fourth quarter 2013 was $205,000, which is virtually unchanged from the same quarter last year. The number of transactions are up but increased by 5.8 percent over last year, but the number of days on the market are up 40 percent to 66 days.

In Clark County suburbs, the median home price during the fourth quarter of 2013 was $246,950 or down 2.2 percent over last year. At the same time, the number of transactions increased by 2.9 percent to 530 sales, while days on the market stood increased 21 percent to 75 days.

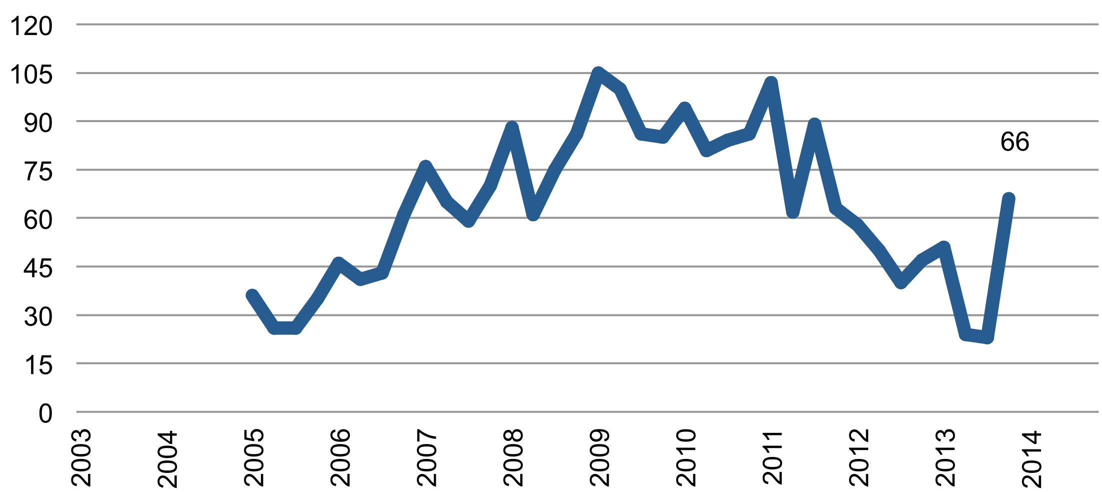
Number of transactions Vancouver, existing homes



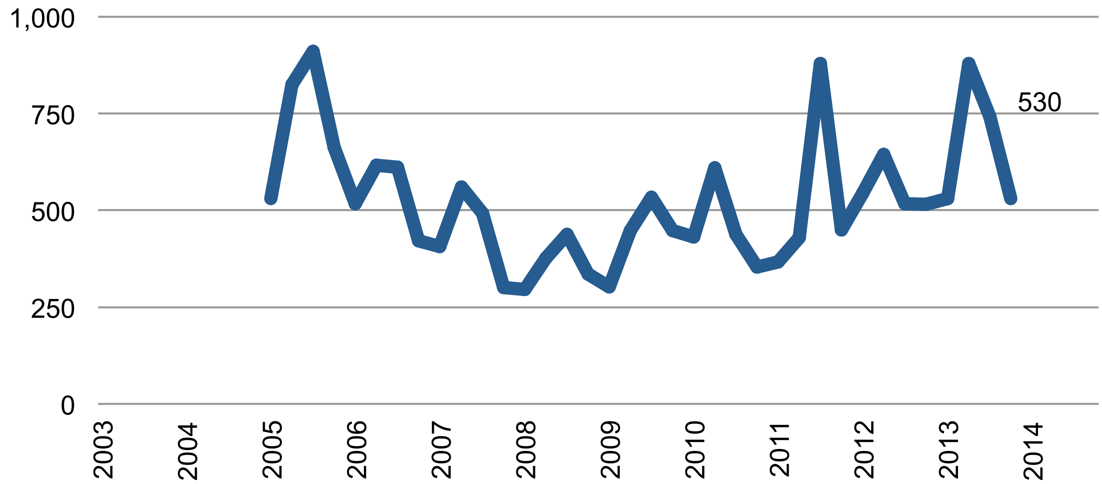
Median sales price
Vancouver, existing homes



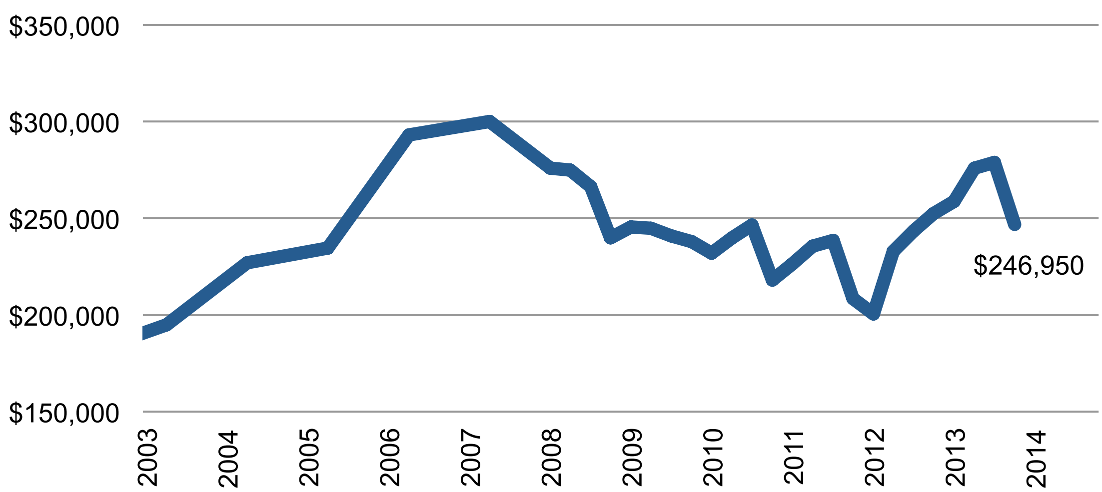
Days on market
Vancouver, existing homes



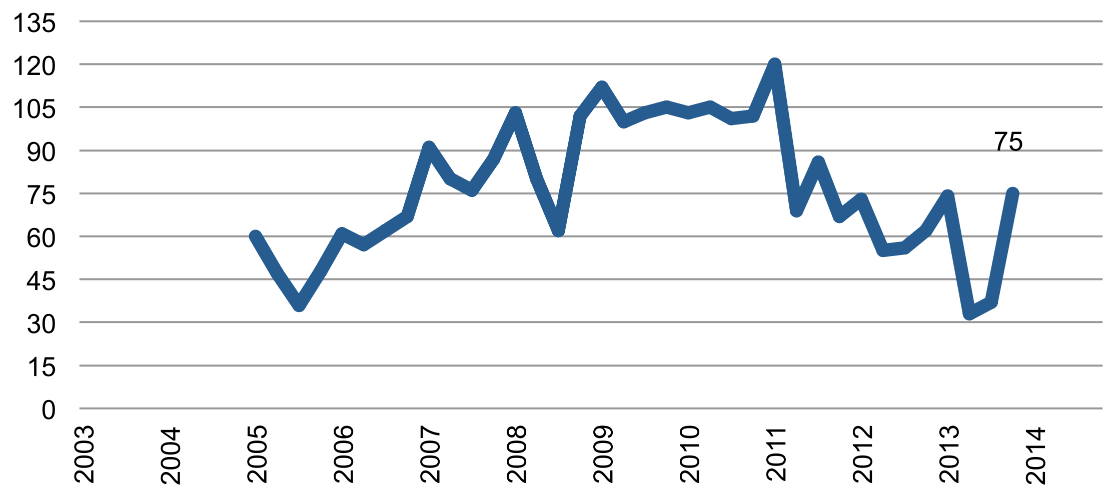
Number of transactions
Clark County, excluding Vancouver, existing homes



Median sales price
Clark County, excluding Vancouver, existing homes



Days on market
Clark County, excluding Vancouver, existing homes



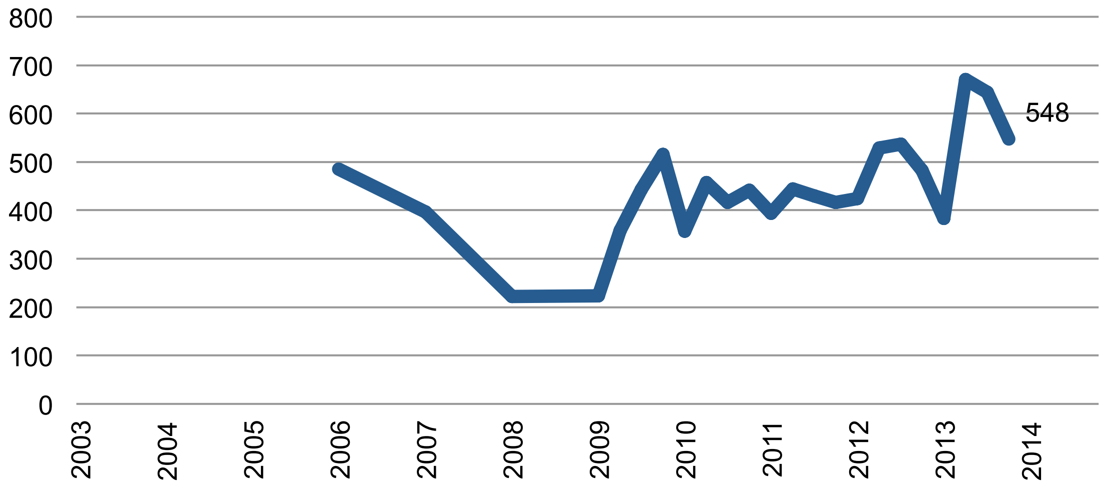
CENTRAL OREGON

At 548 transactions, fourth quarter Bend home sales of less than one acre are up 13.0 percent since the same period last year. At 139 transactions of less than one acre, Redmond is down 18 percent over last year.

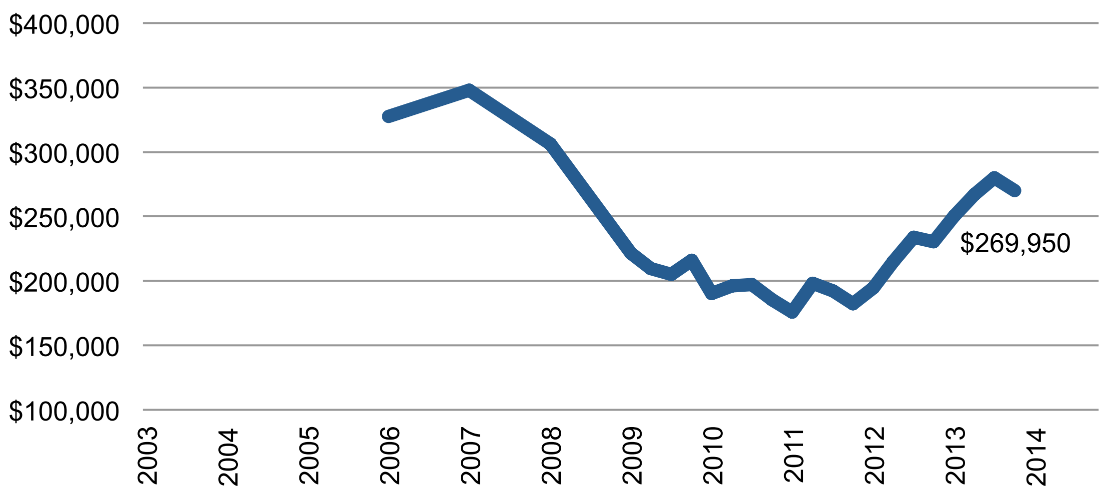
The number of days on the market for Bend increased from 99 days in the third quarter to 115 days in the fourth quarter. The fourth quarter of 2012 days on market was 146. Days on market in Redmond dropped from 128 to 126 from third to fourth quarter. The fourth quarter of 2012 days on marker stood at 137.

For sales under an acre, the median home prices for Bend and Redmond both decreased since the third quarter of 2013. Year over year both Bend showed increase in median price to 269,950 and Redmond to $180,000. This is an increase of 17 percent and 30 percent respectively

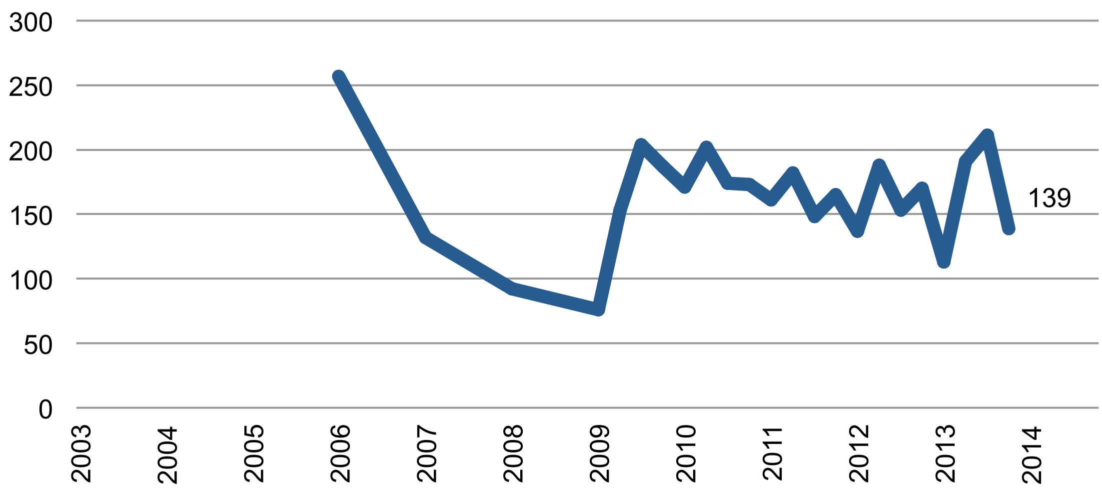
Number of transactions
Bend, under 1 acre



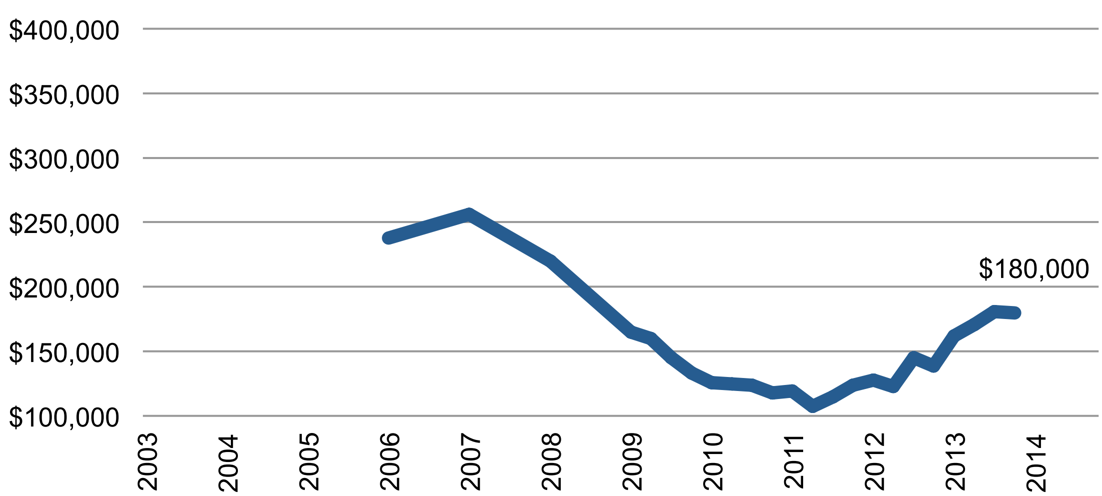
Median sales price
Bend, under 1 acre



Number of transactions
Redmond, under 1 acre



Median sales price
Redmond, under 1 acre

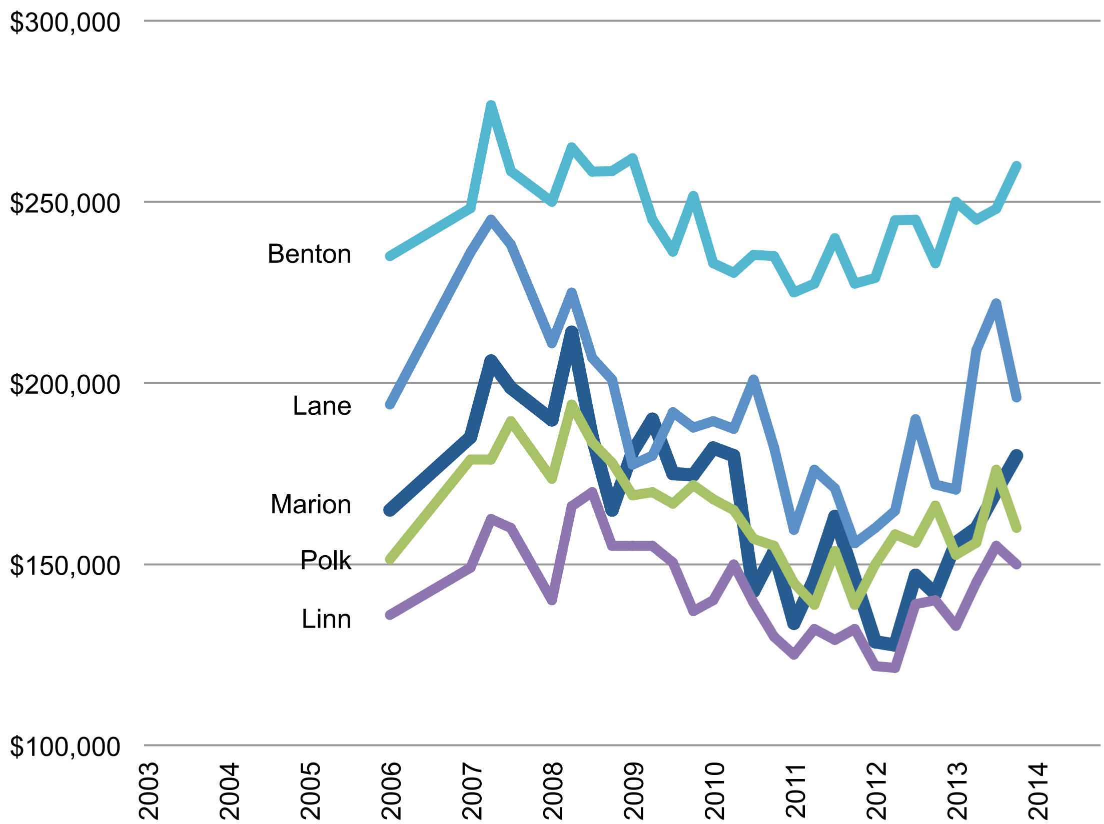


WILLAMETTE VALLEY

With the exception of Polk County, the Willamette Valley experienced year-over-year increases in median sales prices:

- Marion County: Up 27 percent.
- Lane County: Up 14 percent.
- Linn County: Up 7 percent.
- Benton County: Up 12 percent.
- Polk County: Down 4 percent.

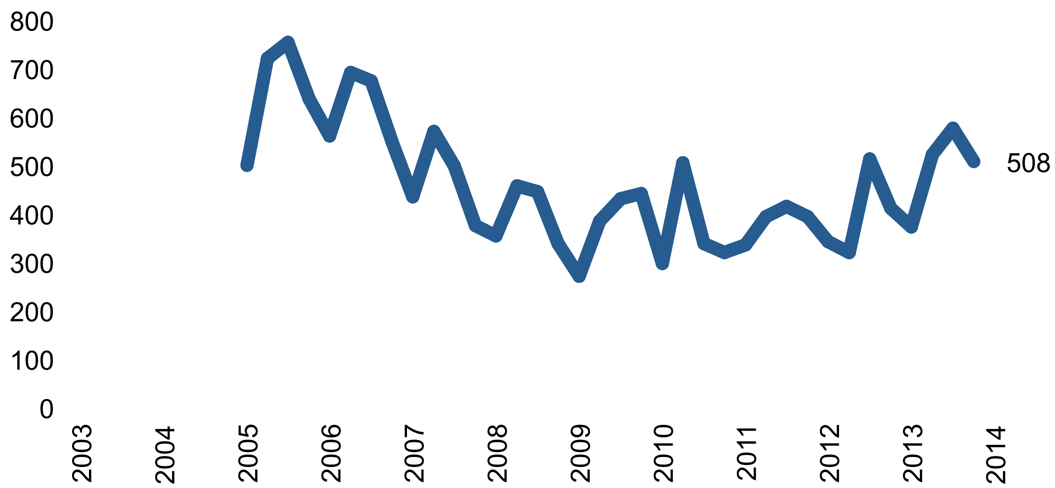
Median sales price
Willamette Valley, existing detached homes



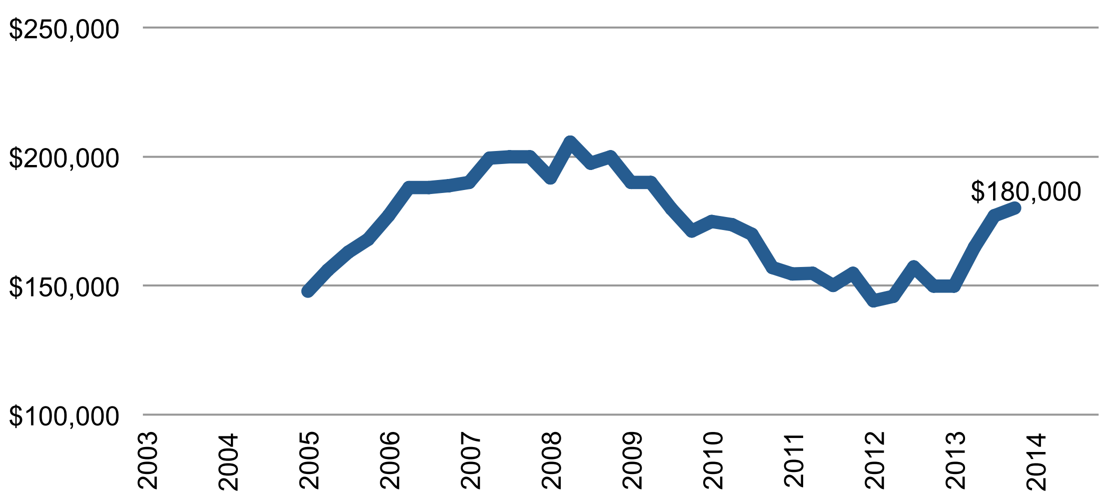
SALEM

The median home price in is up 20 percent since the same quarter last year, with a median price of $180,000. At the same time, the number of transactions are up 24 percent over last year, while the number of days on the market are virtually unchanged since last year at 115 days.

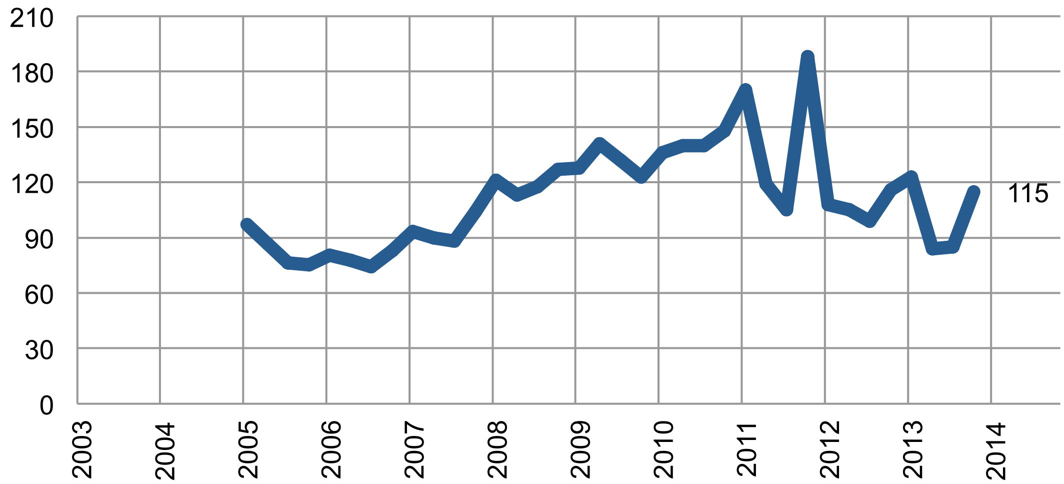
Number of transactions
Salem, existing homes



Median sales price
Salem, existing homes



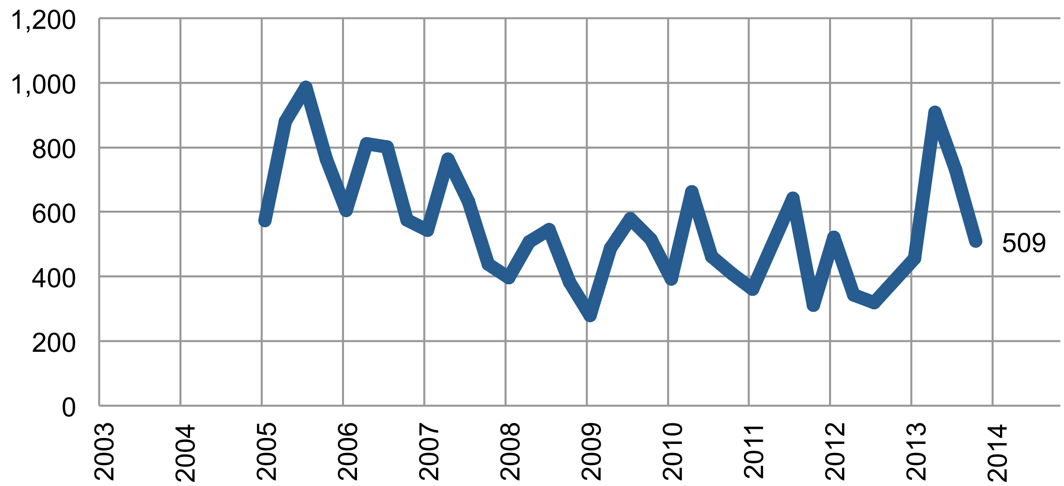
Days on market
Salem, existing homes



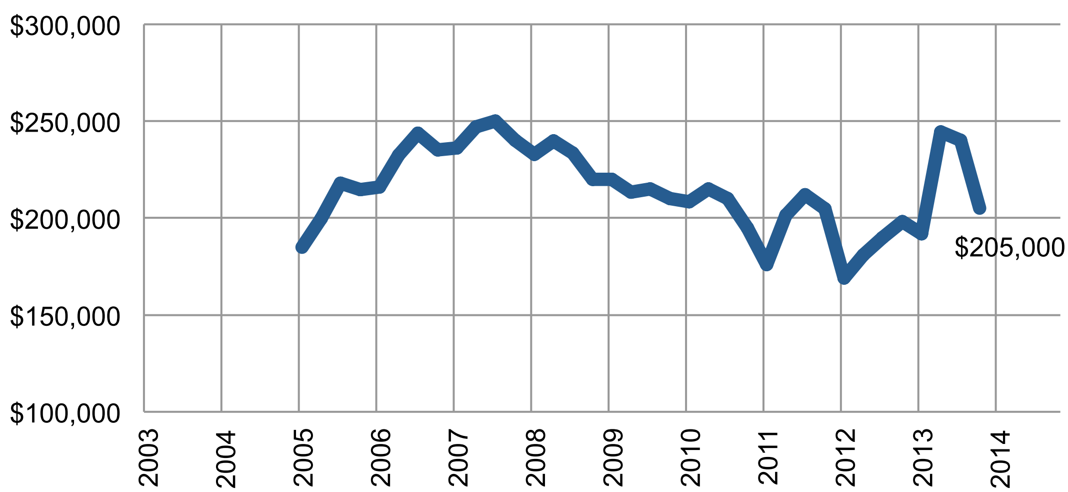
EUGENE/SPRINGFIELD

Median home prices in the Eugene/Springfield area increased 3.5 percent since the same quarter last year to $205,000. There were 509 transactions in the fourth quarter of 2013 with the median number of days on the market of 79.

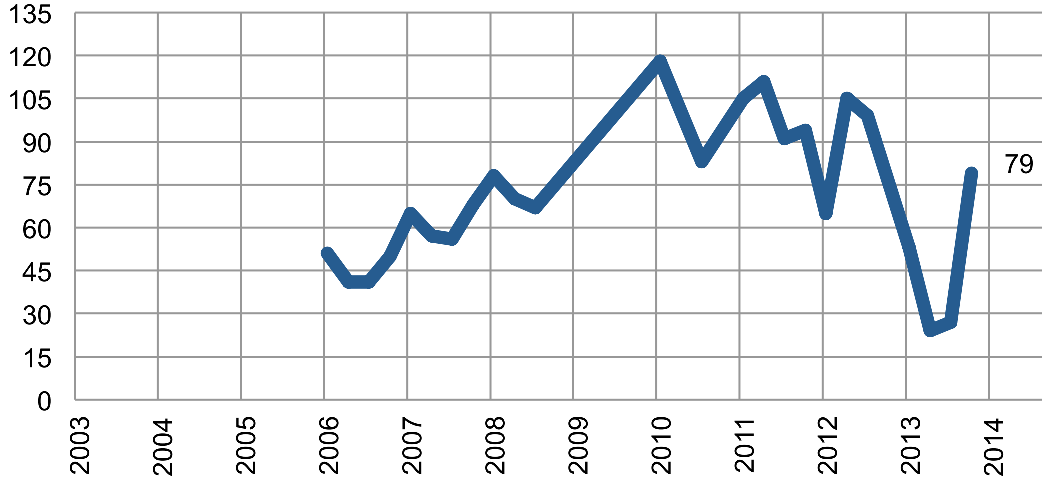
Number of transactions
Eugene-Springfield, existing homes



Median sales price
Eugene-Springfield, existing homes



Days on market
Eugene-Springfield, existing homes



MULTIFAMILY MARKET ANALYSIS

SCOTT HOLDEN

RMLS Student Fellow
Master of Real Estate Development Graduate Student

The multifamily market continues to be strong. According to the Barry Report shows at least 189 projects recently completed, under construction or proposed accounting for approximately 22,800 units across the Portland/Vancouver area.

The Census bureau reported permits issued for 4,565 multifamily units in 76 buildings within the Portland Metro area in 2013, with 187 of those units permitted in December 2013.

Integra Realty Resources forecasts average annual net absorption of class A&B units at 2,150. This is 20 percent higher than the previous three year average of 1,784. This would suggest that while significant new product is coming to the market it is met with an increased demand and migration. This is supported by Allied Van Lines 2013 annual migration study which shows after four straight years as runner-up, Oregon now has the highest rate of in-migration in the U.S., with 61 percent of moves to the state inbound ones.

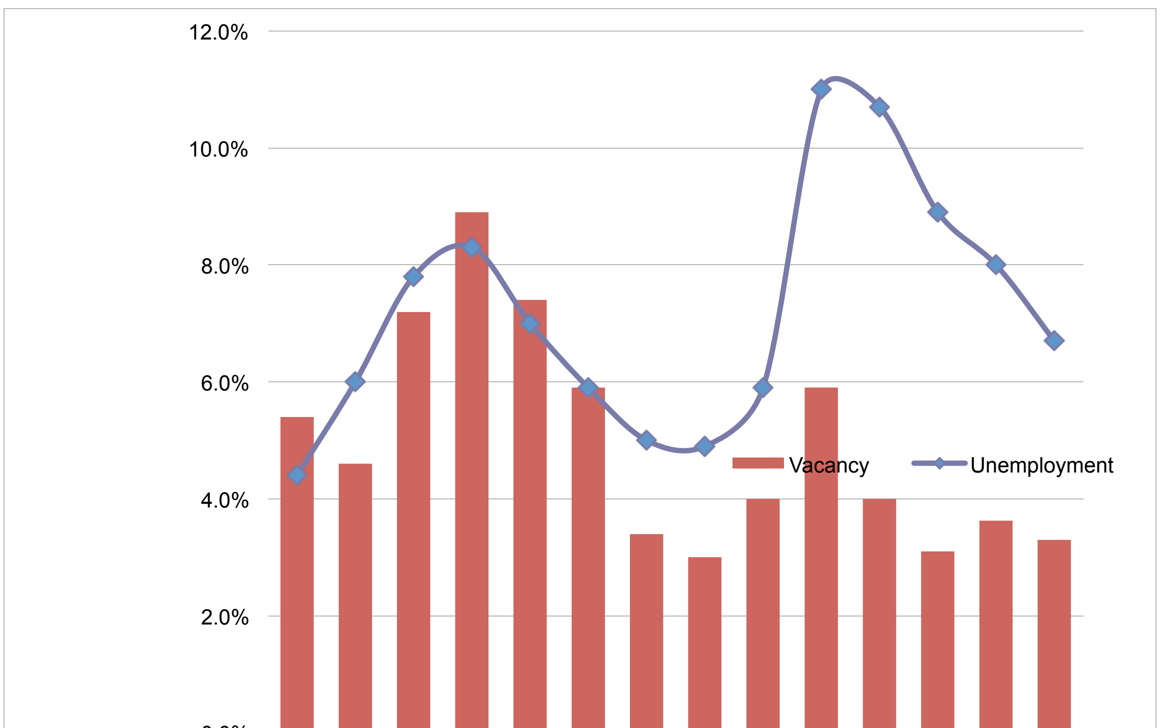
■ Scott Holden is a Senior Relationship Manager at First Republic Bank. He is currently working towards the Master of Real Estate Development degree through Portland State University's School of Business where he is an RMLS Student Fellow. Any errors or omissions are the author's responsibility. Any opinions expressed are those of the author solely and do not represent the opinions of any other person or entity.

"While job growth in Portland isn't quite as strong as it is in Seattle, there are still approximately nine jobs being created for each new apartment unit delivered to the market," according to Jay Denton, vice president of research for Axiometrics. "That is a strong demand/supply ratio," he points out. The axiom that Portland is a place where people want to live is becoming more measurable.

Axiometrics, a leading provider of apartment data and market research, reports that effective rent growth remained strong, at a rate of 6.4 percent, up from 3.53 percent in February. Occupancy remained strong at an average rate of 96.7 percent at the end of 2013.

Unemployment rates are positively correlated with vacancies as shown in the chart below. Portland currently has an unemployment rate of 6.7 percent, which is down from 7 percent from 3 months earlier.

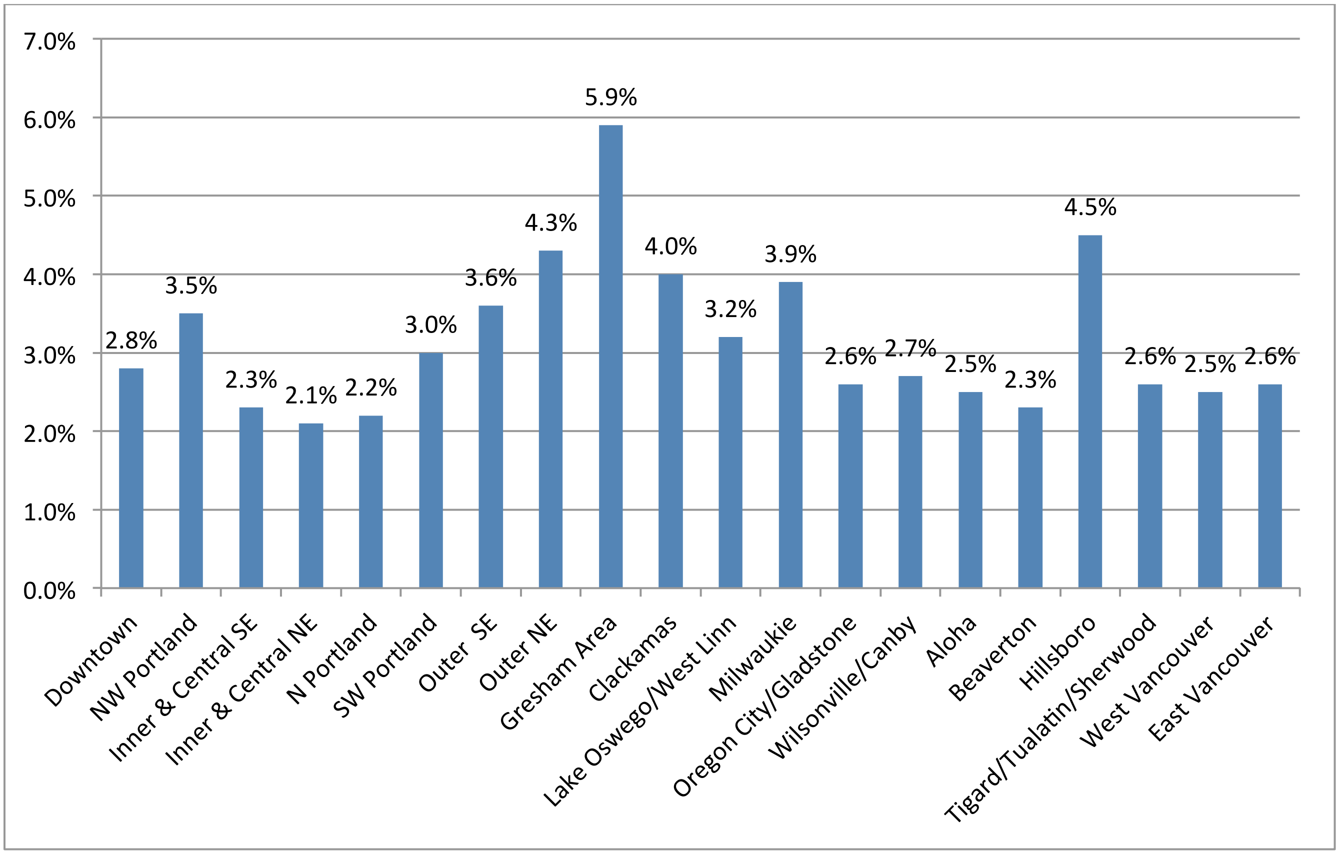
Figure 1: Unemployment and Multifamily Vacancy, Portland Metropolitan Area



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Vacancy	5.4%	4.6%	7.2%	8.9%	7.4%	5.9%	3.4%	3.0%	4.0%	5.9%	4.0%	3.1%	3.6%	3.3%
Unemployment	4.4%	6.0%	7.8%	8.3%	7.0%	5.9%	5.0%	4.9%	5.9%	11.0%	10.7%	8.9%	8.0%	6.7%

Migration and demand 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 bedroom (BD), 1 bath (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.

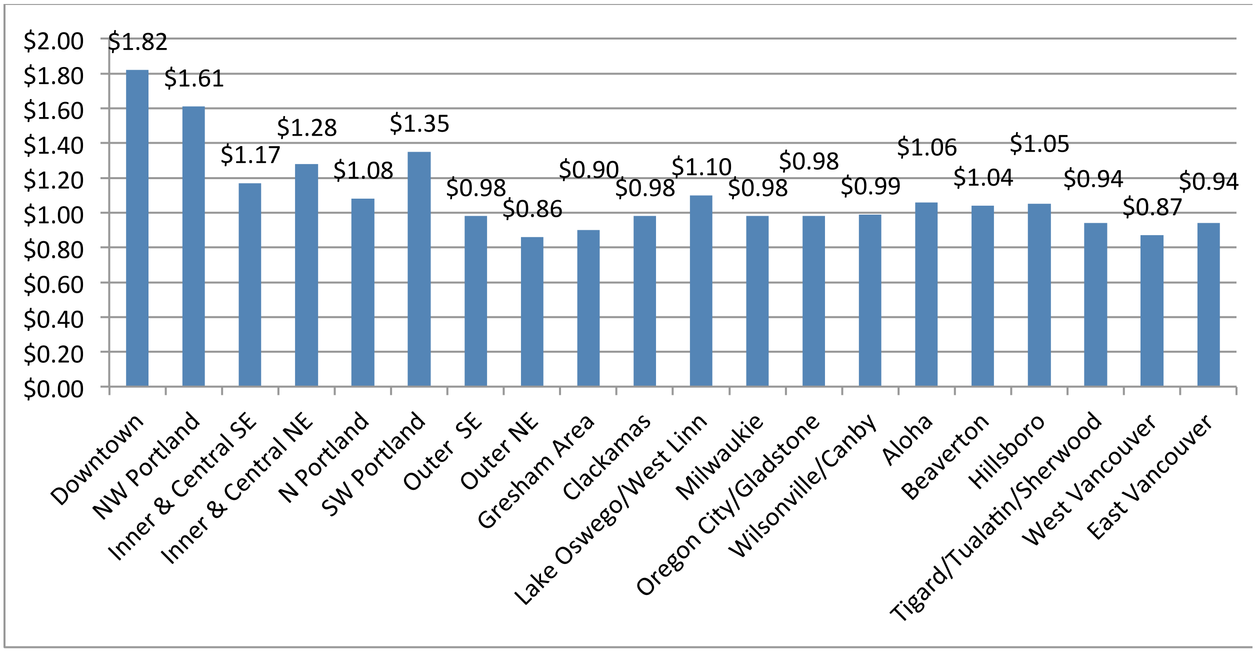
Figure 2: Vacancy Rates by Submarket Fall 2013 Portland Metropolitan Area



Source: MMHA

The submarket with the highest overall rent per square foot (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 Northeast 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 Fall 2013 Portland Metropolitan Area



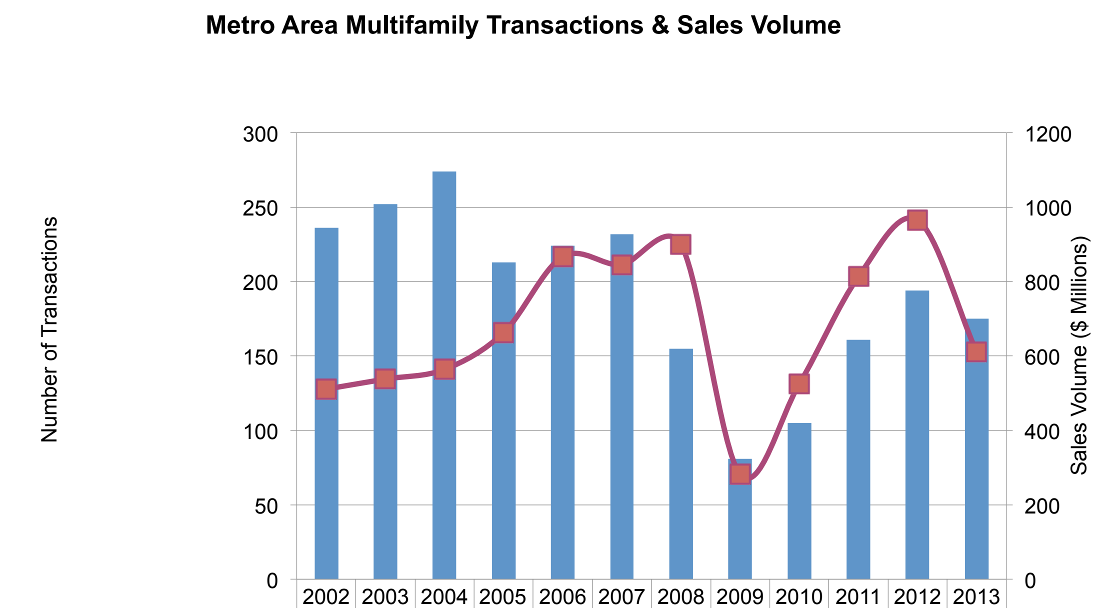
Source: MMHA

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 third quarter of 2013 the sold price per unit was $54,115. The average number of units sold per property was 42 in third quarter 2013 and 40 in the second quarter of 2013.

There have been three deals with a sales price over $10 million in the fourth quarter of 2013. Wimbledon Square and Gardens (599 units) sales price undisclosed, Reflections at Happy Valley (372 units) sold for $35.5 million, and Savier Flats (179 units) sold for $61.4 million.

In 2012, according to Multifamily Northwest, there were 194 transactions and $965 million in sales volume. As of September 2013, there have been 130 transactions and $458 million in volume putting us in track for 175 sales and $610 million in volume. Reasons for the slowdown may be due to higher capital gains taxes, low yields, lack of sellers and lack of exchange properties.

Figure 4: Multifamily Transactions and Sales Volume, Portland Metropolitan Area, December 2013

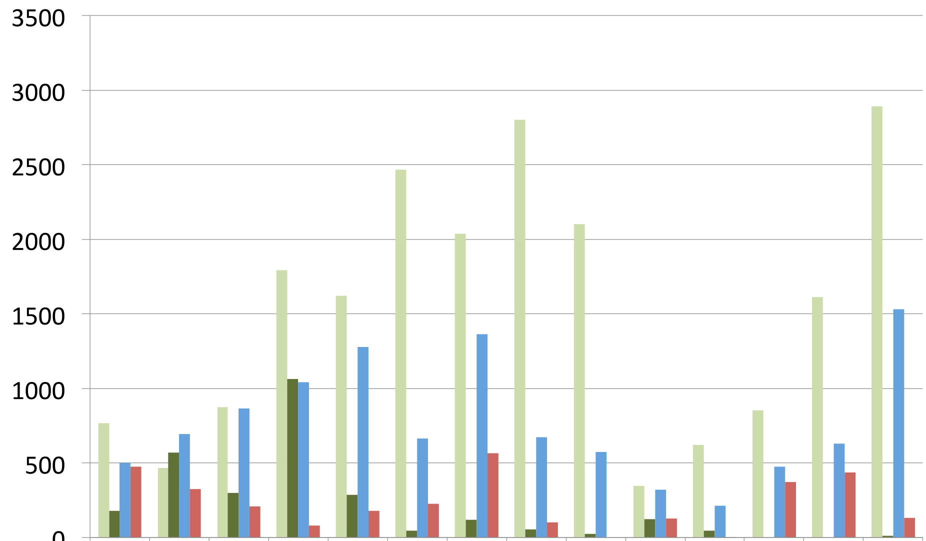


	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Number of Transactions	236	252	274	213	224	232	155	81	105	161	194	175
Sales Volume	511	538	564	663	867	845	899	282	525	813	965	610

Source: Costar

Through December 2013, multifamily building permits have increased within the metro area compared to 2012. Permits have been issued for 2,891 multifamily units built in the City, which is 79.3 percent increase over 2012. MMHA reports there are 11,939 proposed units, 5,052 under construction and 5,389 completed in 2013 for a total of 22,390 units. Many of the proposed units will be abandoned to high acquisition and development cost or higher yields elsewhere.

Figure 5: Multifamily Building Permits Issued, December 2013



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
City of Portland	767	465	874	1793	1623	2466	2038	2802	2103	345	622	852	1,612	2,891
Multnomah Co. (excluding Portland)	181	570	297	1062	288	46	119	56	24	125	47	0	0	12
Washington Co.	501	695	866	1040	1279	664	1364	674	572	319	212	473	630	1,531
Clackamas County	473	327	208	81	181	226	564	100	0	128	5	371	435	131

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. ■

OFFICE MARKET ANALYSIS

GEOFF FALKENBERG

Oregon Association of Realtors Fellow

The Urban Land Institute ranked Portland 11th in the nation among "Markets to Watch" for real estate investment in 2014. Jones Lang Lasalle reports that Portland is tied with San Francisco and New York for having the lowest office vacancy rate in the U.S. at 11.1 percent. At $19.81, market wide average asking rent is the highest in six years. Market absorption for the quarter was seemed sluggish at 95,000 square feet, but capped a year that saw almost one million square feet of net absorption. This is against the backdrop of a return of the Edith Green Federal Building in the third quarter and the announcement of development of two downtown Class-A office building, signifying pent up demand for the class.

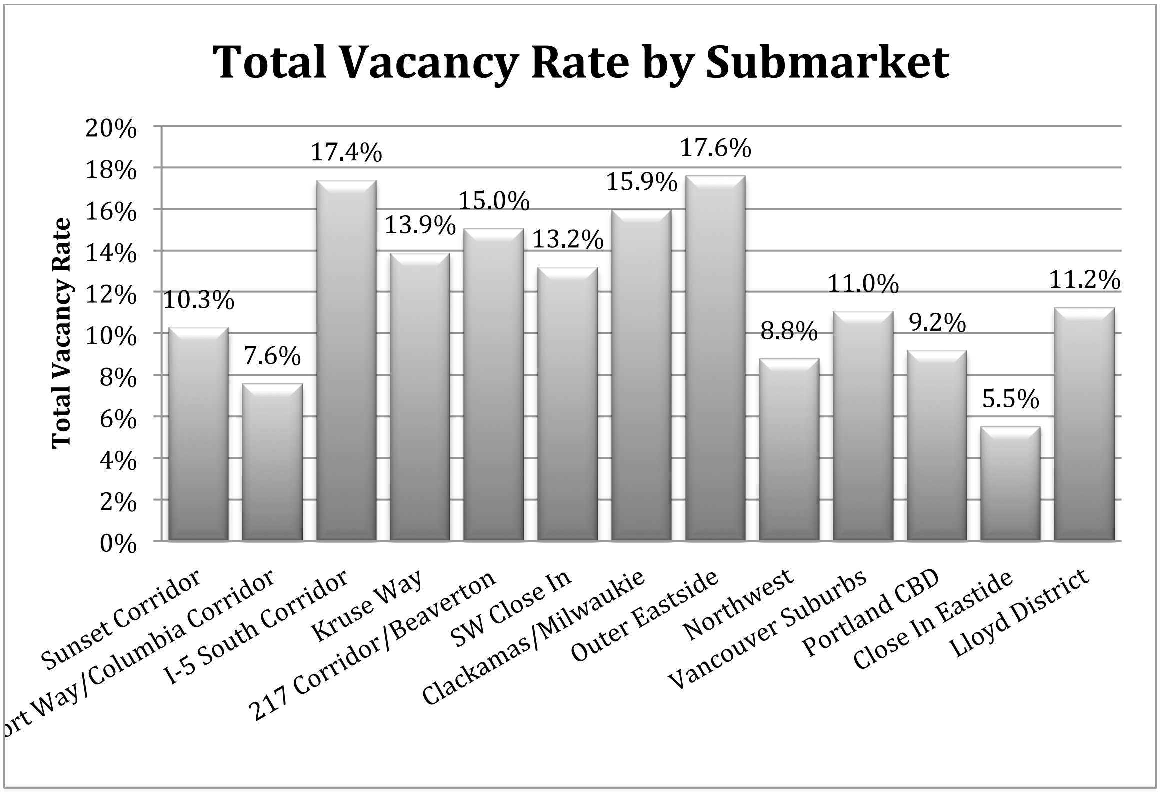
VACANCY

Vacancy in the CBD is demonstrated to be competitively low on the national level, adding to this, the former schism between Class-A and Class-B & C has been undone. Class-B & C vacancy has dropped precipitously due to a spike in demand for creative space and amiable rents. This is the competitive backdrop for the increase in vacancy for Class-A office space. The strata has done well this year to transition from formal Class-A aesthetics to the stripped down creative space look, but the return of the Edith Green tower has hampered a decrease in Class-A vacancy.

Across the Portland MSA vacancies are moving in the right direction. The Sunset Corridor and Kruse Way area have seen the most robust declines in vacancies. Nike

■ Geoff Falkenberg is the Oregon Association of Realtors fellow at the Portland State University Center for Real Estate. 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.

and Intel have driven the progress on the Westside of the MSA various tenants have bolstered the Kruse Way area. Even the I-5 Corridor, lagging in the MSA, has signed a nearly 120,000 square foot lease at the Wilsonville Corporate Plaza.

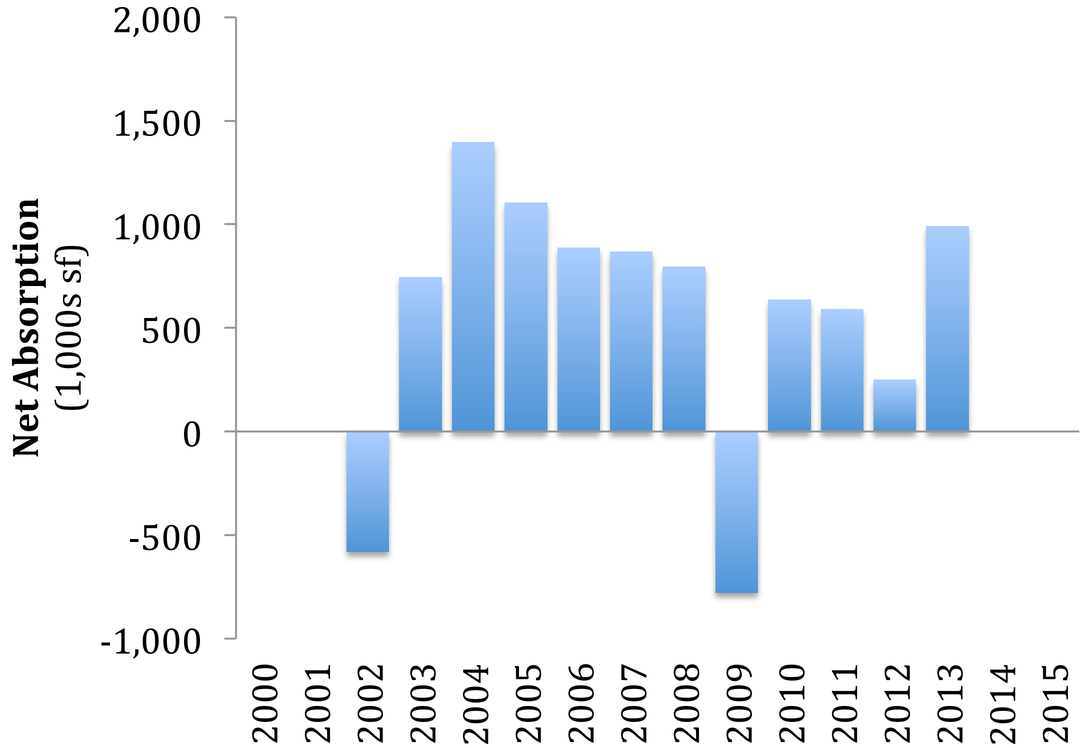


ABSORPTION AND LEASING

Demand for the year totaled 989,864 square feet. Westside suburban demand, driven by activity related to Intel and Nike, was strong, registering 735,000 square feet and accounting for almost 75.0 percent of metro area yearly net absorption. Overall vacancy in the Westside suburbs ended 2013 at 13.3 percent, down 400 basis points from year-ago levels.

Over the past few quarters, as federal agencies re-occupied the newly-renovated Edith Green/Wendell Wyatt Federal Building, the CBD registered Class A absorption losses and nudged up vacancy rates.

Overall CBD demand remained in the black for 2013, totaling 35,000 square feet, thanks in large part to demand for Class B creative space from software and high-tech firms which continued to show an interest in establishing a foothold in Portland. Year-end vacancy for the CBD as a whole settled at 9.2 percent, just 10 basis points higher than year-ago levels.



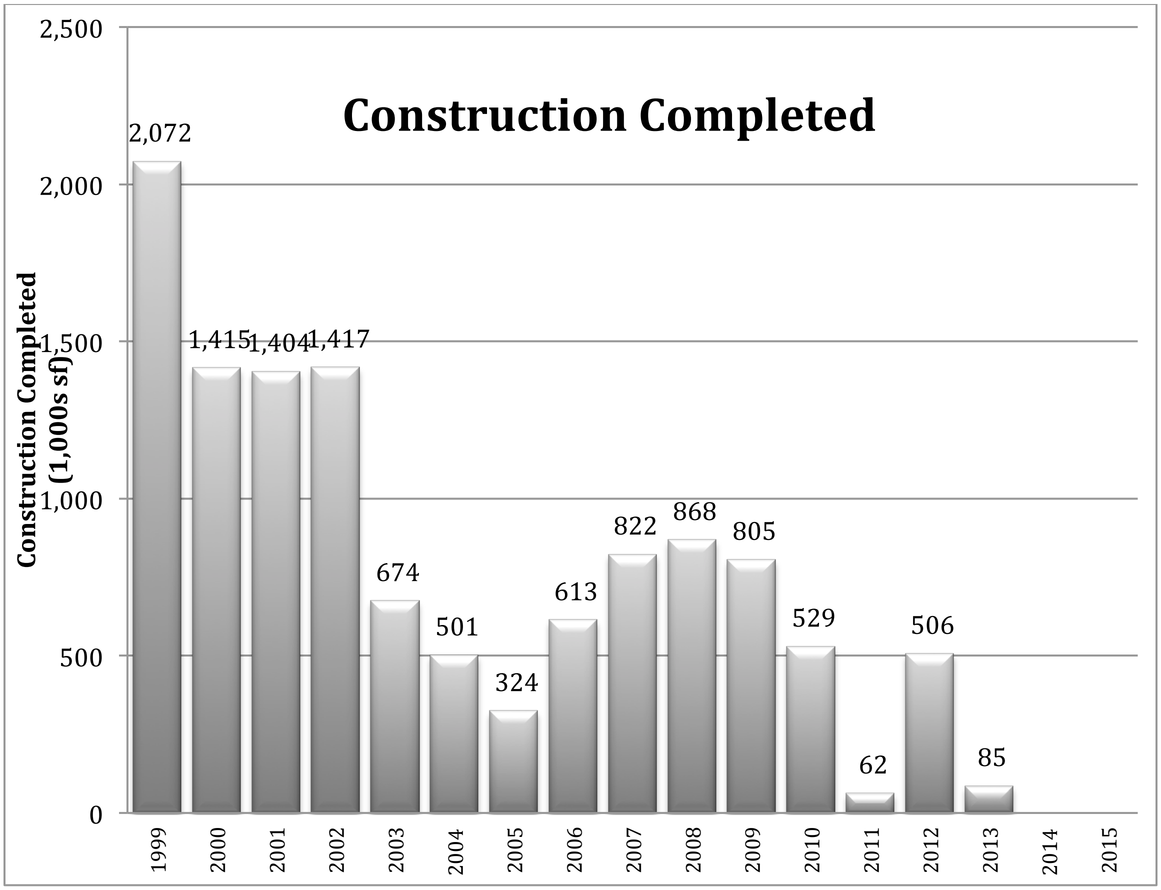
Class-A space was at a negative 69,000 square feet on the quarter, which is approximately 80,000 less of a loss than the third quarter of 2013. Class-B had a positive 35,000 square feet of absorption and Class-C had a positive 72,000 square feet. The strong numbers in the first and second tier class of office space signifies return of small and/or price sensitive businesses to the Portland market, a reflection of positive economic trends.

Despite the mass amount of leasing activity that took place in the CBD during the fourth quarter, much of it was a reshuffling of the deck, though Stoel Rives as created waves by pre-leasing a significant portion of the Park Avenue West building at an above market rent demonstrating a demand and ability to pay for new Class-A office space in Portland.

Completed lease transactions				
Tenant	Building/Address	Submarket	SF	Type
Stoel Rives	Park Avenue West	CBD	131,906	New
Nike	Greenbrier Court	Sunset Corridor	74,677	New
Coaxis	1510 SE Water Avenue	Close in Eastside	40,000	New
US Army Corps of Engineers	1201 Lloyd Building	Lloyd district	37,811	New
AT&T Mobility	South Place Office Building	I-5 South Corridor	27,529	Renewal
K&L Gates LLP	Umpqua Bank Plaza	CBD	21,200	New
Fios Inc	Pittock Block	CBD	20,000	Renewal
Regus	5 Lincoln Center	217 Corridor/Beaverton	19,463	Renewal
Kronos	Tigard Triangle Commons	I-5 South Corridor	19,353	New
Avanti Destinations	Columbia Square	CBD	17,349	New
Barran Liebman LLP	ODS Tower	CBD	16,400	Extension
Stoll Berne	Former Police Headquarters Building	CBD	15,785	Renewal
Compound Photonics	Bank of America Building	CBD/West Vancouver	12,135	New
Pacess Global	2000 SW First Avenue	CBD	12,103	New
Durham & Bates Agencies	Morgan Building	CBD	11,363	Renewal
Walker Macy	111 SW Oak Street	CBD	11,000	Renewal

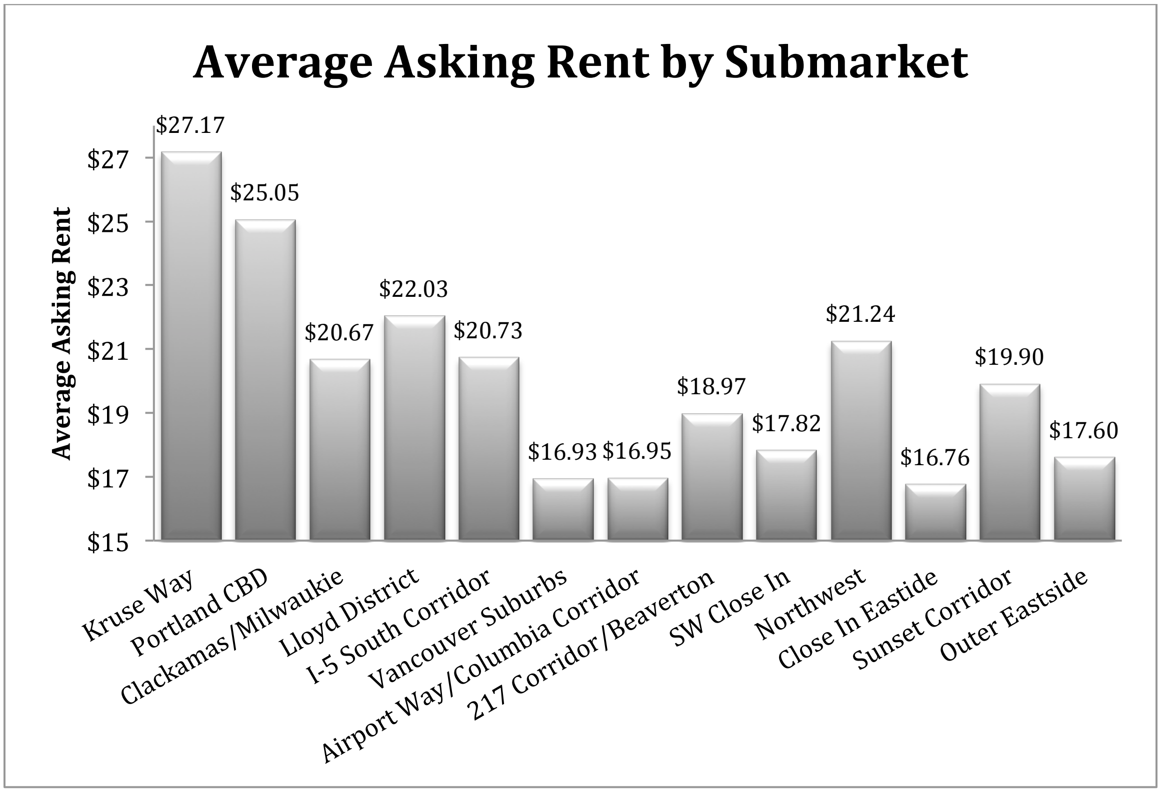
CONSTRUCTION AND DELIVERIES

Despite the re-initiation of development at Park Avenue West and the initiation of a new office tower in Northwest Portland at NW 14th & Irving, most of the construction activity in Portland is smaller redevelopment oriented construction. Renovations at 2 & Taylor and the redevelopment of Washington High School began in the fourth quarter.


Construction Completed
Construction Completed (1,000s sf)
0
500
1,000
1,500
2,000
2,500
2,072
1,415
1,404
1,417
674
501
324
613
822
868
805
529
62
506
85
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015

RENTAL RATES

The pro-tenant market that has come to dominate the real estate market over the last 5 years is ebbing away as demand for office space has risen dramatically and production has dwindled. Mid-sized occupiers are having to move quickly to acquire space, though large space occupiers have been given a rare opportunity as large federal tenants move back to the Edith Green Building, though rents in the newly vacated locations are still at a premium, up 1.5% from a year ago.



INDUSTRIAL MARKET ANALYSIS

GEOFF FALKENBERG

Oregon Association of Realtors Fellow

The industrial market was strong in the fourth quarter of 2014. As reported by Kidder Mathews, 444,635 square feet were under construction, deliveries were at 30,065, absorption was at 577,509 and as a result vacancy dropped down to 5.7%. Rents though varied from product type to product type and submarket to submarket, were generally up.

ABSORPTION & LEASING

As the economy continues to improve companies have been expanding their presence in Portland. The largest lease signings occurring in 2013 included: the 402,450-square-foot lease signed by Georgia-Pacific at Rivergate Corporate Center 2 - Phase II in the Northeast market; the 204,550- square-foot deal signed by Bridgestone Tire at Rivergate Corporate Center 2 - Phase II in the Northeast market; and the 165,814-squarefoot lease signed by Microsoft at 26755 SW 95th Ave in the I-5 Corridor market. Clackamas/Milwaukie and the Sunset Corridor submarkets dominated leasing activity with new move-ins.

■ Geoff Falkenberg is the Oregon Association of Realtors fellow at the Portland State University Center for Real Estate. 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.

Table 1: Major Industrial Lease Transactions, 4th Quarter, 2013

Tenant	Property	SqFt	Submarket
GTS Interior Supply	The American Steel - Bldg. A	151,363	A Guilds Lake
Bob's Red Mill	205 Logistics Center - Bldg. 2	123,532	Clackamas/Milwaukie
Charlie's Produce	205 Logistics Center - Bldg. 1	112,320	Clackamas/Milwaukie
Exel Direct	Rivergate Distribution Center	88,800	Rivergate
Columbia Distributing	3250 NW Guam St	80,358	Guilds Lake

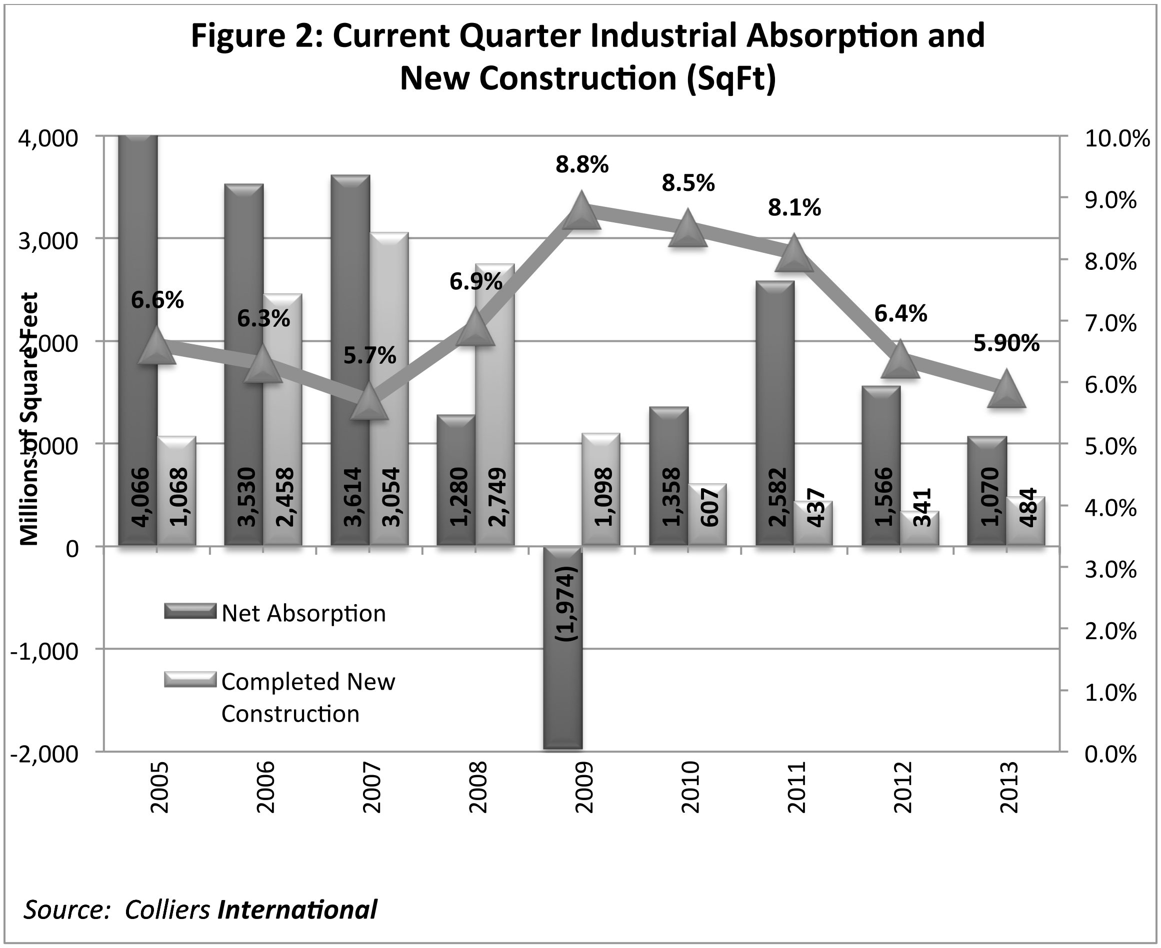
*Source: Jones Land LeSalle

Large Class A floor plans appear to be in short supply; leading absorption to spill over into Class B and Class C facilities, particularly in the 5,000 to 20,000 square feet range. Of the large leases, Bridgestone Tire has taken up the vacant 204,550 square feet left by Georgia-Pacific in the Columbia Corridor's Corporate Center II. DHL renewed their 109,200 square feet lease on Airport way.

Clackamas County is currently experiencing gains in employment in manufacturing private-sector jobs. This, in turn, has led to a flurry of leasing activity. Wymore Transfer Co. has moved into 137,500 square feet in the Tree of Live Building. Multiple units at 205 Logistics Center, totaling 235,872 square feet, were taken up by Bob's Red Mill and Charlie's Produce. Inmare Logistics moved into 40,250 square feet at Clackamas Commons after being displaced by Wymore Transfer. CoStar is reporting that sublease vacant space is down by 34,343 square feet to 225,622 square feet on the year.

VACANCY

The vacancy rate in Portland has dropped to 5.90% from 6.40% twelve months prior and 40 basis points lower than the end of the Third Quarter. The vacancy rate in the southeast area of Portland has been driven down to 5.10%, which is the lowest vacancy level of any sector. As limited supply is met with greater demand, the nexus of power is shifting from tenants to landlords, this is leading to less concessions and more interest in development.

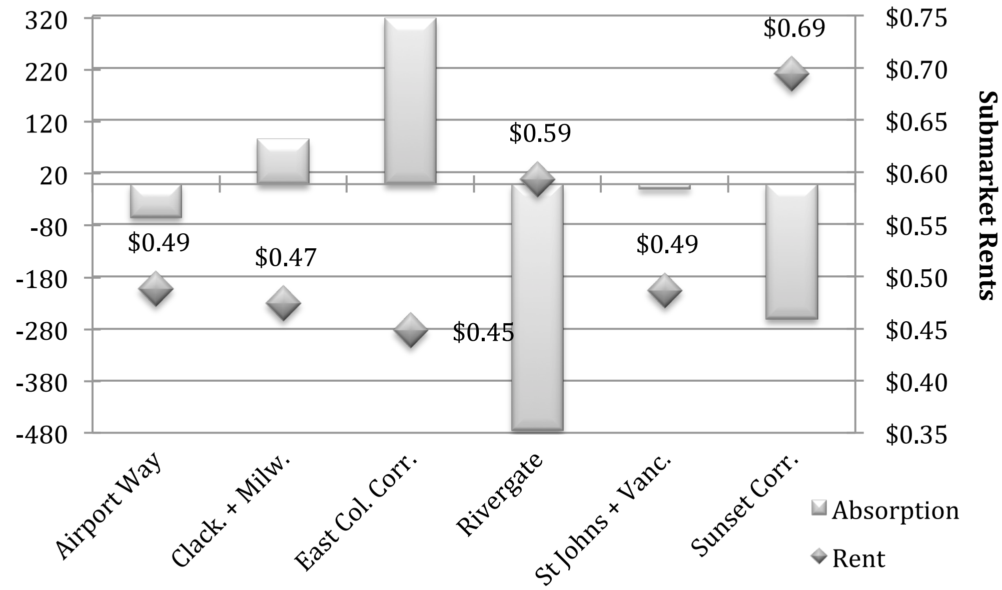


DELIVERIES & CONSTRUCTION

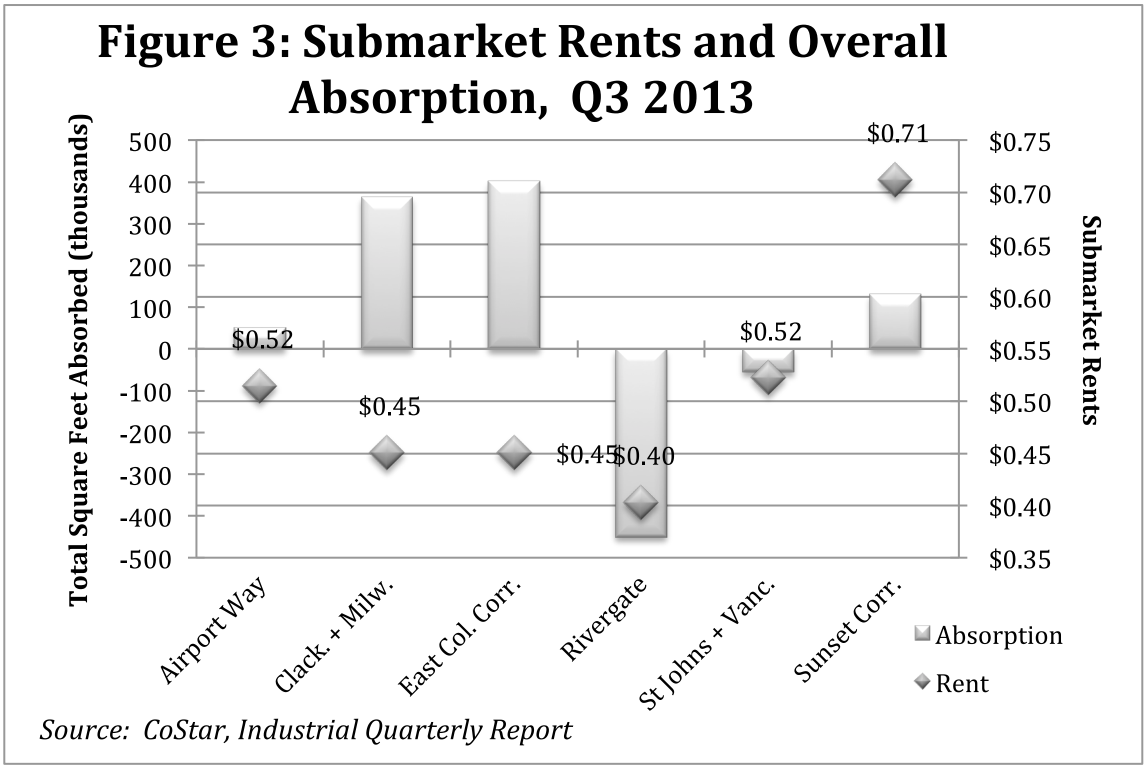
The year ended with a total of 486,980 square feet of new construction having been delivered, 82,273 of this coming from the fourth quarter. This compares to six buildings totaling 135,973 square feet that were completed in the third quarter 2013, one building totaling 109,985 square feet completed in the second quarter 2013, and

Almost 250,000 square feet in three buildings completed in the first quarter 2013. As rents rise and vacancies fall the desire for new construction is keeping pace, despite the rise in hard costs. Triad Machinery recently purchased 7.02 acres at NE Riverside Parkway in the Airport Way submarket. They intend to be a user/owner in an approximate 75,000 square foot building. The largest projects underway at the end of fourth quarter 2013 were Intel Ronler Acres - D1X, a 1,800,000-square-foot building with 100% of its space pre-leased, and PDX Logistics. Center - Building 1, a 383,040-square-foot facility that has yet to pre-lease.

Figure 3: Submarket Rents & Overall Absorption, Q3 2013



Source: CoStar, Industrial Quarterly Report



RENTAL RATES

The City of Portland recently decided that the west end of Hayden Island is not to be used for industrial purposes but the held in environmental trust. This too will add to the increasing demand on current land use for more industrial space, potentially adding to rent increases. Specific to the fourth quarter, rental rate growth was seen to be segmented by submarket and product type. ■

RETAIL MARKET ANALYSIS

GEOFF FALKENBERG

Oregon Association of Realtors Fellow

The retail market in Portland showed positive trends during the final quarter of 2013, though the trends that defined the market on average were not spread evenly. Strip shopping centers that specialize in value and service benefited the most, while regional malls and big box retail locations faltered. According to Kidder Mathews vacancy stood at 5.4 percent, rents ticked up to $16.20 per square foot, and construction and absorption both increasing to 475,689 square feet and 234,913 square feet, respectively. For 2013, net absorption was 50 percent higher than the year before and construction deliveries were up 5 percent with total square footage up 7 percent, during the same time period. Average asking rents were up 3.85 percent in the fourth quarter 2013, year over year.

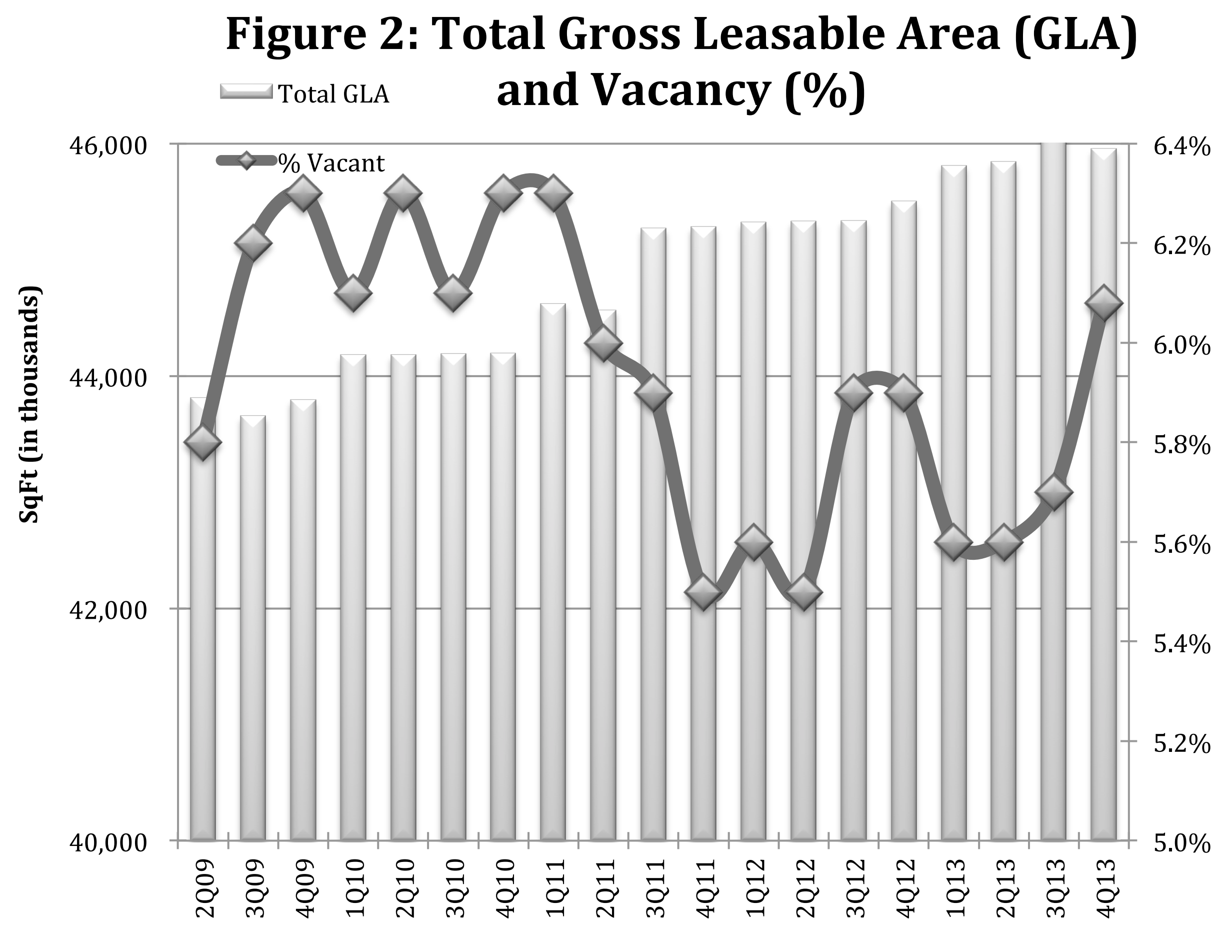
VACANCY

Portland's retail vacancy rate decreased in the Fourth Quarter 2013, according to CoStar, ending the quarter at 5.3 percent. During 2013, the vacancy rate dipped slightly, but held relatively still, as numbers in net absorption and new product held comparatively close.

The amount of vacant sublease space in the Portland market has trended down over the past four quarters. At the end of the first quarter 2013, there were 210,713 square feet of vacant sublease space. Currently, there are 133,059 square feet vacant in the market.

■ Geoff Falkenberg is the Oregon Association of Realtors fellow at the Portland State University Center for Real Estate. 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.

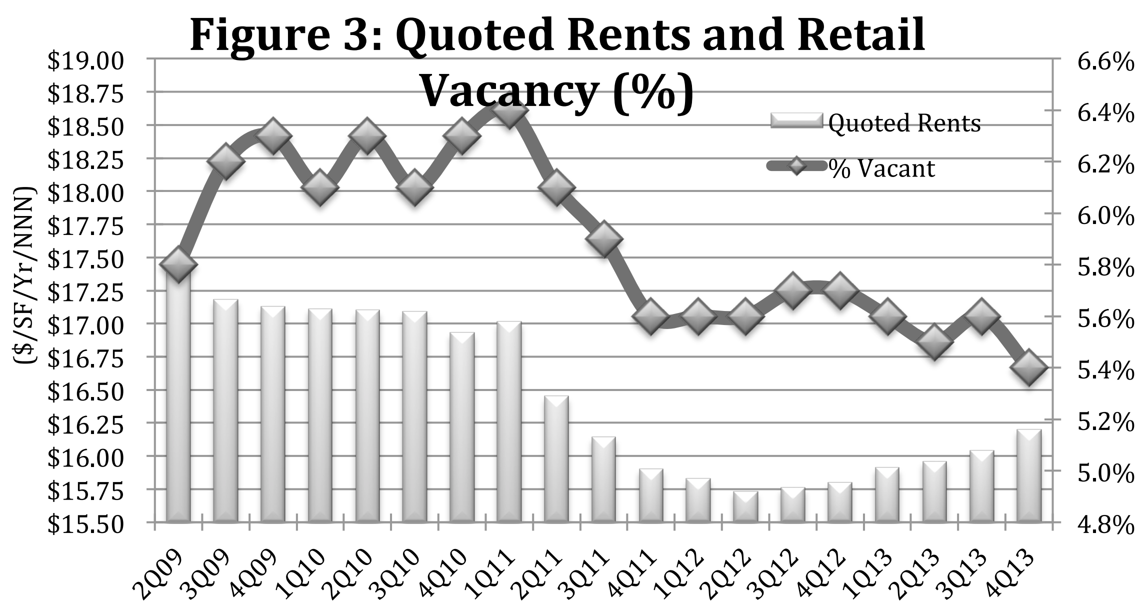
In the CBD, vacancy is down to 4.55 percent (NAI Norris, Beggs, & Simpson) the lowest vacancy since 2006. Vacancy in the Sunset Corridor increased as a major tenant departed from the Hillsboro Town Plaza, leaving behind 16,188 square feet of vacant retail space. Gresham/122nd's vacancy rate of 8.97 percent, highest in the Portland MSA, is down slightly as two large furniture retailers took up leases.



Source: Norris, Beggs, & Simpson Retail Reports

RENTS

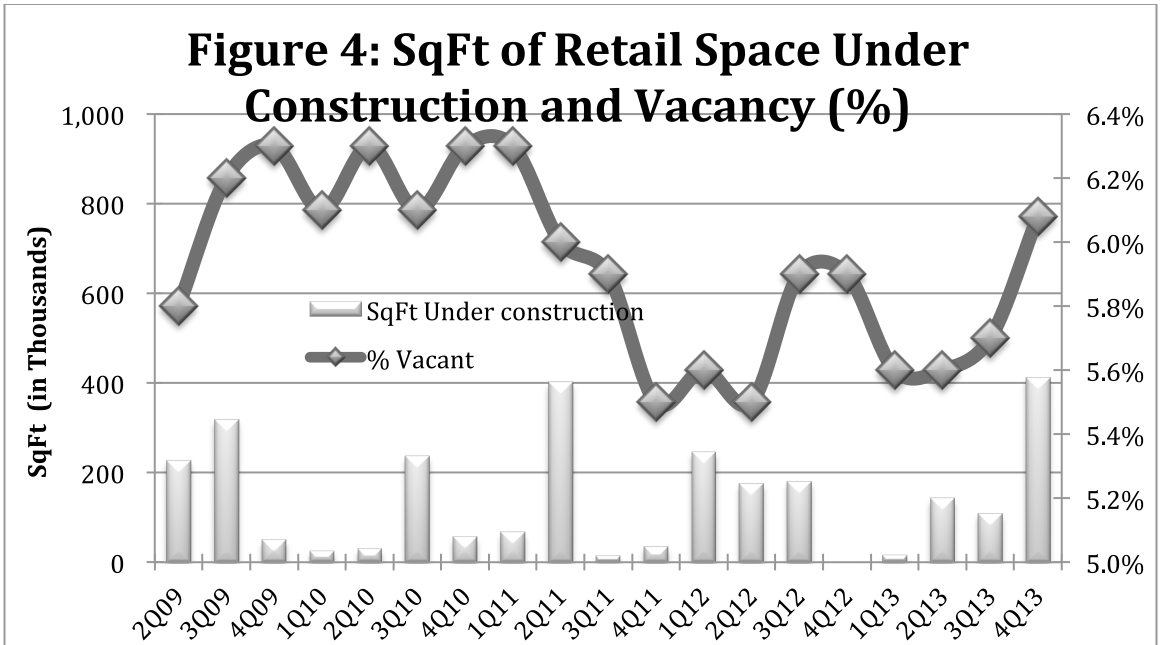
Average quoted asking rents are up on the year. Quoted rents ended the fourth quarter 2013 at $16.22 per square foot per year. That compares to $16.06 per square foot in the third quarter 2013, and $15.90 per square foot at the end of the first quarter 2013. This is a 2.0 percent increase over the year.



Source: Kidder Matthews Quarterly Reports

DELIVERIES AND CONSTRUCTION

The mainstay of new construction has been found in pre-leased, prime location developments with in-demand or value adding tenants. In particular, food and grocery tenants appear to be the new “must have” anchor. Stores like Whole Foods, New Seasons, Local Choice, and Green Zebra are spreading throughout the Portland MSA and are being welcomed by substantial market demand. Natural Grocer Vitamin Cottage has opened their first Portland area location in Cedar Hills, with more stores planned for greater Portland, while Walmart’s Neighborhood Market concept is unfurling to mixed reviews.



Source: Norris, Beggs, & Simpson Retail Reports

ABSORPTION

Retail absorption took place at a healthy clip in the fourth quarter, with 208,659 square feet having been absorbed. As compared to the third quarter which saw 55,328 square feet of absorption. Two Kmart's vacated their locations, one on SE Johnson and the other on SW Nyberg. The two leaving a total of 218,159 square open for the leasing. Burlington Coat Factory vacated 84,180 square feet at the Jantzen Beach Supercenter.

Tenants moving into large blocks of space in 2013 include: Sportsman's Warehouse moving into 49,409 square feet at Tanasbourne Retail Center; Orchard Supply Hardware is moving into 40,085 square feet at 9770 SW Scholls Ferry Rd.; and Natural Grocers by Vitamin Cottage moving into 33,760 square feet at 12155 SW Broadway St. ■