
SUMMARY AND EDITORIAL

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

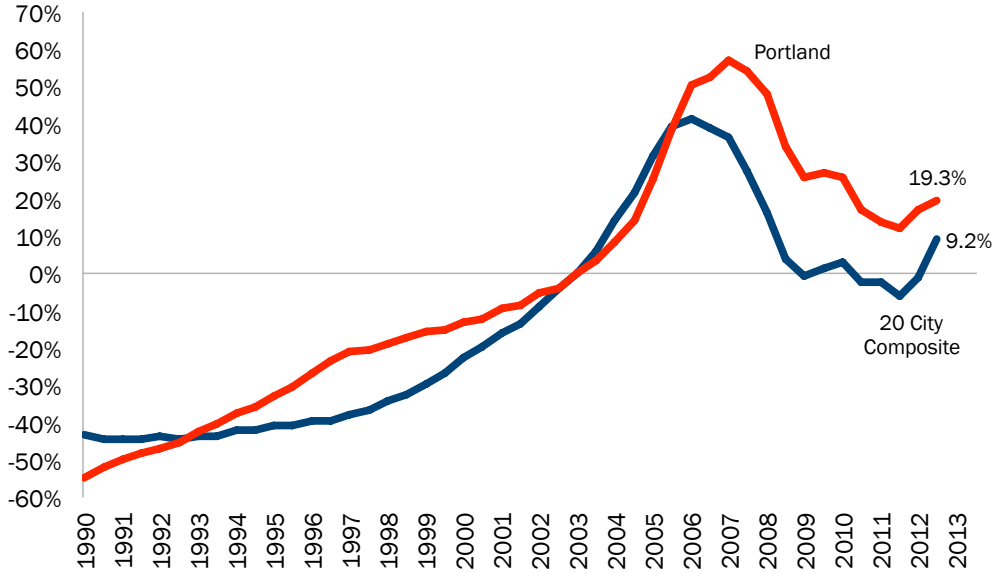
As reported in the residential section of this issue, Oregon’s housing market appears to have rebounded from a deep drop and slow recovery. The Oregon Office of Economic Analysis recently released its quarterly forecast of the state economy (available for download at www.oregon.gov/DAS/OEA/docs/economic/forecast0513.pdf).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

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

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Portland housing market is outperforming U.S.

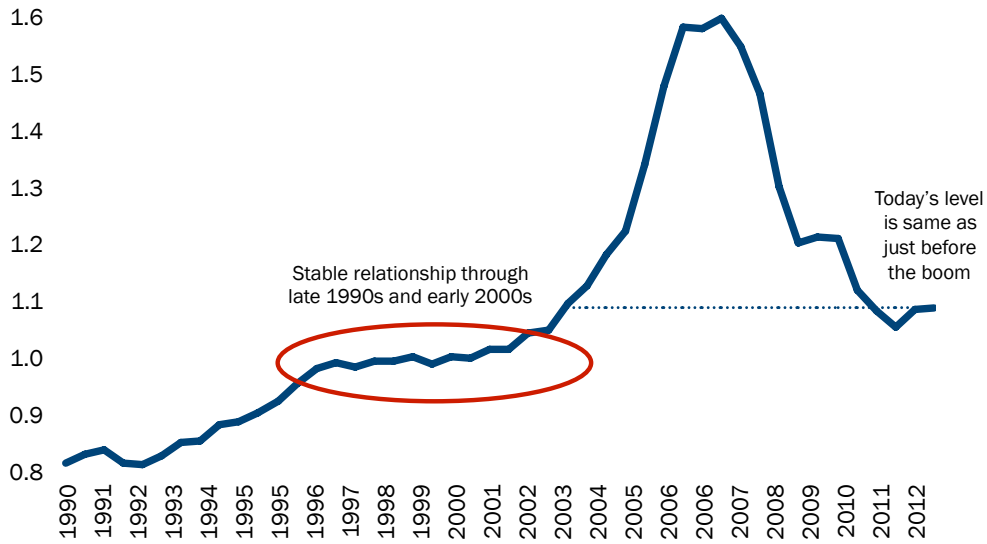
Case-Shiller Index, base year = 2003



Source: Standard & Poor's Case-Shiller Index

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

Price-to-rent ratio, base year = 2003



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

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

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

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

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

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