• U.S. Demographics:         • Leanne Lachman

• Downtown Schools & R.E. Development • Gerard Mildner

• Cooperative Housing in Portland: • Atha Mansoory

• KOIN Center History:       • Eugene Grant

• Sustainable Containers:    • Caroline Uittenbroek

  Cost-Effective Student Housing • Will Macht

• Food Carts As Retail Real Estate: • April Chastain

• Value of Questions & Questions of Value:   • Will Macht

  Editor’s Urban Development Journal

• Office, Retail & Industrial Market Analyses • Kyle Smith

• Multifamily & Housing Market Analyses  • Scott Aster
### Table of Contents:

**Page:**

3. *Editor’s Urban Development Journal*
   - Questions of Value & Value of Questions
     - Will Macht

15. U.S. Observations From Global Demographics
   - Leanne Lachman

23. Downtown Schools & Real Estate Development
   - Gerard Mildner

31. Cooperative Housing in Portland
   - Atha Mansoory

43. KOIN Center History: The Paul Principle
   - Eugene Grant

53. Sustainable Containers:
   - Cost-Effective Student Housing
     - Caroline Uittenbroek
     - Will Macht

61. Food Carts as Retail Real Estate
   - April Chastain

71. Office Market Analysis
   - Kyle Smith

83. Retail Market Analysis
   - Kyle Smith

88. Industrial Market Analysis
   - Kyle Smith

92. Multifamily Market Analyses
   - Scott Aster

99. Housing Market Analyses
   - Scott Aster
Over the past three years, our journal has covered a wide variety of issues of importance to the development community. In this, my last issue as editor, it is instructive to review some of the questions that we have raised and to reflect on the value of questions in helping to learn lessons from the debacle the development community has experienced in these last three years.

In the 4th quarter of 2007, I started by reviewing the etymology of the words real estate, development and urbanity. 1 I noted that the term real estate derives from the Latin words res, meaning thing and status, from the verb stare, to stand. The roots are of more than etymological value because the value of real estate largely depends upon factors beyond the status of the thing itself, but rather upon the uses and

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1 Center for Real Estate Quarterly, Vol. 1, No. 4 November, 2007 on page 4, et.seq.
intensity to which it can be developed. And those in turn depend to a large degree on the urban character of its location, market and public decisions. But have we made those public decisions that create real long-term value? Metro President David Bragdon followed that by asking why we have not made the public decisions to build both the physical infrastructure to support development within new land in the Urban Growth Boundary and to replace the decaying infrastructure that serves older areas. Furthermore, at a time when both aging Baby Boomers and their children, the Echo Boomers, account for approximately two-thirds of the spending in the country and are each at a time in life when housing decisions are being made with significant preferences for urban environments, why is it that our land use battles are still being fought at the UGB boundaries? His questions, raised at the peak of the Oregon housing bubble when resources were more plentiful, ring painfully true now that public resources are scarce. If the legislature will not even consider reforming the income tax kicker now that unemployment is high and public needs are greater than ever, how will it be that we can create the backbones of development that will lead the development community to greater employment and prosperity in future years?

In the same issue, I described the benefits of multi-block underground parking in terms of cost and space efficiency, decreased operating expenses, increased density, shared parking combinations and feasibility for horizontal mixed-uses, rather than the more expensive vertical mixed-use buildings eschewed by lenders. I used as examples the 1300-space Brewery Blocks and 1477-space Fox Blocks underground parking structures. But since then, the City of Portland has adopted no new policies to encourage such multi-block structures and PSU, in its development of the neighboring student recreation center and sustainability center failed to capitalize on the opportunity to connect the blocks underground during reconstruction of the Transit Mall on SW 5th Avenue. What will it take to expand the number of multi-block garages as our development workshops have proposed for the Post Office Blocks, Urban Center East, Brewery Blocks West and Lincoln High School redevelopments?

In the 1st quarter of 2008, we reviewed a whole range of federal, state and local development issues that should have been raised during the elections that year. Unfortunately, most never were raised by either mayoral candidate and state and federal elections largely bypassed development issues, to the detriment of the development community. As a result, there appears to be little consensus now on the Columbia River Crossing (CRC), streetcar expansions, carbon feebates or Rose Quarter development.

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2 Center for Real Estate Quarterly, Vol. 1, No. 4 November, 2007 on page 18, et.seq.
In the same issue, I explored the innovative development by Seattle developer Unico of iMods housing modules constructed in a factory in Burlington, Washington, an hour north of Seattle. With cost savings not only from efficient and sustainable construction in the dry conditions of a factory, but also timesavings of 6 to 8 months of development time and reduced construction loans, state permitting and factory inspections, developers could benefit substantially. Designed to realize the economies of scale on scattered urban infill lots, the experiment has become a casualty of the development implosion brought about by the collapse of the housing bubble. Which developer will be savvy enough to pick up the concept and help lead to improved housing communities during the next cycle? And which cities will prepare the road to remove entitlement impediments by pre-authorizing innovative building systems for their jurisdictions?

In the 2nd quarter of 2008, Metro Councilor Robert Liberty explored the large development policy question of whether growth corridors could be superior to growth centers. He pointed out the developmental cost advantages of corridor development. In a companion piece, I noted that, in fact, the corridors on Metro’s 2040 concept plan, Burnside, Hawthorne, Belmont, Division and others were built as streetcar suburbs in the late 19th and early 20th centuries. Streetcar lines, automobiles, parking and pedestrians shared the street systems. Shops, restaurants, offices, hotels and housing shared the streets and were developed on them. Private and public sector developers built pieces of interlocking and interdependent systems. Growth was endemic within a strong framework determined by public investment in infrastructure. The private sector determined the mixture of uses. Portland did not have zoning until 1924. Many of the successful smaller scale developments like Belmont Dairy, Belmont Lofts and Hawthorne 20 suggest that developer interest in corridor development will return with improvement in the economic climate. Will the City prepare the way assembling sites and streamlining the approval process?

The theory underlying the strength of gridded corridors is clear when one analogizes them to computers. The number of possible connections, functioning as intersections, begins to grow geometrically. The more computers are connected to one another in a network, the more connections – intersections – choices

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4 "Center for Real Estate Quarterly," Vol. 2, No. 2 May, 2008 on page 8 et.seq.
5 "Center for Real Estate Quarterly," Vol. 2, No. 2 May, 2008 on page 3 et.seq.
intersections and choices its users have, and the more valuable it becomes. The analogy of the brain is similar. The power of a brain is not in the capacity of individual neurons, but rather in the number of synapses – intersections - between them.

Application of these principles to create intelligent cities suggests that the more intersections there are among users, the richer the choices each connected inhabitant enjoys. Urban development will gravitate to those areas where there are more choices. It is not an accident that the urban neighborhoods that have regenerated themselves most organically have been those areas in which there is a tight grid of streets with many intersections creating small blocks with a mixture of uses. NW 23rd and the rest of the alphabet district, the Pearl District, Hawthorne, Belmont, Burnside, Alberta, Mississippi are all areas that demonstrate those characteristics. Intersections of streets, cars, pedestrians, bicycles, restaurants, retail shops, offices, services, apartments, condominiums, detached and attached housing types, all overlap to create a rich urban fabric.

Eric Hovee explored the favorable development impact of streetcar development. His research showed that sites within one-block of the streetcar captured 55% of all new development – a huge jump from the 19% capture rate experienced by these same blocks pre-1997. In contrast, sites situated three or more blocks from the streetcar declined from 53% to 25% of Westside central city development captured over this same period.

Original research by our OAR student fellow Karen Thalhammer identified seven neighborhood retail corridors that have revitalized in recent years along NE Alberta, Belmont, Broadway, Burnside, Hawthorne, Division and NW 23rd streets. Averaging over 250,000 SF of retail space, they have become good examples of the power of incremental growth corridors.

At the same time, Jerry Johnson’s hedonic analysis has shown that specialty grocers and wine bars and shops demonstrate statistically significant positive price premiums for homes nearby. Specialty grocers had the highest price premium at 17.5% with an 11.1% price premium associated with wine bars and shops. Fitness centers and bookshops were close behind.

So the principle of overlapping networks and multiple intersections are at the core of urbane cities. Traffic engineers seem to have a contrary orientation. Suburban streets are designed to have more lanes, dividing strips and fewer intersections, which is precisely contrary to the successful urban experiences noted above. Will city planners as well as developers act on these principles as development resumes?

We also started original research on the growth of retail condominiums, of which 25 downtown buildings now account for retail space totaling over 345,000 square feet, nearly as much as suburban

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7 “Center for Real Estate Quarterly,” Vol. 2, No. 2 May, 2008 on page 52 et.seq.
lifestyle centers like Bridgeport Village. But with the impact of the Great Recession, the reduced ability to obtain any loans based on declining home equities, rising unemployment, reduction in household formation and declining or stagnant incomes, we are burdened with an oversupply of retail space. I dealt with this question in a piece about the downtown retail conundrum.8 The essence of the downtown retail conundrum is that we have too much ground floor area seeking too much retail space for too few retailers, who seek to sell too many non-essential goods to too few customers, who increasingly have too little money to buy them and too little space in which to store them. An answer, I suggested, was to consolidate downtown retail along the 30 blocks of Broadway, our historic Main Street in the center of downtown linked to freeways at each end. Particularly, I advocated a PDC master retail leasing strategy along the 10 blocks from Burnside to the Post Office Blocks at Lovejoy. Will PDC accept the challenge at a time when rents are low?

We have examined the implosion of housing bubble, the Great Recession’s impact on real estate, the commercial real estate decline and the rapid increase in foreclosures in many issues of our journal. Our quarterly housing reviews showed the downturn in real time as prices fell, inventory of unsold houses expanded and condominium prices tanked. State Economist, Tom Potiowsky showed9 that Oregon was late to the boom and late to the bust. He speculated that urban growth boundaries had slowed the growth in housing supplies as compared with other sections of the country. He also suggested that the wood products industry had suffered badly in the 1980s and had never fully recovered, so the downturn in demand for housing materials did not have as great an impact as it might otherwise have done in earlier times. But jobs in other sectors have declined and Portland alone has lost at least 37,000 jobs in the Great Recession. However, our quarterly reports have shown that housing prices are still higher than they were in 2005. Will Oregon also come late to the resumption of growth?

As early as 2007, before the bubble had really burst in Portland, we published10 original research that showed that with over 1,000 downtown condominium units then still in construction, condominium prices would likely fall precipitously. It showed that the number of condominium sales in the first seven had already fallen by 21 percent compared to the same time period in 2006 and median sales prices in South Waterfront had declined 19% to $337 per square foot and while leveling off in the Pearl to $427. We suggested that the conversion of the 244-unit Wyatt to apartments less than 60 days before completion and the 220-unit Ladd Tower before construction were ominous signs of impending trouble. By a year later, over 1400 new downtown condominium units had been shifted to the high-end apartment glut. How long will it take for the condominium market to regenerate?

Last spring we explored the extent of the foreclosure explosion in Portland housing markets at the same time as we warned that commercial real estate markets were likely to face greater peril. Chris Longinetti explained how far the CMBS market had

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8 “Center for Real Estate Quarterly,” August, 2009, page 3 et. seq.
fallen, the problems caused by the ratings agencies and how the decrease in leverage under commercial refinancing and the increase in capitalization rates demanded would result in very substantial declines in asset values. The decision of Calpers to submit a deed in lieu of foreclosure on the KOIN Center and its subsequent purchase at half the value that Calpers had paid just three years earlier was poignant local testimony to the value declines that Longinetti had predicted. Gene Grant’s story in this issue explores the longer history of the KOIN Center project.

I argued earlier in 2008\textsuperscript{11} that the credit crisis would likely lead to a number of trends that could affect development: a shift from consumption to investment; from debt to equity; from short-term to long-term investment; from de-regulation to re-regulation; from projects to networks; from subsidies to joint development; from edges to centers; from single-use zoning to mixing; from retailing to e-tailing; and from commuting to telecommuting. What has happened? Clearly there has been a decrease in rampant consumption as incomes declined and unemployment accelerated. Whole retail chains have declared bankruptcies and e-tailing, as the low-cost provider, has continued to grow exponentially.

While public investment has increased somewhat as a result of the federal recovery act, state investment in education and so many other vital public functions has declined as state budgets suffered from reduced tax collections. Nor has private investment yet returned significantly, and new plant and equipment has not been needed with idle plant capacity. While required equity levels have increased by virtue of bank demands, equity holdings have evaporated in both residential and commercial real estate. And for commercial real estate, an article by Chris Longinetti and Mike Kingsella showed that securitized debt is so widely held that debt for equity swaps more common in the corporate world are extremely difficult in the world of real estate. Moreover, shifts from short to long-term investment may take longer to change as the corporate culture recovers from the debacle. However, such changes are evident on the local scene as a small developer like Urban Developers NW, Ltd. develops 26 and 13-unit apartment projects on SE Division for the purpose of holding for cash flow and appreciation for the long term. Will this traditional business model return in greater numbers?

Clearly, there has been much written about the need for re-regulation of financial markets and bank

\textsuperscript{11} Center for Real Estate Quarterly, Vol. 2, No. 4 November, 2008, page 3 et. seq.
Regulators have been more cautious. However, as of this writing, substantial changes in financial reform have yet to be enacted and the too big to fail policy appears to be written into the bills.

The movement from edges to centers does seem to be taking hold as our quarterly reports show continued relative strength in the centers of our cities with substantially greater weaknesses in sales, prices, vacancies, investment and development at the edges. But single-use zoning still prevails, mixed-use zoning remains a rarity and public agencies still focus on single-projects, rather than helping to create overlapping urban networks. An urban optimist might declare, as did Chou-en-Lai when asked about the effect of the French Revolution, “it’s too early to tell.”

In February 2009, at the beginning of Mayor Adams’ term, we declared 12 that the Mayor had already undertaken one of the most far-reaching aggregations of tools for transforming urban development in Portland since Mayor Neil Goldschmidt’s activism in the 1970s. If the tools were integrated well, we said, Portland could be on the leading edge of a new wave of urban development. If not, Portland could be saddled with high debt in support of high-risk projects with marginal ability to add to our urban networks. What is the early record?

We said that a truly independent PDC was necessary to make that progress and that the independence of the PDC in recent years has been substantially reduced as the Council has asserted its authority. We said that publicly elected officials need the insulation of an independent development entity to be able to deflect the necessity of saying no to certain constituent groups or, often worse, saying yes when other rivals for public largesse see harm in benefiting their competitors. Fifteen months later, the PDC appears to be even more in the control of the Mayor. The Mayor and his office have directly managed potential development projects processes such as the Coliseum and Rose Quarter. The headquarters hotel was also a direct mayoral effort that has run aground on the shoals of the Great Recession, to the relief of existing hoteliers.

The Rose Quarter/Coliseum redevelopment process is one ripe with questions. Since, under normal methods of accounting, the City has realized a profit of $3.7 million over the last 10 years despite the fact that those include 3 years of Paul Allen’s OAC bankruptcy and 3 years of the Great Recession, why is it that redevelopment of it has taken priority over planning for the undeveloped portions of the Rose Quarter? Why is it that Allen’s PAM company was set to lead the Rose Quarter planning process this summer even though its first development rights expire in November? Since the Blazers have contended that they lose money managing the Coliseum, why is it that its president says that the

12 “An Adams Agenda? New Directions for Urban Development,” by Professor Will Macht (pages 3-14)
current operating agreement is critically “important to our business model, so any changes to the agreement will need to add significant benefits to PAM. At present, it is difficult to envision changes to the agreement that would fully protect interests vital to PAM... PAM reserves the right to decide in its sole discretion whether it will agree to any such changes.” Could it be that without PAM profits, that business model which PAM seeks to protect must be non-competition protecting the Blazers’ economic interests in the Rose Garden? Why is it that the non-competition agreement that has now been in effect longer than a patent and whose continuance will preclude any other proposal, should be extended for 13 more years?

Why is it that over the six months of the planning process, the PDC and OMF (Office of Finance & Management) have failed to produce Coliseum operating income and expense data, programmatic history and other data of the type normally published by other operators of publicly-owned arenas? OMF and PAM has withheld such information on the stated ground that its disclosure would “reduce the competitiveness of the Coliseum as a facility”. Yet publication of more detailed data by the public owners of the Spokane Arena has not harmed its competitiveness. Is it logical to expect quite the reverse to occur, that is, publication of lower event rental fees for the Coliseum would reduce the competitiveness of the Rose Garden, which PAM apparently seeks to prevent by non-disclosure? Why is it that the OMF has been placed in charge of auditing OMF and that the results will be held confidential? Since the largest events at the Coliseum are the most profitable, why is it that the Blazers want to reduce seating by a third in a way that will require the largest events, like the Davis Cup finals, be moved to the Rose Garden? Could it be that since 60% of net income from the Coliseum goes to the City whereas 100% earned at the Rose Garden is retained by the Blazers affect its proposal? What public benefit is served by reducing the flexibility and scale of Coliseum seating capacity to house events like the Davis Cup, PSU graduations, Obama and Nader rallies?

Other than make available up to about $200 million public dollars for the Blazers’ Jumptown proposal, why is it that the City proposed that the Rose Quarter should be annexed to the Interstate Urban Renewal Area?

Now that the two recall efforts have failed, the Mayor does have room to shift course to achieve great results. The Mayor and Council could lead towards the adoption of the Public Option for the Coliseum that would require the least public investment, provide the greatest public profit and be the most sustainable option that protects the architectural heritage of Portland. Will he shift to support that course rather than commit as much as $150 to $200 million in public investment on sports arenas and canned entertainment districts?
With the Columbia River Crossing undergoing a thorough review, the Mayor could insist that other far lower cost options that actually increase choice be equally reviewed. We have proposed to retain, reinforce and raise the existing bridges by 18 feet at its peak to eliminate the lift span, which adds two reversible center lanes between them to equal the three-through lane configuration both above and below the I-5 Bridge. Then, adding an inexpensive low arterial bridge as a twin to the BNSF rail bridge creates a second crossing connecting the Ports of Portland and Vancouver and would carry light rail into downtown Vancouver near the intercity Amtrak station and through the Boise waterfront redevelopment downtown. Because this solution requires no land condemnation or intersection rebuilding, and because it can be done in multiple phases with the least disruption, and because the construction is of a short, low, simple 4-lane steel bridge rather than a long, high 12-lane concrete bridge, the cost should be only a quarter of that for the complicated replacement bridge. The Mayor's advocacy of an economic solution that better integrates traffic into the existing urban networks while stimulating more economic and urban development, especially on Hayden Island and in downtown Vancouver, could place him at the forefront of progressive development leaders. Will he rise to the challenge?

The Mayor could also take the lead in establishing a Parking Management Authority that not only manages city-owned parking both in SmartPark structures and on streets, but also negotiates a network of agreements with private parking owners in office buildings and elsewhere for efficient shared parking to stimulate development on the basis of existing parking resources, especially for nighttime and weekend uses and periods when thousands of parking spaces remain empty. All of that parking could produce income for the owners through an efficient urban network, while creating more downtown workforce housing.

As development returns to a more normal market, the Mayor could also take the lead in ensuring the building of multi-block underground parking structures, such as that for the Brewery Blocks and the Fox Blocks. Such multi-block facilities are much more efficient than individual structures, requiring almost half as many retaining walls while yielding more than a quarter more parking spaces. Even more important, they provide covered access to all the structures above that makes possible more efficient horizontal mixed-use development with more efficient use of shared parking.

And the Mayor could take the lead in creating a para-transit urban network called TaxiNet that would link all the taxis, shuttles, vans and towncars to send the nearest vehicle to users in the shortest time. Using existing GPS navigation systems and cell phone payments, such a system efficiently uses existing vehicles, requires no parking, increases access to and use of

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14 "An Adams Agenda? New Directions for Urban Development," by Professor Will Macht (pages 7-8)
transit and reduces carbon pollution while transporting users in greater privacy with more comfort and speed.

We have focused on many areas of sustainability that are not often considered by developers and planners. In February of 2008 we charted the specifics of a proposed carbon feebate system that had been proposed for both commercial and residential buildings in Portland. Later that year, we focused on how operating, managing and rehabilitating the large stock of non-LEED-rated buildings would have a much greater impact on the environment than taking LEED-rated buildings from Gold to Platinum. In February 2009, we described how concepts of green leasing can substantially change practices from full service leases, which give tenant little incentive to conserve energy, to triple net leases that do. And we described green leases that give landlords incentives to invest in green retrofits while giving tenants a share in the savings for undertaking conservative operation with respect to air quality, recycling, energy efficiency and other practices consistent with sustainability principles. Now Gerding-Edlen has shifted to green retrofits and is creating a $500 million Green Cities private equity fund to finance them.

Six months later, I showed the specifics of how LEED ratings were devoid of cost-benefit analysis and, as such, gave developers little incentive to invest in high density projects in brownfields when they could earn equal numbers of LEED points by including inexpensive things like bike racks, lower lighting levels or drought-resistant plants. I suggested that we need better solutions to several basic problems impeding a large-scale shift to sustainable development: (1) The standards for measuring sustainability are often internally inconsistent. (2) There is no correlation between point scores and economic costs and benefits. (3) Different rating systems are largely incompatible. And, (4) sustainability is about long-term benefits, while developers’ timelines are short-term. As of this writing, the development community has yet to pressure the green ratings entities to undertake the cost-benefit analyses to repair the damage.

In the last issue of the Quarterly, I raised the larger issues of unmet development needs for the next decade. The private development community has been wracked by the implosion of the mortgage market, the near demise of collateralized mortgage-backed securities, the failure of multiple banks, record high unemployment, rising vacancies in the office, retail, hotel and even residential markets, widespread bankruptcies of large retailers and large-scale layoffs in the construction, architecture, engineering and development enterprises.

17 “Green Leasing: Implementing Sustainability Concepts in Commercial Leases,” by Dominic Coletta (pages 15-23)
18 Editor’s Urban Development Journal “Greening the Ratings: Weed LEED & SEED” by Will Macht (pages 3-12)
At the same time, in the public development community, planning and building departments have been forced to engage in wholesale layoffs and furloughs. Public development agencies and ports, along with their cities, find capital markets, rating agencies and investors wary of purchasing public debt in the face of reduced tax bases, tax revenue collections and looming deficits in federal, state and local budgets. Yet the long deferral of public investment in roads, bridges, sewer and water systems, ports and rail, air traffic and energy transmission systems means that private investment cannot follow unless such public investments are made. And it is precisely the skills in the wider public and private development community that need to be employed by the public sector to begin building again.

So as I end my editorship of the Quarterly and terminate this last editor’s urban development journal, I return to the value of questions…and the questions of value. As one of the leading planning schools in the nation, our role must be to continue to raise questions, hard questions, about why too many of our leaders are thinking short-term, about the next election or the next project. We must ask how can we integrate commercial uses into our residential neighborhoods and residential uses into our retail, office and industrial parks? We must question why do we continue to fight our land use battles at the suburban edge when the aging Baby Boom generation and their children, the Echo Boomers, both at peak points when housing decisions are being made, increasingly indicate a preference for urban locations? We must ask why do public officials spend inordinate time and money subsidizing wealthy families to develop professional sports stadiums and arenas while thousands of families are newly homeless after their houses have been foreclosed because they have lost jobs through no fault of their own? We must ask why is it that we continue to increase planning and zoning regulations when the areas we seem to most admire, the close-in neighborhoods, were mostly developed before Portland ever had zoning?

And so we return to where we started with the definition of real estate. Its roots are of more than etymological value because the value of real estate largely depends upon factors beyond the status of the thing itself, but rather upon the uses and intensity to which it can be developed. And those in turn depend to a large degree on the urban character of its location, market and public decisions. But have we made those public decisions that create real long-term value?

Respectfully yours,

William P. Macht
Professor Will Macht
Editor, Center for Real Estate Quarterly
Associate Director, Center for Real Estate
I want to especially acknowledge the financial contributions for this journal from the Oregon Association of Realtors and the RMLS.

The Oregon Association of Realtors®

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Investing where demographic demand is strong and deep is far more rewarding over time than owning properties in markets with little or no growth. Looking forward, the greatest urban population increases will occur in the world’s three largest countries: China, India, and the United States. Highlighted here are characteristics of America’s demography as we look toward 2050.

North America consists of the U.S., Canada, Bermuda, and Greenland and contains 5% of global population. Between now and 2030, as shown in Figure 1, roughly 67 million people will be added, representing 4% of world growth. North America is the most urbanized region globally, with Bermuda at 100%, the U.S. at 81.4%, and Canada at 80.3%. As illustrated in Figure 2, the movement of people from rural to urban areas is ongoing: by 2050, more than 90% of the region’s population will live in cities and suburbs. Migration to urban areas in North America generates real estate demand in receiving locations. Conversely, though, as populations fall in less attractive urban areas, fewer residential and commercial buildings are needed and demolition is necessary. Excess space becomes
more visible in times of economic stress, and abandonment is now increasingly evident in the least appealing neighborhoods of low-growth or no-growth urban areas.

Retirement – or Not?

The oldest U.S. baby boomers are now turning 64 years old. Retirements have begun among this 75-million-person generation, but the recent financial crisis is delaying full retirement for many workers. For half a century, commentators have fixated on the predilections of the baby boomers, often convincing themselves that this demographic cohort was monolithic – despite the fact that births extended over 18 years. If truth be told, the youngest boomers turned only 46 on January 1, and they have ample time to build their investments before retirement. The McKinsey Global Institute points out that the earnings peak for the oldest half of the baby boomers will occur in 2015; for the younger half, the peak will not be until 2025. Boomers have lots of working time ahead.¹

According to an AARP survey conducted in 2008, 14% of retirees were considering returning to work because of stock market losses, and the proportion undoubtedly rose last year. For boomers approaching retirement age, this is a time of reconsideration. Although surveys have consistently

shown that average baby boomers intend to work longer and more intensely past age 65 than their predecessors did, researchers have never been sure what would happen when the respondents actually reached retirement age. The results are now emerging:

- In early 2008, about 30% of 65- to 69-year-olds (pre-boomers) were either employed or looking for work, according to the Bureau of Labor Statistics. This is up from 24% in 2000. Among 60- to 64-year-olds, 54% were in the labor force, again up considerably from 47% in 2000.
- Government workers and union members with assured pensions tend to retire as soon as they can.
- Manual laborers, whose muscles wear out, prefer to retire when possible.
- Because white-collar jobs are less taxing physically, workers can continue well past 65, and many are doing so for both social and financial reasons. However, much of corporate America has not yet adapted to the concept of flexible work plans for older employees.
- A lot of seniors discover second or third careers and launch new businesses, consult, downshift to lower-stress jobs, and combine volunteer and paid activities.

From 1970 to 2000, America’s median retirement age dropped by about two years – to 62.6 years. For the sake of the labor market and for the financial well-being of new retirees, the nation needs to return to a median retirement age of 64 or 65 years, reinvent retirement, and create a more flexible labor market. If any group can pull that off, it will be the boomers.

The McKinsey Global Institute estimates that two-thirds of the early boomers (now 55 to 64 years of age) are financially unprepared for retirement. When its report came out in mid-2008, the Institute thought many of these pre-retirees did not realize what financial shape they were in. Given subsequent market declines, it seems safe to assume the light has dawned.

**Generation Y**

Not only are the boomers more diverse than frequently suggested, but they are not America’s only large demographic cohort. Generation Y – the ‘Net generation’ – contains 16- to 33-year-olds and also totals 75 million. As young adult immigrants arrive, they add to the ranks of this demographic group, so it will keep growing – as happened with the boomers.

Retailers certainly recognize the size and consumer preferences of techno-savvy Generation Y, colleges enjoy strong enrollments, and apartment owners profitably cater to these young adults and their mix-and-match roommates. However, their importance to America’s labor market and their potential real estate and consumer demands are not fully acknowledged. The older portion of this generation, who are currently renters, are becoming the first-time homebuyers taking advantage of bargain prices. In massive numbers, they will furnish those houses, become Home Depot devotees, buy small cars, shop online, take ‘green’ seriously, travel, go to concerts, and set new social and consumer trends of their own. For retailers, Generation Y is the hope for the future.
Some of the marked differences between the boomers and Generation Y are highlighted in Figure 3. The highly mobile young people flock to urban areas, expect multi-culturalism, and grasp globalization. They are already well traveled. The important takeaway is that a huge group of young people is preparing to reshape the U.S. economy. As the boomers did, they will change the workplace, entertainment, vacation travel, and residential communities.

Generation X

This is the smaller demographic group born from 1965 to 1976 that falls between the boomers and Generation Y. Although this cohort has not received comparable attention (to their irritation), the transitional Gen X offers hints as to probable behavioral patterns of its successors.

One interesting characteristic is low fertility: 20% of women ages 40 to 44 are childless, twice the level of 30 years ago. Furthermore, the other 80% of the women have an average of 1.9 children versus 3.1 for their counterparts in 1976. Women with advanced academic degrees are more likely to be childless, suggesting that careers have often taken precedence over childrearing. Nevertheless, in 2006, 60% of all new mothers were working women. In Generation X, women married later and then bore their first child at a more advanced age as well. Early indications suggest a possible reversal of that pattern among...
Gen Y – perhaps because multitaskers believe they can successfully do it all simultaneously—but definitive data are not yet available.

**Continuing Immigration**

Immigration fuels America’s population growth, both upon arrival and later, as new residents have children in the United States. Thirty years ago, nearly two-thirds of all U. S. immigrants went to five states: California, New York, Texas, Florida, and Illinois. By 2005, the big five’s share of arrivals was down to just over half and, with the exception of Maryland, the second-tier destinations (New Jersey, Massachusetts, Washington, and Virginia) also attracted fewer migrants than during the previous five years. Today’s annual inflow of more than 1 million immigrants disperse throughout America, which means that residents of Tennessee, Iowa, and Georgia are being exposed to far more workers for whom English is a second language. Most native-born Americans are welcoming, but the combination of large numbers of immigrants, their movement to new destinations, and the fact that most are visually identifiable because they are Hispanic or Asian has also generated political backlash.

The employment situation is complex. Sociologist Douglas S. Massey summarizes America’s growing dependence on immigrant labor as follows:

“Competition in the increasingly globalized world economy has lowered the relative earnings of American industrial workers. As American consumers have benefited from cheaper, and often better, products and services from abroad, . . . the pressure to cut costs has encouraged many employers to look for employees willing to work harder for less compensation. . . . There is clearly a reciprocal dynamic: between globalization, industrial restructuring, and immigration.

“Many individual American families, too, are purchasing more immigrant labor to replace traditional home-produced goods and services, including child care, lawn care, gardening, and food preparation (in restaurants, in grocery stores, or at home). The lower wages of immigrants have kept consumer prices lower in the United States than in other industrialized countries.”

Several other points about immigrant labor are worth highlighting:

- Two key industries that have come to rely heavily on immigrant labor are construction and meat processing. According to sociologists Emilio Parrado and William Kandel, “As education levels in the general population rise and other employment options reduce the attractiveness of employment in these industries, American firms that do not or cannot locate production overseas seek cost-cutting measures at home.” Obviously, the construction trades cannot move offshore. They are not attracting enough native-born apprentices; as a consequence, 20% of all Mexican immigrants were working in construction at the peak of the boom.

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Partly because of the housing market collapse, the inflow of undocumented immigrants dropped from roughly 800,000 per year from 2000 to 2004 to an average of 500,000 annually between 2005 and 2008. The figures for the last two years are even lower.

Nonetheless, the total number of undocumented residents in the United States grew from 8.4 million in 2000 to about 12 million today, or 4% of the American population. Four of five are Hispanic, with about 60% from Mexico.

Members of racial and ethnic minorities represent more than one-third of all Americans and are projected to represent a majority by 2050, as portrayed in Figure 4. Hispanic Americans now exceed 15% of the population and are growing faster than any other ethnic group. In fact, Hispanics account for half the country’s population growth since 2000: 60% from natural increase and 40% from immigration (a reversal of the ratios in the 1990s).

Educational Attainment

Education pays off in the workforce – for both women and men. According to the U.S. Census Bureau’s 2007 American Community Survey, working adults with a master’s, professional, or doctoral degree had median earnings of $61,287 in 2007, more than three times the $19,405 median for workers without a high school diploma. Just having a bachelor’s degree resulted in income 2.4 times that of those who did not graduate from high school and 74% higher than those who finished their secondary educations. A Business Week article points out, “According to the Bureau of Labor Statistics, 34% of adult workers in the United States now have a bachelor’s degree or better, up from 29% two years ago.”

Real Estate Labor Force Gaps

America’s real estate industry has two labor gaps, one visible now and one emerging:

1. The skilled trades are not attracting enough young people: carpenters, sheet metal workers, electricians, mechanics, operating engineers, etc. Technical schools target new immigrants because young people born in the United States are not encouraged to work with their hands. The real estate industry should lobby for greater focus on this aspect of secondary and tertiary education.

2. As the baby boomers begin to retire, the industry will lose management talent. The succeeding demographic group – Generation X – tended to bypass real estate because there were no entry-level jobs when they finished college during the industry’s collapse in the early 1990s. By the late 1990s, dot.coms were more tantalizing than property companies. Thus, the industry lost a generation. Delayed retirements will be positive for many companies; current managers might hang around to see their projects and companies through the current crisis in order to stay busy, remain in the mix, recover lost equity, or keep bread on the table.

Slowing Mobility

In 2008, fewer than 12% of Americans changed residences, the lowest mobility since 1948. When boomers were children, back in the 1950s and 1960s, close to 20% of the population moved each year. Several factors explain today’s moribund rate:

- Falling home prices and limited mortgage availability prevent homeowners from moving.
- In a recession, employed people hold onto their jobs and dismiss notions of moving and incurring the attendant expenses. Taking a new job seems risky when the last hired is often the first to be laid off.
- More two-career households in the labor force make geographic shifts complicated and therefore less frequent.

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• Young people who cannot afford to live independently stay on with their parents – or move back home.
• Since the passage of Proposition 13, older Californians stay in their long-term homes to retain low property tax rates.
• Because of recent wealth reduction, fewer retirees are migrating to new locations.

As the economy recovers and as Generation Y becomes a larger force in homeownership, mobility is likely to go back up – but only to 14 or 15%. Mobile people can move within the same metropolitan area, or they can switch to another city or state. A 2008 Pew Research center survey\(^7\) focused on the latter group and derived intriguing conclusions:

• Urbanites move more, rural dwellers less.
• Three-fourths of college graduates have moved away at least once from the metropolitan area where they grew up, versus half of those who have only high school diplomas.
• Relatively affluent people are more likely to have moved to new locations one or more times.
• Half of all Midwestern adults report spending all their lives in their home metropolitan areas.
• The same is true of one-third of adults in the West; however, fewer than 14% of Nevada residents and only 28% of Arizonans were born in those states.

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In recent months, the Center for Real Estate has been looking at the connection between the development of schools in downtowns and regional centers. We see the issue of downtown schools centered on three central questions:

1. What role does the presence of downtown schools have on the demographic composition of American downtowns?
2. How should school districts plan downtown schools when enrollment demand is uncertain?
3. How should downtown schools be redeveloped given the higher cost of downtown land?

Land Prices and Regions

The discussion of downtowns in the United States is dominated by two long-term trends or patterns in metropolitan economies.

First, one of the characteristics of the urban economy is the large difference in land prices between rural areas, suburbs, central cities and downtowns. Getting good data on land prices is quite difficult because of the small number of transactions, the unique characteristics of each site, and the enormous fluctuations in prices over the past 5-10 years. However, if we take Portland as an example, Metro tells us that land prices vary by about ten-to-one between rural land and land inside the urban growth boundary.
And at a national level, Professor Edwin Mills of Northwestern recommends using a rule of thumb of a 30% price differential per mile for land within metropolitan areas. As a result, for a region where there is a 20-mile difference from the CBD to the countryside, that represents a 200-times difference in land prices. While land prices vary in much more complex ways than this and there are often localized peaks in suburban downtowns, the broad trend is for land prices to peak at the metropolitan central business district.

Those differentials explain why we tend to build ranch homes in the countryside, two-story homes in the suburbs, low-density apartments in inner city neighborhoods, and residential towers in downtown settings. Consumers and developers respond to the differences in land prices and produce housing, office and industrial space in different configurations in cities versus suburbs.

We should expect the same response to land prices in school construction, too. That is, it makes sense to build lower density schools where land prices are low, but it makes sense to economize and build at high density where land prices are higher.

Suburban Sprawl and Downtowns

The second point to make regarding the urban structure of cities is that for a host of reasons, metropolitan areas have decentralized, producing what many call suburban sprawl. Those reasons include lower transportation costs from automobiles, higher household incomes, preferences for detached houses with large lots, problems finding new housing in existing neighborhoods, redlining barriers to inner city housing, and problems with public services and taxes in inner cities. In any case, this is a very long term process, dating back to the early 1910s, when the lower east side of Manhattan saw dramatic reductions in its population density, when neighborhoods in Brooklyn and Harlem became connected to New York’s subway system.

The decentralization of U.S. metropolitan areas has reduced the population in central cities, leading to low enrollment demand for K-12 education, even while many of those cities have remained important employment centers. Portland, like most U.S. cities, has seen a thinning out of its population in close-in neighborhoods, while at the same time experienced a rise in population density in the suburbs.
Recent years have brought a revival of the fortunes of U.S. central cities, but the overall pattern of decentralization and declining school enrollment remains. Many of the new residents of our central cities are single adults, childless couples, empty nesters, and couples with children below school attendance age. As enrollment falls and fewer families live in downtowns, school districts have responded by closing many of their downtown schools. In turn, the lack of schools deters future
settlement by families, creating something of a chicken and egg problem. The higher price of family-sized units downtown, and the higher cost of school construction there exacerbate the problem.

Yet while the overall tendency has been for downtowns and newly revitalizing areas like the Pearl District and South Waterfront to be occupied by childless households, there are children living there. After all, the presence of young adults is a good predictor of births! According to data from the PSU Population Research Center, the number of births to families in the River District has risen from 22 per year in 2000-03 to 48 per year in 2005-08. They further estimate that 252 children live in the district today, yet only 54 were enrolled in Portland Public Schools in 2006.

There are at least three possible explanations for this anomaly. One, River District parents are disproportionately sending their children to private schools. Two, the children in the River District are younger than average, and the growth in the number of children is the beginning of a trend. Or three, the children in the River District are younger than average, and parents are deciding to leave the River District when they reach school age. Likely, all of these factors are present.

Build it, But Will They Come?

One of the difficulties for long-range planning by school districts is the uncertainty of population growth. While Metro has ambitions to redevelop Portland’s central core and suburban town centers, absent property-specific policies, they cannot determine who will live in the units that are built. Policies that are designed to accommodate family-oriented housing, such as requiring developers to include larger numbers of two- or three-bedroom units in the downtown, may result in those units being occupied by unrelated adults, rather than families, since the development cost and required price of such larger units may exceed what families can afford. On the other hand, building smaller housing units may meet the affordability needs of single-parent households.

One strategy to mitigate that risk would be for the school district seeking to initiate a downtown school to lease space rather than build a new, school-only property. An example of this is developer Ed McNamara’s Pearl Family Housing project at NW 13th Avenue and Raleigh Street. The building will
have 138 affordable housing units, with the bottom floor leased by Portland Public Schools. Should demand for families with elementary school-age children grow, the school district can extend its lease, but should it not materialize, it could cancel the lease. While this works against the current preference of school districts to own property, leasing creates the ultimate flexibility for the end user, while it creates a desirable credit tenant for developers.

A second mitigation strategy for a school district facing uncertain demand would be to pick a school location at the intersection of multiple transit lines, creating the opportunity for a larger catchment area for the school. Should families move to the downtown area and the school become overcrowded, then the catchment area could be shrunk, steering the excess demand to the surrounding neighborhood schools. If families do not pick a downtown setting, then the catchment area can remain large. Downtowns have the unique advantage that a very large number of transit lines and roads meet there.

A third mitigation strategy might be to create an open enrollment model for a downtown school, that matches the commuting distance that downtown workers already experience. An employment center like downtown Portland or downtown Beaverton attracts workers from greater distances, often crossing municipal and county boundaries. Recognizing this, childcare providers make their slots for pre-K children open to all families, creating an opportunity for downtown workers to commute with their children. This policy creates a benefit for some parents to visit their children during the day and can create a convenient commuting option for the family. It could also serve to reduce or eliminate school busing.

This commuting pattern is quite common for other downtown institutions. Downtown libraries and museums could not survive based upon downtown customers only. At St. Michael’s Catholic church in downtown Portland, only 35% of the parishioners live in downtown. Most travel from the suburbs. The International School, a K-5 language-immersion school located in downtown Portland, finds that only 8% of its students come from downtown. If you add in the west side of Portland, the number rises to 27%, leaving 73% of the demand coming from the suburbs or across the river. According to its director, many of the parents are downtown workers who deliver their children to school en route to work.

While the concept of an open enrollment school for children challenges our notion of community-based, neighborhood schools, this may be an attractive option for parents, contrary to the proposed no-transfer policy being considered by the Portland Public School District. And if a school needs a minimum threshold number of students in order to be viable, offering slots for commuting parents may be critical for starting a new downtown school. This model may require school districts across the region to form partnerships and cost-sharing agreements. It may require the school to be a charter school.
Redevelopment Options for Schools

If there is a market, how should downtown schools be developed? While the current recession makes any real estate development difficult in the near term, the longer-term trend to live and work in American downtowns may create some development opportunities for school districts that hold significant property assets in those areas.

One option is to reconfigure the property that has been set aside for schools in a way to release land for mixed-use development. This option might be a new policy to close the schools in downtowns and accept that the preference of non-family households to live downtown is a permanent phenomenon. According to this view, downtown neighborhoods serve different demographic groups than families. The school closures would free up valuable school property for other uses. The conversion of Shattuck Intermediate School into a building for Portland State is an example of that kind of policy. Many school districts have followed the policy of closing inner city schools for years. While any school district facing declining enrollments across the board will need to consider school closures, choosing to close downtown schools would seem to harm a potential new economic growth center for the school district and the region.

A second option might be to move the downtown school to a nearby site that is cheaper, freeing up the more valuable school site for commercial or residential purposes. We experienced a version of that in 1950 when Lincoln High School was relocated from Broadway and Market Street in downtown Portland to the Goose Hollow neighborhood, where it now occupies the former site of the Jacob Kamm mansion. Another example of this thinking was the ill-fated proposal that considered moving Lincoln High School to the Conway site in Northwest Portland, although it was questionable that might have been a less expensive option.

A third option is to make downtown school buildings multiple stories, so that more land on the school property can be available for development. That development might occur through a sale of property or a long-term land lease to a developer. Last summer, a team of PSU real estate students proposed such a development for Lincoln High School, building a new building on the western half of its current site, allowing for new residential development on the eastern portion.

A fourth option might be to convert the existing school’s sports and recreation curricula to emphasize indoor sports over to field sports, which tend to require significant amounts of land. There are a number of examples of this in the Beaverton Schools District, where its selective option schools, such as
the Arts and Communications Magnet Academy, do not have the same acreage of athletic fields as its traditional high schools.

A fifth option might be to explore shared athletic facilities with municipal parks departments as a way to reduce some of the land acquisition costs for schools. That option would also have the benefit of creating more sharing of athletic facilities between schools and the general public. While it is rare for schools to generate significant income from a leased school facility, the concept might create the political pressure on non-school governmental agencies to build infrastructure that school districts can share.

A sixth option is to shift the school program to year-round schools. Since school only operate 180 school days a year, the expensive plant and equipment lies fallow for over half the year. Four 11-week terms, separated by four two-week vacations, provide the same number of school days in three years as the traditional school year does in four years. That schedule would increase school capacity by 25%, reduce the cost of operation and better meet working parents' needs.

Mixed Use Development and Schools.

Implicit in many of these options is a consideration of having schools much more closely integrated into the community, continuing a trend that occurs in many schools today. What sorts of land uses work well with schools?

Between commercial office and residential development, probably the best neighbor for a school is residential development, if only because nearby school location is often a desired housing attribute to families. Equally important, the time of day demand for parking for a school often fits well with residential demand. Rather than having an empty parking lot at night, school parking facilities could be utilized by residents in the mixed-use development. And from the school's point of view, they would only need to pay for part of the cost of parking.

A second land use option that could work well with school development is youth-oriented retail space. In the area around Lincoln High School, which is an open campus during the lunch hours, small restaurants and food stores cater to student demand. Space for those businesses could be integrated into the design of the overall project.

For elementary schools, suitable land use partners might be pre-school and after-school service providers. In its strategy to locate new facilities, Knowledge Learning Corporation often locates its KinderCare child development centers near schools. These centers can provide after school supplementary education and childcare for parents who need to work until 5:00 p.m. and cannot pick up their children at the usual hour. Also, for parents with both elementary and pre-elementary children, co-locating these facilities saves them travel costs. Or schools might provide such services for additional income, under contract or directly, using their own facilities before and after school.

Another partnership model is the public-public partnership option. Building a library next door to a school with an age-appropriate book collection could save the district the capital cost of building a
separate school library. A school could be built close to a town’s civic center, where an auditorium could serve the school during the day and serve the city at night.

With all of this mix of activities, great attention would need to be paid to security. And clearly some land uses, such as industrial uses and alcohol-serving establishments are inappropriate partners for a mixed-use school development. However, for downtown schools, it may only be possible to mitigate these kinds of conflicts given the history of land use in these places.

**Strategies for Cities and Suburbs**

Finally, the policy option for suburbs with growing enrollments is often quite different than that of central cities, typically facing declining enrollments. If central city school districts face the problem of triage – meaning picking which schools to keep open and which to close – suburban districts with strong local economies often face the issue of where to build new schools.

For central cities with strong economies, the critical issue is asset management. School officials are often hesitant to sell land, seeing that as a resource that will be hard to recover and viewing the reduction of neighborhood schools as damaging to children. Yet staffing and heating each school becomes an overhead cost that needs to be reduced to preserve resources for instruction. That will require hard decisions. School officials are often hesitant to close schools should demand reappear. If that is a concern, then such districts should explore master leases of their buildings that reserve their right to reclaim the property in 5, 10 or 20 years in the future. However, such buildings would likely only be usable by private schools without major tenant improvements. And new construction on leased land that could be reclaimed in relatively short terms for building lives would likely not be feasible.

For suburban schools, the traditional strategy is to forecast population growth and build new schools in greenfield locations, typically on the suburban fringe. Yet if school policy has an influence on settlement patterns, then traditional demographic forecasting techniques do not work. The strategies outlined above might consider suburban downtowns and edge cities as possible locations for new schools to be constructed, particularly when those areas have been targeted by the city and by Metro as places for population and employment growth to occur. If we believe our region’s future is to build up rather than build out, then we need to change our thinking about schools.
Cooperative Housing in Portland:  
Development Alternative in an Uncertain Market

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Recent market and financial conditions demand that developers think creatively about any approach to new projects. This holds true in most markets and Portland is no exception. The cooperative housing model is an alternative to traditional housing models and offers advantages to both residents and developers that similar condominium arrangements do not. Specifically, cooperative housing allows for responsive design, mitigation of market risk, empowered financing structures, and egalitarian operation of services. These and other innate advantages are particularly attractive for adults facing long-term housing decisions, often having recently sold single-family detached houses. Cooperative housing allows

* Special thanks to Mark Desbrow and Noel Johnson of Green Light Cooperative, and Will Macht, Adjunct Professor, PSU School of Urban Studies and Planning, for their invaluable input and assistance with this article.
for flexibility in design, pre-sale requirements, finance, construction, resident control and operation of services that traditional continued care facilities and condominiums cannot.

This article investigates the cooperative housing model, its recent emergence in Portland, and the advantages it offers. Specifically, the article will examine the Sheldon Cooperative, a 62-unit cooperative housing community planned for a 35,000-square-foot site at Northwest 19th and Lovejoy streets, which is designed for residents 55 years and older. It has secured commitments, in the form of $5,000 refundable deposits, from 34 households. It needs 50 non-refundable share purchases to qualify for a 40-year, non-recourse, construction-to-permanent mortgage insured by the Federal Housing Administration (FHA) of the U.S. Department of Housing and Urban Development (HUD). This little-used Section 213 mortgage insurance program is designed to facilitate the construction, substantial rehabilitation, and purchase of cooperative for-sale housing projects.

At the Sheldon, members will put up all the construction equity required for the single cooperative mortgage loan and then collectively retire the mortgage as part of their self-assessed monthly fees. For a 1,424-square-foot unit, the initial cash outlays are approximately $262,000 for the membership equity contribution, due at ground breaking, and monthly fees of about $3,844. The monthly fee covers debt service, as well as operational costs such as utilities, taxes, maintenance, reserves, and any services the building members choose to collectively procure, such as health related services. Because the cooperative owns the entirety of the building, items such as individual appliance repair and replacement are included in maintenance budgets. The pro-rata share of the mortgage interest portion of the fees is tax deductible, as are the property taxes.

Equity growth of individual cooperative membership interests at a limited equity cooperative such as the Sheldon is typically limited to two percent per year. This is designed to keep the project affordable in the future and to ensure that residents can quickly, and predictably, recover their equity when they, or their heirs, want to sell their cooperative share. By providing its own equity to build the project, the Sheldon eliminates the need for developers to find traditional equity investors who typically require higher rates of return. This cuts development costs for both the developer and the buyer and reduces pressures on the developer to build the maximum number of units, compromise quality, and maximize sales prices to enlarge profits.
The Sheldon Senior Cooperative Model

The specific impetus for building a cooperative community emanates from Bing Sheldon, founding partner of SERA Architects, his wife Carolyn and their close friends. The Sheldons and their friends enlisted the assistance of former OPUS NW developer Mark Desbrow (a former student of the PSU real estate development program) to manage the development efforts on their behalf. Desbrow met Bing Sheldon while he managed the development of the Park 19 apartment building at NW 19th & Glisan. Following that collaboration, Desbrow and Sheldon decided to investigate cooperative housing as an alternative senior housing model for Portland – at a time when new construction projects are bearing significantly greater risk in the aftermath of the Great Recession. By eliminating many of the speculative incentives of more traditional housing models, cooperatives offer a potentially stronger and more stable choice. The Sheldon takes advantage of the many benefits of cooperative housing (as opposed to condominium ownership or continuing care retirement communities (CCRCs)) in order to capitalize on the increasing number of independent older adults looking for urban alternatives to next-stage living options.

Cooperative buyers enjoy financing and tax advantages, more resale options, equity protection and greater levels of control and predictability. Developers of cooperatives can benefit from equity substitution, lower-cost financing, greater levels of strongly secured presales and a reduction of the need for speculative investment. Most seniors also perceive additional social advantages. At the Sheldon, the emphasis is on building community from formation forward based on aligning interests “created by a shared purpose and a common investment.” The Sheldon adheres to cooperatives’ key principles of democratic governance, while allowing members more initial flexibility in choosing floor plans, design elements and the cooperative’s collective services.

Housing Cooperatives

A housing cooperative is a model of home ownership in which a cooperative corporation owns the land, the building, the units and all common elements, with the residents collectively owning 100% of the corporation. Residents (or members) purchase shares in the corporation in exchange for a proprietary lease (or, alternatively, a membership certificate, shares of stock, or perpetual use and equity contract, depending on the arrangement) that provides the exclusive right to occupy, use, and sell shares in the corporation, to which the lease for a particular unit within the cooperative has been assigned (typically evidenced by a membership certificate or similar document). Members are then responsible for a proportionate share – as determined by the corporation’s

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1 Green Light Cooperative: http://www.greenlightcooperative.com/your_lifestyle.html
controlling bylaws or operating agreement – of the cooperative’s carrying charges, which include mortgage payments and all operating costs, on a weighted, pro rata share basis.

It is important to note the contrast between the cooperative housing model, condominium ownership and CCRCs. In a cooperative, members own an interest in the cooperative corporation and its property as a whole, as well as an exclusive right to occupy a particular unit. In a condominium, the buyer owns fee title to a dwelling unit as well as an undivided interest in common areas. In a CCRC, residents pay a significant entrance fee, a portion of which may or may not be refundable, occupy a unit through payment of monthly fees but acquire no ownership interest.

In a cooperative – for example the Sheldon – there will be a single mortgage from a single lender negotiated under more favorable terms for all 62 units plus all the common areas. By way of contrast, a 62-unit condominium might have 62 mortgages negotiated under less favorable terms by 62 buyers from 62 lenders at different times. An analogy by developers of the Sheldon is that a cooperative is like a large ship on which all members have decided to set sail, versus a condominium which is like a number of small boats, linked together, setting sail. Cooperative developers argue that the larger ship is a more sea-worthy vessel, with more control, and can handle stormy weather better than a collection of small ships linked together.

Furthermore, because cooperatives are essentially non-speculative (i.e. they require a high, non-refundable pre-sale threshold before construction can start), lower marketing, sales and capitalized operating expense contingencies need be budgeted and financed.

Democratic Control

Both condominium and cooperative owners have voting power and thus participate in a democratic decision-making process. Condominiums operate according to bylaws and the governing declaration of covenants, conditions and restrictions (CC&R) agreements running with the land. Cooperatives operate under the corporation charter allocating the rights and responsibilities of each cooperative member. Both condominiums and cooperatives facilitate decisions made on behalf of their respective owners through a board of directors, elected by the members from the entire membership. The board is delegated the responsibility to oversee operations and ensure that the residents’ goals are achieved.

Unlike condominium CC&Rs, because cooperative members are at the table helping to draft the governance documents from the outset, the content and powers tend to be different and more specific. In contrast to condominium ownership, for example, cooperative members typically have the right to approve incoming members, subject to anti-discrimination statutes. Many condominiums have experienced problems engendered by relatively few, disgruntled, litigious owners who have had difficulties adjusting to communal living. Many cooperatives have avoided problems through fair exercise of their approval rights, analogous to the rights of a landlord of an apartment. It is more difficult for individuals to circumvent the democratic process and board decision-making role in cooperatives whose rules have been structured by members, rather than the developer.
Cooperative Housing Permutations

Housing cooperatives allow a great deal of operational flexibility for residents of varying age groups, income levels, and interests. Examples of housing cooperatives include:3

1. **Market Rate Cooperatives:** Shares are purchased at full market value, and shares may be sold for a market-rate return.

2. **Limited Equity Cooperatives:** Shares may be purchased at market value, but resale value is limited according to the cooperative’s bylaws. This model may be advantageous in discouraging speculative investment, and lends itself to long-term community cohesion.

3. **Leasehold Cooperatives:** The cooperative leases, rather than owns, the ground and/or building, and may have an option to buy the leased portion.

4. **Senior Housing Cooperatives:** Housing cooperatives are restricted to residents over 55 years old. The cooperative model is analogous to other age-restricted communities and allows for continued independent living assisted by a variety of chosen services. However, when one compares cooperatives to a more common alternative – continuing care retirement communities (CCRCs) – the differences are substantial. In CCRCs, decisions regarding services and amenities are generally pre-determined. In addition CCRCs are commonly privately owned, for-profit ventures. This means that residents are essentially long-term tenants, subject to higher entrance fees and monthly service fees as well as the potential for increasing fees over time, with no ownership in, and little control over, their living situations.

5. **Student Housing Cooperatives:** Housing cooperatives can offer affordable living alternatives to students. By sharing costs of living, student-housing cooperatives are able to operate more efficiently and pass the savings on to its residents.4

6. **Artists Cooperatives:** Typically leasehold or limited equity housing cooperatives, artist cooperatives help ensure affordable, communal housing and workspace.

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4 For example, the Students’ Cooperative Association in Eugene, OR lists double rooms for $890 per term, which includes “room, food, utilities (including wireless internet), laundry detergent, and some toiletries.” Students’ Cooperative Association, available at http://www.uoregon.edu/~asuosch/index.php.
Cooperative Housing Versus Condominiums & CCRCs

Cooperatives offer residents and developers alternatives over condominiums or CCRCs:

1. **Taxes:** Members are entitled to the same tax benefits of homeownership through mortgage interest and property tax deductions. This occurs because the cooperative corporation passes through the benefits to its individual shareholders. Unlike private CCRCs, no profit is needed for the cooperative corporation. Property taxes are assessed on the cooperative corporation’s real property. Members’ monthly payments include a pro-rated portion of the real estate taxes, and can be deducted (along with mortgage interest) from tax returns.

2. **Finance:** A master, blanket mortgage allows for coordinated leverage if refinancing is needed to pay for major repairs and upgrades to individual units and common spaces. For condominiums, special assessments typically are used to improve common areas, leaving individual owners to find their own financing strategies for paying common assessments as well as for improvements to individual units. The effect may be that cooperatives may be better able to ensure maintenance and improvement throughout their existence.

3. **Closing Costs:** Since there is only one blanket mortgage, individual cooperative share buyers need not find and obtain their own mortgage loans, and need not pay the financing fees and closing costs typically required of condominium buyers.

4. **Equity:** Unlike CCRCs, no entrance fee is paid and all cooperative share purchases retain equity value. In a CCRC, there is no ownership of a unit, as in a condominium, nor is there a proprietary lease, as in a cooperative, nor is there a transferable ownership interest in the CCRC. In a cooperative, shares are transferable to heirs and other parties and the cooperative itself usually has a right of first refusal so there is a market for transfer. Also, when there are

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transfers, only the out-going member’s equity must be financed by the incoming member. Transfers of shares are subject to fewer settlement costs.6

5. **Carrying Costs**: Members who desire lower monthly costs may make additional down payments to the cooperative when construction is complete. This is commonly done in senior housing co-ops elsewhere in the nation. Households that opt to do this would typically have a total of up to 80% of their home value purchased via share price. The resulting equity (along with the additional equity received during construction via the final sales of the last 20% of the units) is used to pay down the balance of the share mortgage.

6. **Default**: Because the cooperative corporation pays the master mortgage, failure by one homebuyer to pay monthly dues does not cause a mortgage default. Instead, the co-operative covers the shortfall by using its reserves while simultaneously placing a lien on the defaulter’s co-op share. The cooperative has strong leverage because the defaulter loses the right to occupy their unit if they fail to make monthly payments, as agreed to in their occupancy agreement. Should the situation not be remedied immediately, the reserve fund is replenished when that share is resold as it is holds a priority position.

7. **Share Loans**: However there can be disadvantages for buyers who need personal financing. In a co-op, since the buyer is actually buying a share(s) in a corporation rather than real estate, s/he gets a type of loan called a share loan from a lender. A share loan is like a mortgage. It provides the buyer with borrowed funds to buy the share(s) from the seller. The buyer then makes monthly payments on the share loan to the lender and monthly carrying charge (maintenance) payments to the co-op. Like mortgages, share loans are secured loans. In addition to a promissory note, lenders also require a security agreement and file a lien against the borrower’s property in public records. This lien is created by filing a UCC-1 Financing Statement with the county clerk. Since fewer lenders are familiar with cooperative share loans, their availability is more limited. These disadvantages may be offset in the case of senior coops because of the larger equity holdings of senior buyers and therefore lower loan-to-value required for the share loan. Commonly, share prices are paid from members’ equity, and are not financed. Share loans, although popular in New York where there are many co-ops, are not currently available in Oregon.

8. **Share Price Appreciation**: Because the co-operative exists for the benefit of its members, the cooperative developer does not collect any profit from the sale of units. When limited equity co-op members sell their co-op shares, there is a fixed formula for recouping their share price and appreciation. While this restriction would not apply if a traditional private loan is utilized, the HUD Section 213 loan results in the resale of shares being priced at their original share price.

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6 See [http://www.thepepper.com/cooperative_housing.html](http://www.thepepper.com/cooperative_housing.html)
purchase price, plus, (i) the loan principal the buyer paid down while occupying their unit and (ii) a fixed annual appreciation on their share purchase price as allowed under the HUD financing, (approximately 2% increase per year.)

9. **Limited Liability**: Members have no personal liability on the co-operative mortgage. The cooperative association is responsible for paying off any mortgage loans. This can make it possible for people whose income might not qualify them for an individual mortgage to buy a membership in a limited equity co-operative.

10. **Control**: Member participation gives residents the ability to control rental composition of the cooperative. In order to protect their investment, residents may limit the number of units in the cooperative that may be rented to outside parties, as well as demand approval of individual renters, or future purchasers, thus ensuring a high proportion of owner-occupied units on the one hand, and increasing the likelihood of compatibility with future shareholders on the other. A cooperative may allow its members to have landlord-like control of who can purchase shares. Members must follow anti-discrimination laws but can choose tenants on the basis of their histories.  

11. **Predictability**: Greater control over the day-to-day functions of the cooperative, versus a condominium or CCRC, enables members some greater predictability over their investment. Similarly, members in limited equity cooperatives can plan for long-term financial decisions without having to speculate as to the value of their investment.

12. **Privacy**: No public record of ownership for cooperative shareholders means increased privacy and security. When there are transfers, only the out-going member's equity must be financed by the incoming member, since the debt is part of a single blanket cooperative loan. Transfers of shares are subject to fewer settlement costs.

13. **Risk**: Housing cooperatives typically have high pre-sale requirements; therefore, the risk inherent in being an early buyer, as in condominium properties, especially during the recovery from the Great Recession, is significantly reduced. Furthermore, housing cooperatives typically do not require any contribution from its prospective members until the budget has been agreed upon and the developer has guaranteed development costs and completion dates.

14. **Maintenance & Services**: Cooperatives also differ from condominiums because the co-op also is responsible for maintenance of the insides of the units, including the repair and replacement of appliances, just as is the case in rental apartments. In condominiums, the owner must perform all internal repairs.

Developers may also be intrigued by the unique advantages cooperative housing offers them. Among them are:

1. **Finance**: Developers discouraged by the lack of funding for new construction projects will find attractive non-recourse options for the cooperative housing model. This includes equity advantages, described below, as well as HUD-insured mortgages with very attractive terms.

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7 See [http://www.seniorcoops.org/metz.html](http://www.seniorcoops.org/metz.html)
2. **HUD Financing**: Section 213 provides for a mortgage limit of up to 98% of the FHA estimate of total project cost. However, it should be noted that per unit limits typically prevent such leverage from being attained. Depending on costs of construction (urban vs. suburban cost structures), leverage is more typically 50% to 75%, respectively. Interest rates are typically locked before construction, the construction loan automatically converts to a permanent loan and payments (P&I) are amortized over 40 years. The non-recourse program is able to eliminate much of the risk involved with traditional financing methods by first establishing a vetting process for eligible projects. First, each sponsor of a project must participate in a pre-application conference, submit a site appraisal and market analysis (SAMA) application or feasibility application (for new construction projects or substantial rehabilitation projects, respectively), arrange for an environmental assessment, and check with the state to determine other requirements – all before the project sponsor is allowed to submit a firm commitment application through a HUD-approved lender.

Second, HUD sets the per-unit loan amount limits for the loan (based on unit sizes, with some adjustments) and requires that the difference between this amount and the total cost of the project be supplied at closing. Developers can therefore demand a relatively high down payment (at a minimum, 3% of total project costs) from prospective members in order to close the loan. This process allows for-sale cooperative developers to bridge the financing gap with equity from the members of the cooperative, thus reducing the developer’s exposure and providing for seamless project financing.

3. **Equity**: A substantial amount of equity is provided via share purchases in the pre-sale period, and the balance is funded through a blanket mortgage. This is especially important to note in the case of the growing population of empty nest baby boomers – as well as other aging adults – who in many cases have recently sold a single-family home and realized up to $250,000/$500,000 of tax-free equity gains through their capital tax exemption.

This can be particularly favorable for the Sheldon’s target market in which 95% of West Hills householders over age 55 own their homes; 55% have lived there for over 10 years, and over 87% for over 5 years. Home values for these age 55+ owners have purportedly increased about 80% since 2000. Their homes are worth $778,900, on average, which is 169% more than the City’s average. And 32% of these owners have incomes (not including investments) over $100,000.

4. **Risk**: Developer risk is mitigated by several factors. Minimum out of pocket equity requirements, high pre-sale requirements, attractive non-recourse financing options, low turnover rates, and increased interest in cooperative housing from seniors in the 55-70 age

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group—especially in urban settings—create an attractive, relatively low-risk investment for cooperative developers.\(^\text{10}\) It should be noted, however, that considerable pre-development risk does exist, as all capital required to get a project to the point of construction (the point at which members purchase their shares) must be provided by outside/developer investment.

5. **Construction**: HUD financing provides a blanket, non-recourse loan for both construction and permanent financing. This eliminates the need for the developer to negotiate a separate construction loan as well as the need for individual buyers to negotiate and obtain their own mortgage loans, which should make sales easier, less expensive and faster.

6. **Market**: There is a growing market for the cooperative model of ownership, especially among seniors desiring more control over their next-stage living decisions. Traditional risks associated with residential condominium projects are minimized through high pre-sale requirements as well as the ability to market and create affinity communities through word of mouth during the pre-sale period.

**Going Forward**

The cooperative housing model offers many flexible alternatives that may prove valuable to both developers and buyers in the current difficult real estate environment. The results of the development of the Sheldon cooperative may demonstrate that model in Portland.

**Housing Comparisons\(^\text{11}\)**

<table>
<thead>
<tr>
<th>Ownership</th>
<th>Market Rate Cooperative</th>
<th>Limited Equity Cooperative</th>
<th>Condominium</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Member/residents are the sole owners through a corporation, which in turn owns the land and buildings. Each member has the exclusive right to occupy a particular dwelling unit in perpetuity.</td>
<td>Member/residents are the sole owners through a corporation, which in turn owns the land and buildings. Each member has the exclusive right to occupy a particular dwelling unit in perpetuity.</td>
<td>Unit owners take fee simple title to a dwelling unit plus an undivided interest in the common elements (the land and common areas of the buildings).</td>
</tr>
<tr>
<td>Monthly Cost</td>
<td>Members pay monthly carrying charges to the cooperative—a pro-rata share of actual operating costs, blanket debt principal and interest,</td>
<td>Members pay monthly carrying charges to the cooperative—a pro-rata share of actual operating costs, blanket debt principal and interest,</td>
<td>Unit owners pay monthly condominium fees to the condominium association—a pro-rata share of actual operating</td>
</tr>
</tbody>
</table>

\(^{10}\) Eli Research: Independent Seniors Flock to Co-Ops, available at [http://www.seniorearesearch.org/eli2.html](http://www.seniorearesearch.org/eli2.html)

\(^{11}\) Excerpted from More Than Just Housing: Co-Op Housing, University of Wisconsin Center for Cooperatives, available at [http://www.uwcc.wisc.edu/info/uwcc_pubs/coophouse02.pdf](http://www.uwcc.wisc.edu/info/uwcc_pubs/coophouse02.pdf)
<table>
<thead>
<tr>
<th>Maintenance &amp; Repairs</th>
<th>Cooperative is responsible for exterior maintenance. Cooperatives can choose how they allocate responsibility for dwelling unit maintenance and repair between individual members and cooperative as a whole. Many limited equity cooperatives assume most or all responsibility for dwelling unit maintenance and repair, in order to even out and reduce costs to their members.</th>
<th>Cooperatives can choose how they allocate responsibility for dwelling unit maintenance and repair between individual members and cooperative as a whole.</th>
<th>Condominium association is responsible for exterior maintenance. Individual unit owner is responsible for all dwelling unit maintenance and repair. Limited common element repairs are performed by the Association and charged to the unit owner.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase/Move-in Cost</td>
<td>Purchaser pays market price for shares or membership. Pro-rata share of cooperative’s blanket loan remains in place. Purchaser assumes seller’s obligations under occupancy agreement. Few closing costs.</td>
<td>Purchaser pays low price for shares or membership. Pro-rata share of cooperative’s blanket loan remains in place. Purchaser assumes seller’s obligations under occupancy agreement. Few or no closing costs.</td>
<td>Purchaser pays market price for condominium unit. Purchaser is obligated to pay monthly condominium fees. Closing costs include title insurance, tax pro-ration, etc.</td>
</tr>
<tr>
<td>Financial Liability</td>
<td>Members have no personal liability on cooperative’s blanket loan. Members are obligated under their occupancy agreements to make monthly carrying charge</td>
<td>If financed via the HUD Section 213 program, members have no personal liability on cooperative’s blanket loan. Members are obligated under their occupancy agreements to make monthly carrying charge</td>
<td>Unit owners are obligated to pay monthly condominium fees to the condominium association. Unit owners with mortgages are personally liable to their lenders.</td>
</tr>
<tr>
<td>Community Control</td>
<td>Cooperative has right to approve all potential members. Cooperative can terminate membership and evict residents who violate occupancy agreement. Members democratically govern the cooperative and elect board of directors to oversee operations.</td>
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<td>Condominium association has little or no control over sale of units or behavior of unit owners. Unit owners democratically govern the condominium association and elect board of directors to oversee operations.</td>
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<tr>
<td>Tax Benefits</td>
<td>Cooperative members enjoy all of the income tax benefits of homeownership. In most states, cooperatives and their members receive whatever property tax benefits are available to other homeowners.</td>
<td>Unless the cooperative has given them up in exchange for tax-exempt financing, cooperative members enjoy all of the income tax benefits of homeownership. In some states, there are additional property tax benefits or savings due to the limitation of resale prices.</td>
<td>Condominium unit owners enjoy all of the income tax benefits of homeownership. In most states, condominium unit owners receive whatever property tax benefits are available to other homeowners.</td>
</tr>
<tr>
<td>Home Equity</td>
<td>Cooperative members build equity as the value of their cooperative interest increases and as their share loan is paid down.</td>
<td>Growth in equity is limited through a limitation of resale prices. Generally, a formula determines the portion the selling member will receive of the increase in value of her cooperative interest and the pay-down of the cooperative mortgage.</td>
<td>Unit owners build equity as the value of their unit increases and as their mortgage is paid down.</td>
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KOIN Center History: The Paul Principle

Eugene L. Grant, Attorney, Shareholder, Davis Wright Tremaine

One of the largest commercial real estate transactions in Portland history was completed at the end of December 2009 when American Pacific International Capital purchased the office portion of KOIN Center. The KOIN Center is Portland’s ninth largest office building with 415,425 square feet and its largest mixed-use project in a single building. While terms of the deal have not been revealed, the Oregonian reported that the sale price was between $50 and $60 million. This is approximately half of the $109 million that the California Public Employees Pension System (CalPERS) paid for the same property in 2007, and less than the $70 million loan which encumbered it. After CalPERS defaulted on the loan, the mortgage holder, New York Life Insurance Inc. sued to take control of the building and completed the transaction with APIC. Calpers and CommonWealth Partners LLC were joint owners of the office portion of the building and decided to submit a deed in lieu of foreclosure after Ater Wynne LLP vacated 50,000 square feet in the building, relocating to the Lovejoy Building, a mixed-use complex in the Pearl District that also houses a new Safeway and rental apartments. The story of the KOIN Center’s development and transitions, with its colorful cast of characters, makes instructive reading for students of Portland’s urban development history.

The author’s involvement with KOIN Center began shortly after starting work for the Souther Spalding law firm in 1979 as an associate of real estate partner Douglas J. White. The developer was Olympia & York Properties of Oregon (Little O&Y), which was in turn owned by a joint venture between O&Y Properties of Toronto (Big O&Y) and Arnon Development, both of which were owned by families from Toronto and Ottawa respectively. Arnon was led by Zeev Vered and Big O&Y was led by Paul Reichmann.
Arnon was more of the sweat equity or managing partner and Big O&Y was more of the financial and big name partner whose reputation helped win the PDC competition for Little O&Y. Big O&Y was then the biggest developer in North America having just broken ground on the construction of its biggest project yet, the World Financial Center built on the land created by the excavation spoils from the World Trade Center Project. The resemblance between KOIN Center and the World Financial Center buildings is readily apparent, but the latter is much bigger than KOIN Center at four buildings and a total of eight million square feet of office space. O&Y had also recently completed other larger projects similar to KOIN Center such as the 63-story mixed use Olympia Centre in Chicago.

Zeev was then in his early 50s, a slender gray-haired man, who was a fierce negotiator and to the author a somewhat fiery and scary client who fortunately interfaced mostly with Doug White. Zeev’s family had fled from Germany when he was a child, and Zeev fought as a young man in the Haganah during the 1948 Israeli war of independence, after which he immigrated to Ottawa Canada and obtained an engineering degree from McGill University. Zeev went on to develop many of the prominent commercial buildings in Ottawa, but his most beloved project was the $127,000,000 City Hall Plaza in Jerusalem, Israel, developed in the early 90s after KOIN Center.

Other key Arnon Development executives active in the KOIN center project were Zeev’s sons, Gilead Vered, (Gillie) who was the in-house legal counsel and Arnon Vered (Arnie) who was in charge of construction and was the namesake for the Arnon development company. Gillie and Arnie were in their late 20s or early 30s.

Big O&Y was from Toronto and owned by the five Reichmann brothers, with Paul the undisputed leader. The KOIN Center was one of Albert Reichmann’s pet projects. Paul viewed Portland as a second rate market undeserving of his attention. Both Paul and Albert would show up for major events to represent Little O&Y, but Zeev and his Arnon Development team did the real project development work. Like the Vered family, the Reichmann family also fled the Nazis from their home in Vienna, leaving literally the day prior to the German invasion of Austria. Then they likewise fled from Paris to Tangiers, Morocco where their parents, Samuel and Eva, restored their family’s wealth through currency trading.

After the war, the five Reichmann brothers immigrated to Toronto, Canada and founded a successful tile and flooring company. As the company expanded, they started developing their own new buildings through their newly formed subsidiary Olympia & York Properties, and soon began developing buildings for third parties. Losing interest in suburban industrial building, in the 70s, Paul successfully
entered the office development sector with the development of the Toronto Star building. He then outbid the competition for prime central business district land that became the 72-story One Canadian Place tower. The success of these Toronto projects fueled new purchases of existing office buildings and the development of new office towers in Toronto and other major cities in both Canada and the USA with the biggest expansion being the World Financial Center in New York City.

The first time the author met Paul and Albert was at a reception for high-income couples interested in the Fountain Plaza Condominium that would consist of 44 dwelling units on the upper 10 floors of KOIN Center. These residences were intended to create the kind of condominium apartment living then common to the central business districts of larger cities like New York City and Chicago.

Portland’s Urban Renewal plan was focused on the need to create a 24-hour central city by promoting mixed-use projects that would bring residential living back to the central city. The South Auditorium District Urban Renewal Plan had been quite successful at replacing relatively poor residential neighborhoods with high-rise apartments south of the central business district, but the KOIN Center
was the first effort at mixed-use in the central business district combining residential, broadcasting studio, office, entertainment and retail uses all in a single high-rise tower.

Like most urban renewal projects, this was to be a project that would better utilize the three blocks of land involved by greatly increasing the density of development. The three blocks consisted of Block 128, which was owned by KOIN TV and the long time home of its broadcasting studio and offices that it had outgrown by the beginning of the 80s. KOIN TV was and is the CBS station in Portland. Block 131 was owned by the Portland Development Commission and Block 132 was owned by the Pendleton Corporation as its Portland headquarters in an old, outdated and low-rise brick building. Like KOIN TV, Pendleton had outgrown its old offices and was ready move.

Little O&Y was able to win the PDC competition for the Fountain Plaza Project, as it was then known, by making deals with Pendleton and KOIN TV that turned the project into a three-block phased development, rather than just a single building project on Block 131. O&Y did this by persuading KOIN TV to exchange its land for a new studio and offices in the basement of the KOIN Center on the PDC owned Block 131. That would leave 20 floors for speculative office development above the basement space in addition to the 10 floors of residences in the Fountain Plaza Condominium. Actually, the definitive exchange agreement with KOIN TV was not completed until well after the PDC awarded the project to Little O&Y. The author learned why the standard wisdom is that a landlord should never let a tenant go into possession without the lease being signed. It took over six years to finally complete the lease agreement for the new KOIN TV studios, years after KOIN TV had moved in and started broadcasting from its new KOIN Center studios.

When the project was put together, conditions were somewhat similar to deals done in 2006 and 2007 right before the banking and real estate crash. Few expected the ‘80s market conditions to be so bad, and multiple new projects were starting at the beginning of the ‘80s such as RiverPlace, Pacwest Center, and the US Bank tower. Money was relatively inexpensive and easy to come by for new projects, but experienced and knowledgeable developers were already seeing some signs of the coming trouble. The
problem with developing these high-rise buildings like KOIN Center is that one passes the Rubicon fairly early in a three or four year development process. Once the developer gets the big high-rise development juggernaut rolling, it often loses control and enters the fog of economic war. The developer cannot see in advance or control what will happen. One simply tries to hang on and survive the long and predictably unpredictable ride once the high-rise development process starts. It takes a certain kind of high roller to build high rises, the kind that likes pulling the handle of a giant real estate slot machine that spins for four years before stopping.

Many high-rise real estate developers are betting their entire company on their next high-rise project. Of course there is no inherent reason why this must be the case. Perhaps it is that real estate attracts those whose ambition is to win the real life monopoly game. It is also about the money. The ability to borrow a high percentage of the development cost creates economic leverage that greatly increases the payoff of a profitable development but also quickly consumes the developer’s assets if the development is unprofitable. When banks are willing to lend developers the money to place gargantuan bets on these trophy towers, it is more of a temptation than many developers can withstand.

Paul Reichmann was the epitome of this kind of bet-the-company developer. Big O&Y consistently took on ever bigger and bolder projects that were highly leveraged. When Paul sought his first high-rise office deal in Toronto, the land owner, the Toronto Star Newspaper company, checked out the financial condition of Big O&Y and was amazed to see it had only $50,000 in cash in the bank, but selected Big O&Y because Paul had a good name around town for keeping his word, and he had a lender ready to finance the deal. Paul had a string of amazing successes so long that he was called by others the Einstein of real estate. At one time, O&Y owned more of New York City than did the Rockefellers.

Peter Foster predicted the fall of Olympia & York in his 1987 book, The Master Builders, published when the Reichmann mystique was approaching its height. The final chapter was titled The Paul Principle, which suggested in an analogy to the Peter Principle, that Paul Reichmann would be elevated to the “level of his incompetence,” only in this case by his bankers. This prediction was not all that hard to make since the hubris of real estate gamblers is not a new phenomenon. At their peak in the late 1980s, the Reichmanns were worth over $10 billion, ranking them just behind the British royal family, but even that much wealth could not protect Big O&Y against Paul’s gargantuan bet on the success of the Canary Wharf project.

The KOIN Center design was intended to be the landmark that it is today: a post-modern high rise that eschewed the standards of simplicity and functionality epitomized by its neighbors like the Black Box at 200 SW Market. Like the developers themselves, the ZGF firm designed the KOIN Center to stand out among its neighbors. The traditional orange brick exterior combined with the stair-stepped design was a bold departure in urban high-rise design capped by an unusual blue pyramid on the roof.
The building is somewhat reminiscent of the art deco buildings of the 30’s such as the Chrysler Building in New York City.

The exterior design was not all that was unusual about the KOIN Center. Starting at the bottom of the KOIN Center is a three block interconnected parking garage entered by a ramp on Block 128. Trucks are lowered into the garage by a truck-sized elevator and exit onto a turntable next to the loading dock that turns the truck 180 degrees so the truck can be unloaded and return up the elevator and out to the streets in the smallest possible space. The truck elevator and turntable was included to avoid an unsightly street level loading dock and to maximize the basement space available for the KOIN TV studios, which occupy about 60,000 square feet of floor area. Within the main parking garage is also a smaller residential condominium garage that is walled off and gated from the commercial portion of the garage.

The basement level KOIN TV studios contain a couple of very large broadcasting rooms as well as the offices for all the employees of the station. The studio offices in the basement actually project out beyond the exterior footprint of the building above such that the sidewalk and the courtyard in front of the entrance to the Fountain Plaza Condominium are located above these basement offices. In that courtyard there is a fairly large fountain consistent with the project name. Very soon after development, the fountain sprung a leak into the offices below, which was a cause of consternation for the occupants as well as the landlord. Unfortunately this was not the only water intrusion construction defect that had to be fixed. Like many newly constructed commercial buildings in the Pacific Northwest, there were numerous water problems that had to be repaired in the exterior skin of the building.

The KOIN Center has three main entrances, the north side office entrance from SW Columbia Street, the west side residential entrance from SW Third Street and the entrance on the southwest corner at SW Third and Clay streets to the retail portion of the building. The retail area originally included the Thirteen Coins restaurant on the south side ground floor level and a multi-screen cinema on the second floor reached via an escalator.
The original Thirteen Coins opened in 1963 as the only 24-hour fine dining restaurant in Seattle and soon opened a branch near the Seattle-Tacoma airport. The design was notable for being dimly lit with ceiling-grazing private booths and high-back leatherette swivel stools, for a 1960s-supper-club feel. Thirteen Coins was certainly an appropriate fit for the KOIN Center both for its name and the PDC desire to create a more livable 24-hour central city. The restaurant stayed in operation for many years, but during the early ’90s recession the owner fell into financial distress and the restaurant was closed until the current Morton’s restaurant opened.

The cinema was the highest-end venue for movies in the central business district and quickly became the place to find the best independent arts films for a more serious adult audience. The former home of the central business district cinema was in an old building replaced by the 1000 Broadway building, by Tom Moyer in partnership with Hillman Properties. The author and Doug White were doing all the legal work for Hillman Properties as the managing partner. The 1000 Broadway building was completed just at the beginning of the ’90s when the savings and loan crisis caused a severe credit crunch similar to the current recession. The value of commercial buildings dropped precipitously, and the Hillman family decided to sell all their real estate. Moyer drove a hard bargain for the purchase of the Hillman interest in the 1000 Broadway building, whose larger multiplex cinema knocked the KOIN Cinema into a lesser location that struggled for enough customers until Moyer put an even bigger multiplex cinema in his Fox Tower, which caused the KOIN Cinema to close.

Across from the cinema were offices and broadcasting studios for several popular radio stations like KINK that were owned by CBS, among other owners over the years. The combination of the CBS radio and TV studios made the KOIN Center a well-known media center. The radio stations eventually moved to a new location leaving the third floor entirely vacant several years ago. Lucy Activewear was procured as a third floor replacement that converted the entire third floor to office space. This was a favorable deal for the central business district in bringing new jobs and a new major headquarters and adding to Portland’s apparel industry cluster. However, the current recession was too much for Lucy Activewear, whose parent VF Corporation required Lucy to consolidate into the VF headquarters in San Francisco as a cost cutting move.

The Lindsay Hart Neil & Weigler law firm was the other anchor tenant in the building besides the KOIN TV Studios. It took the top two office floors, as is typical for many law firms to want the best view and the most prestigious space in an office building.

The Ater Wynne law firm split off from Lindsay Hart in 1990. The single lease had to be split into separate leases for each successor law firm. Little O&Y refused to drop its asking rent for office space in KOIN Center. Going head to head with Kruse Woods, Pacwest Center and the US Bank tower made for tough leasing competition, and as market rents kept going down, KOIN Center office space failed to fill up. Eventually O&Y succumbed to the market realities of the 1980s by dropping its asking rent...
and leasing space to medical offices and government offices, usually considered incompatible with corporate and professional tenants. In a tough market, one eventually has to take what the market has to offer, replacing those initial occupants with more compatible occupants as and when leases expire in better market conditions.

More recently the recession has put KOIN Center tenant AIG into financial distress when everyone thought it was a gold-plated credit tenant. AIG was not alone in recent financial distress, and virtually all of the insurance, finance and real estate related tenants who were secured to replace those medical and original governmental tenants have been hard hit by the recession and in some cases have downsized or completely gone dark putting their space on the sublease market. Corporate tenants like Columbia Forest Products have moved from Portland, Most recently the Ater Wynne law firm decamped to the Pearl District leaving even more vacant space. The relocation of Ater Wynne was the beginning of the end for the California Public Employees Pension Fund ownership interest in the KOIN Center that led to the recording of a deed in lieu of foreclosure for the KOIN Center.

KOIN Center had been a side project for Albert Reichmann while the really Big O&Y projects were undertaken and led by Paul Reichmann. With the money made on the New York City World Financial Center project, Paul Reichmann turned his attention in the mid ‘80s, to what seemed like another opportunity for an urban renewal home run in London England, the Canary Wharf project. This project was in a seedy area of London that was to be renewed by highly dense mixed-use development that would be connected to the London central business district by a new subway line. Due to the early ‘90s recession, the City of London failed to build the promised transit line to it even though O&Y was going forward with development of the massive Canary Wharf office buildings. Similar to the KOIN Center, the recession dramatically slowed the lease-up of Canary Wharf.

Even the $10 billion Reichmann family net worth was insufficient to cover the $20 billion mortgage on Canary Wharf, and, for the first time, Paul Reichmann lost his bet of the whole company on a project. Much to Paul’s chagrin, the O&Y real estate empire was auctioned between 1992 and 1995 by a bankruptcy court at a depressed price, in market conditions similar to our current conditions. The high bidder for KOIN Center was a tenancy-in-common ownership group consisting of the Louis Dreyfus Property Group (LDPG) from New York City in partnership with the Benenson family and the Apollo Real Estate Fund. LDPG was the real estate investment arm of the Louis Dreyfus Group, which is the parent to a conglomerate of companies that grew out of a family-owned French grain trading firm that is now the world’s largest grain merchant. LDPG was the managing owner and was led by Jeffery Sussman and Roland Baribeau, classic New York City real estate moguls. As astute real estate investors, Jeffery and Roland could see the market peaking in 2007 and sold the KOIN Center for $109,000,000 to Commonwealth Partners, the agent for CalPers.

CalPers surprisingly put a $70,000,000 loan from New York Life Insurance Company on the KOIN Center even though, as a pension fund, it had the resources to pay the entire purchase price in cash without any borrowing.Presumably the debt was used to financially leverage the investment in hopes of
a higher return. CalPers was not alone in buying at the peak of the market and expecting the high price to be justified by increasing appreciation in rents and property values. Credit was easy and many were still making big real estate bets in 2007, but for a pension fund, the purchase seems somewhat surprising in hindsight.

In order to make its bet pay off, CalPers had to raise rents, so when the Ater Wynne lease came up for renewal shortly after the purchase, CalPers demanded a substantial rent increase. The problem was that the increased rent was above the market and enabled its competitor, UNICO, to appropriate KOIN Center’s anchor tenant. That was a disaster for CalPers’ hoped for return on investment.

As the market crashed in late 2008, it became apparent to CalPers the appraised value of the KOIN Center in early 2009 had declined by $10,000,000 to approximately $60,000,000 against a loan balance of $70,000,000. It was no different conceptually than what happened to many of those who bought new homes in 2007 and 2008 and who watched their values crash below their loan balances.

The expensive thing about being an office building investor is that whenever a tenant leaves, the replacement tenant rarely will occupy the vacant space without renovating it dramatically. The standard deal is that the landlord pays all or most of the cost for the renovation of the tenant improvements, especially in a down market, when tenants have lots of options and are in the driver’s seat during the leasing process. CalPers could see what was coming and it did not like the idea of investing millions of dollars in a building that was financially underwater. In the first half of 2009, CalPers engaged in loan modification negotiations with the mortgage holder, New York Life Insurance Company. New York Life was unwilling to write down its loan, so CalPers elected to submit a deed in lieu of foreclosure to New York Life, rather than throw good money after bad. In the ensuing auction of KOIN Center, American Pacific International Capital emerged as the winning bidder, using Asian investor funding to close the purchase without any debt financing.

The banking crisis and ensuing real estate crash of 2008 was very unkind to many real estate developers. Zeev Vered passed away at age 82 on June 9, 2008, from heart failure, but his sons, Arnie, Gillie and Ronnie are continuing to operate Zeev’s successful Ottawa real estate companies through the crisis. The relatively conservative Louis Dreyfus Property Group is doing well focusing on Washington DC development that is relatively healthy due to the government influence on the local market conditions. LDPG even submitted a bid in the latest KOIN Center auction that was a little too high.

Paul Reichmann is nearly 80 and ironically, once again, lost his interest in the Canary Wharf project that he had reacquired by teaming up with investor George Soros and Prince Alwaleed bin Talal, a Saudi billionaire, only three years after the original loss of Canary Wharf in 1992. In recent years, Reichmann has built Latin America’s tallest building in Mexico City and a
swathe of retirement homes across the States. In 2006 he came out of his own brief retirement and raised four billion dollars for new real estate development and investment. Unfortunately for Paul and his fellow investors, Lehman Brothers had its European headquarters in Canary Wharf where it employed 4,000 people. The year 2008 turned out to be a repeat of 1992, as the German bank currently financing Canary Wharf called its loan. Reichmann’s 8.45% stake in Canary Wharf was bought by Songbird Enterprises, a Chinese, Qatari and American consortium, presumably at a very depressed price.

The KOIN Center history is only a small footnote in this larger story of real estate developer hubris, bet-the-company trophy buildings and the inevitable turning of the real estate cycle that dashes the hopes of these eternal optimists and vindicates Peter Foster’s Paul Principle. Just as we will always have the poor with us, so we will always have rich and daring real estate developers with us too, who will compulsively keep betting until they run out of chips. We will also have the banks and other investors who will provide other people’s money to finance these projects, tempting these proud developers and investors into betting more than they can afford to lose, and therefore exacerbating the continuation of the boom and bust cycles in real estate.
Sustainable Containers: Cost-Effective Student Housing

Caroline Uittenbroek, Graduate Student, & Professor Will Macht

A Dutch developer converts shipping containers into 1,000 units of student housing in Amsterdam.

Developing student housing is challenging because the low rents students can afford does not support the high operating expenses and construction costs usually encountered. The deficit in the balance of trade between western and Asian countries has created a surplus of shipping containers that has lowered their price because they are often more expensive to ship back empty than to build new in Asia.

Now a Dutch developer has shown how to use the latter problem to solve the former, cure a shortage of student housing and create a new lifestyle that students find desirable. Amsterdam has two universities and several colleges that attract many students to the city each year who find it difficult and expensive to live in the city. In the Netherlands the universities do not provide housing for their students. In addition to its rent control system, the city of Amsterdam requires that private, non-profit student
housing corporations be responsible for renting housing to students in order to protect students from paying too much rent.

Like most Dutch universities, the University of Amsterdam does not have a traditional campus, and demand for student housing is high. In 2004, more than 6,000 students were on a waiting list for student housing. To assist students in finding appropriate accommodation, the university has signed agreements with various social housing corporations. The major student housing corporations, such as Stichting DuWo and DeKey, both independent non-profit social housing corporations, did not have places to house the overload of students. The for-profit Dutch company, Amsterdam-based Tempohousing, devised the scheme to convert shipping containers into student housing.

The founder of Tempohousing, Quinten De Gooijer, originated the plan after two of his cousins came to study in Amsterdam but were unable to find housing. As a developer, De Gooijer thought this was a niche in the market he could fill.

Creating affordable housing for students is a particular challenge within the Dutch system because its complex point-based system of rent control does not allow raising rents to levels needed to support development costs. De Gooijer thought used containers could be converted to student housing at a low enough cost to be supported by controlled rents.

To promote the idea of the container housing, Tempohousing presented the concept to the city of Amsterdam, the universities and the housing corporations. All of them had to be convinced that a shipping container could be converted into a desirable living space for students.

Having located a site about 15 minutes from downtown on which the city had previously planned a prison that had been cancelled, De Gooijer asked the government if he could develop the site for container housing. Netherlands’ law requires that development competitions be held. De Gooijer’s plan won the competition. His Keetwonen project was the only project that was deemed feasible, defined as
one in which rents could support building costs.

Additionally, the municipality had required that the development needed to be a temporary solution. The project was only permitted to occupy the site for five years and then other redevelopment plans were to be made for this location. Shipping container construction is inherently mobile and after five years the units could be moved and reused on another site. The classification as temporary buildings proved auspicious because that subjected them to less restrictive building code requirements, an important consideration for a new venture.
acres [1.8 hectares (300 by 60 meters)]. The converted container units were placed on the site at a pace of 20 to 25 units a day. It took just a few extra weeks to also place the additional amenities, such as the restaurant and an office for the caretaker. As one student observed, “Keetwonen has all the amenities of a campus – only the university is missing.”

Containers are seismically stable, welded steel-framed modules that are stacked up to ten high and interlocked for stable shipment across rolling oceans. They can hold over 67,000 pounds and bear loads of over 210 pounds per square foot, far greater than any student use, or abuse, can generate.

The 1,000 units at Keetwonen are stacked up to five levels high, bolted together and divided into 12 different buildings. Covered, but unenclosed, galleries and stairways connect the units. In between the buildings, there are courtyards between buildings formed by walkways, bridges and stairways, which also provide bike storage. Each unit has its own private balcony, or garden if the unit is on the ground floor.

Initially, De Gooijer was not sure if the size and location would appeal to students. The most common size and most economic containers were the 40-footers, which are 8 ft (2.4 m) wide, 40 feet long (12 m) and 8’6” high (2.6 m). He thought students might consider them too narrow and small. Second, the location was not perfect. It is located next to a jail and in an industrial area. Therefore, the company decided to add extra amenities.
However, common Dutch student housing was smaller than the 320 square feet (30 square meters) that containers provide to each student, without the need for roommates. In addition, there is cross ventilation between an entry from an open walkway at one end and a private balcony at the other end. The container is divided in two rooms separated by a small bathroom onto which is attached a kitchenette with a kitchen sink and a stove.

The ventilation of the units is controlled by a combination of natural cross ventilation and a manual switch system that regulates mechanical ventilation. One natural gas-fired central boiler per building provides heating. The hot water for the shower and the kitchen is fed by the each unit’s own hot water heater. Recognizing the penchant for long student showers, Tempohousing intentionally chose to reduce operating expenses by providing a 50-liter (13.2-gallon) boiler per unit that gives the student the option to shower for up to 15 to 20 minutes before the water turns cold. After this period the boiler needs time to reheat. The shower is also supplied with a water saving showerhead.

High-speed Internet service and security via a central audio phone to open doors for visitors at the main door are included. The rent for a student to live in a container is 425 Euros per month ($595 at current exchange rates) including the Internet service, water, gas and electricity costs. Students living in a container obtain the right to monthly rent subsidies from the government. This subsidy is approximately 130 Euros ($182) and therefore makes the rent only 295 Euros per month ($413).

Reusing shipping containers is the ultimate in sustainability, using far fewer materials and far less embodied energy than any kind of construction. Although that was its initial goal, Tempohousing decided not to reuse used shipping containers for this project because the company found it difficult to find 1,000 containers that were in reasonably similar condition, and reconditioning and conversion costs with local labor would be too expensive.

Therefore, the company chose to use an existing container factory in China to construct and convert the containers in a continuous sequence, which lowered the costs significantly. The containers were all adapted to make the infill construction fit better and make it easier to build the containers. The factory that Tempohousing used is capable of building 12 units a day. Transporting the prefabricated units to the Netherlands was not difficult because standard modules easily fit container ships and a single ship can carry up to 7,500 40-footers.

For insulation the company uses a box within box system. The walls and roof are insulated within each unit using rigid XPS extruded polystyrene insulation material covered with drywall. Between the walls,
gaps are closed with a sealing band, but only at the façades. The units are designed to maintain average temperatures of 21 degrees Celsius (70 degrees Fahrenheit), are soundproofed and fire resistant with one-hour construction. Extra attention was paid to fire resistance of the building after the fire at Schiphol (the airport of Amsterdam) four years ago, where thirteen people were killed at a temporary detention center. An extra roof is placed on top of the containers in order to control the rainwater and to add extra insulation the top level of the containers.

The costs per unit for Tempohousing were approximately 20,000 Euros ($28,000), according to De Gooijer. This was without tax, but including the stairways, balconies, galleries and the connections to the electricity, water and gas network. At current prices, a project of 250 units would be more expensive, De Gooijer says. Due to increased building costs a unit would now cost about 26,000 Euros ($36,400). A project of 1,000 units gave the advantage of economy of scale, which lowered the building costs of the project.

Because the units need to be rented out by a social housing corporation, DeKey, which owns over 27,000 housing units and almost 7,000 student units primarily in Amsterdam, has an agreement with Tempohousing to manage and lease the units. However in this case, Tempohousing retains ownership of the units and is the leasehold owner of the ground for at least the five years promised after the units were completed in 2006. The development agreement provided that after the first five years Tempohousing was obligated to remove the units to another site selected and offered by the city. The site is intended to be developed into a live-work complex. The area where the containers are standing will be developed in the last phases. If the city fails to provide a site, the municipality will pay for any losses that would occur. However, the project has already received an extension to ten years, to 2016, and De Gooijer believes that even after that period, the project will be permitted to remain on that location.

Keetwonen has proven to be the second most desired complex within the 7,000 units that DeKey manages. Separate bedroom and living/study areas, private bathrooms and kitchens, private balconies,
natural cross ventilation, sound and thermal insulation, security, privacy, no need for roommates and affordable rents have combined to overcome any perceived shortcoming of containers being too narrow. And the students find container living to be “cool” observed one University of Amsterdam student.

Jantien Hijne has been living in the containers for six months and prefers it. She realizes that the narrow width of her unit could be somewhat inconvenient to some people, however she says that it is perfect for her alone. According to Hijne, “there is enough space and more important it is all for yourself”. This is not often the case in Amsterdam.

Hijne’s container has two rooms divided by a narrow hallway, plus a kitchen and bathroom. In the room with the kitchen she has room for a dining table. In the other room there is a bed, a bureau, a closet for her clothes and a seating area with a couch and a television set. She explains that it is very convenient that there are two rooms. “I do not cook in the same room where I sleep and people can visit me but I do not have to welcome them in my bedroom”
In the future, Tempohousing will concentrate on doing more student housing projects in the Netherlands. For developers and universities, converting shipping containers for student housing has proven to be economically and ecologically sustainable.

In addition, the company is also developing housing for the young urbanist. De Gooijer calls it the urban city apartment or loft. The units will be about 640 square feet (60 square meters), which is double the size of the student container housing.

There has been a variety of experimental housing built with containers, mostly in small quantities. At over 1,000 units, the Amsterdam container project is far larger and demonstrates both its utility and economy. Especially important, by confining units to the size of a single container, the developer was able to avoid the higher costs of cutting and fitting that has plagued other aspirants and escalated conversion costs. Moreover, by providing more space and amenities for lower costs at sizable scale for a population that finds the unusual space attractive and affordable, the developer has shown that developing student housing may be the ideal market for feasible sustainable container development.
Food Carts as Retail Real Estate

April Chastain, Analyst, Leland Consulting Group

Recent articles in the Portland Tribune, Oregon Business, New Urban News, New York Times, Los Angeles Times and others have highlighted the growing iconic status of Portland’s food carts. Authors have highlighted the variety of creative gourmet offerings, charming personality of cart owners, micro-business opportunities for budding entrepreneurs and immigrants and the general recognition that the food cart phenomenon is part of what makes Portland quirky, fun and livable. For some, like my sister who insists on taking out of town guests to the Hawthorne food cart pod for a breakfast burrito from El Brasero, it is a tourist destination, as well as a place she can go with her dog in tow. For others, like downtown office workers or students at PSU, it is a quick and convenient way to get lunch, and an excuse to soak up the sun for a few minutes on one of those rare sunny days in Portland.

Other carts, like the Grilled Cheese Grill on NE 11th and Alberta, stay open until 2:30 am on Fridays and Saturdays, filling a niche for late-night cravings. It is especially popular with the creative class and provides Portlanders with a year-round urban outdoor food adventure and the opportunity to sample so many different culinary delights, at such reasonable prices, as can only be found at festivals or special celebrations. Menu prices generally range from $1.75 for a single taco, to $8-$10 for more generous portions or gourmet ingredients, but the average meal costs about $6.00. Thai and Mexican cuisines are the most prevalent, but there are also Czech, Korean, Peruvian and Japanese food carts as well as vegan,
vegetarian and other healthful offerings. The success of food carts raises intriguing questions about the economics of food carts and how this trend affects the retail real estate market.

Some restaurants complain that the carts, especially stationary carts, which are supposed to be mobile, have an unfair advantage. They pay lower rents, do not pay for systems development charges or follow building codes. Many do not provide restrooms or hand-washing stations, or even a place to sit and eat their food, although that trend seems to be changing. Some people see them as potential-food-poison-inducing shantytowns.

Why then, have budding chefs been attracted to food carts? Why do people follow them on social networking sites like Facebook and Twitter, and take visitors to see them? Property managers and real estate developers might ask whether food carts are unsightly, rogue street vendors or potential seeds of urban renewal in a way analogous to the role that artists have played in opening blighted neighborhoods to more upscale development.

Figure 1 Inspire, a new food cart on NE Alberta and 23rd
Figure 2. Food Cart locations from Food Cartology, a PSU planning workshop study conducted in 2008.

Source: PSU, “Food Cartology”, 2008

Food Cart Economics

From an urban design perspective, food carts enrich the urban environment by increasing foot traffic, activating parking lots and streetscapes. There has been some comparison of the food cart movement to the beginnings of the microbrewery industry. However, food carts are not likely to become an export commodity the way local microbrews have. They do provide jobs and income largely to the local community, as opposed to sending profits to corporate chains, although Burgerville¹ has jumped onto the food cart fad recently with its Nomad food truck, and as the

¹ http://www.onpdx.com/food/burgervilles-new-food-cart-nomad/
Oregonian stated, “Burgerville spent in excess of $100,000 preparing the truck, considerably less than the $1 million or more the privately held company says it typically has spent to open a new restaurant.”

Especially during the recession, the surge in new food carts over the past two years has provided a way for those who may have otherwise been unemployed to start a business or at least earn some income. Even outside of a recession, they can provide flexible jobs and entrepreneurial opportunities for people who want to set their own hours and agenda, with start-up and operating costs that are not too daunting. Chefs can try out new products and get immediate feedback, as well as interact with customers, which is hard to do when they are stuck in a kitchen in the back of a restaurant. Food carts allow those on a budget to continue to eat out economically.

Oregon Business magazine reported that there are currently 461 mobile carts registered in Multnomah County. A PSU study from 2008, Food Cartology, conducted a survey of food cart owners and patrons, which concludes that the average annual earnings of mobile food carts are between $30,000 and $50,000 per year versus $10,000 to $20,000 for push carts.

The size of food carts varies. Standard factory built carts measure 8 feet wide by 16 to 18 feet long. The company Vending Trucks from East Brunswick, NJ offers several repurposed trucks with new kitchens at prices ranging from $42,000 to $85,000. The “custom” tab on the website allows users to build their own trucks, choosing both a new or used truck and a variety of cooking equipment, such as a deep fryer, oven, griddle, steamer, sinks, refrigerators and sandwich preparation stations. Armenco Cater Truck Mfg in Sun Valley, CA, also has a website with several vending truck and pushcart options.

Some of the homemade carts seem to be smaller, measuring 8 feet by 10 to 12 feet long. Although the actual cart size may be smaller, each cart essentially occupies a parking space, or at least pays rent based on the footprint of a parking space. A few may occupy two spaces if they offer a covered seating or waiting area. A typical parking space measures between 8 feet to 10 feet wide and 18 to 20 feet long or 144 or 200 square feet (SF) of space. The following table gives some information critical to evaluating food carts as part of the retail real estate spectrum.

**Figure 4.** Estimated average size, rent and revenues of Food Carts

<table>
<thead>
<tr>
<th></th>
<th>Number of carts</th>
<th>Avg SF per Cart</th>
<th>Total SF</th>
<th>Yearly Rent per SF</th>
<th>Avg Monthly rent per SF</th>
<th>Total Monthly Rent</th>
<th>Total Yearly Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>High estimate</strong></td>
<td>461</td>
<td>200</td>
<td>92,200</td>
<td>$33.00</td>
<td>$550</td>
<td>$253,550</td>
<td>$3,042,600</td>
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<tr>
<td><strong>Low estimate</strong></td>
<td>461</td>
<td>150</td>
<td>59,930</td>
<td>$27.69</td>
<td>$300</td>
<td>$138,300</td>
<td>$1,659,600</td>
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<tr>
<td>Pre- recession average</td>
<td>370</td>
<td>150</td>
<td>55,500</td>
<td>$40.00</td>
<td>$500</td>
<td>$185,000</td>
<td>$2,220,000</td>
</tr>
</tbody>
</table>

2 “Burgerville goes mobile with food truck, July 21, 2009, Oregonian
5 http://vendingtrucks.com
6 http://www.cateringtruck.com/
By rough estimate, shown in Figure 4, the food cart industry captures between $11 million and $23 million dollars in revenues per year. The high estimate uses the high end of the range for square footage, monthly rent, number of jobs and average annual earnings to give a high estimate of total annual revenue, total number of jobs and annual sales per square foot. The low estimate uses the same number (461) of carts, with the low end of the range for average square footage, monthly rent, average annual revenues and number of jobs supported by the cart to give a low estimate of the yearly rent per SF, the total annual revenues and annual sales per SF. It also shows a pre-recession average based on 370 carts (the pre-recession, five-year average as reported by the Portland Tribune7), an average square footage of 150 square feet per cart and a low estimate of $30,000 in annual earnings.

Based on this range of estimates, the food carts collectively occupy between 48,000 SF and 92,000 SF of retail space and pay between $2 million and $5 million per year in rent. Assuming that each cart provides at least one job and some may provide up to four jobs, the food cart industry employs somewhere between 370 and 1,844 people per year. Of course this assumes that they are stationary and pay rent at least some portion of the time. Some fully mobile carts may not pay rent. However, the majority of carts, especially those found in pods, are mostly stationary, and the Food Cartology report found that stationary carts reported higher revenues.

Food Cart Pods

Many of the food carts park in an area collectively known as a pod, which essentially functions like an outdoor food court, or marketplace. On SW 9th and Alder, there are currently 29 food carts wrapping around five faces of the two parking lot blocks, as shown in the following map. They function as one outdoor food court, providing patrons with a variety of food options and an opportunity for people to watch as they order. When viewed as one retail unit, with the sidewalk as common area, the collective space measures roughly 15,000 SF (measured on GoogleEarth), equaling approximately 500 SF per cart including the common area. The downtown pods mostly serve the lunch crowd. Although a few carts, like “bloop” on SW 3rd and Washington, serve breakfast. According to the comprehensive website guide http://www.foodcartsportland.com/ there are others located on SW 3rd near several bars and clubs that are open late night hours. Other pods, like Area 23 on NE 23rd and Alberta, the home of Inspire, a recently opened train car, capitalize on the social aspect of food carts. A sign above the entry notes that it is a community space. Another pod, Refuel Station North, on Greeley and Killingsworth, has been growing and recently added or is in the process of adding new carts, like Scoop, which sells organic handmade ice cream.

According to the Food Cartology report, food carts on the SW 4th and Stark St site rent from City Center Parking, owned by the Goodman Family. Rents are $550 per month, which includes electricity, water, security and pest control. The cart owners are responsible for wastewater removal and trash disposal.

I would argue that food carts generally do not compete with sit-down restaurants. They compete with lunch counters, fast-food restaurants, and small take-out places that offer few seating options. According to the Urban Land Institute (ULI)\(^8\) as shown in Figure 7, fast-food/carry-out restaurants in a regional shopping center, like Pioneer Place for example, occupy a median space size of 696 SF and report median sales of $508.48 per SF for independent operators. The median rent per square foot for an independent operator is $77.29 per SF per year, which increases to $124.19 when considering that they pay a percentage of sales and are responsible for common area charges and property taxes. Even something smaller like a pretzel shop, which occupies a median size space of 588 SF, pays a median rent of $66.15 per SF or $91.51 median total charges per SF.

The level of rents and sales compared to more traditional retail spaces is informative. Based on estimates shown in Figure 4, the food carts in Portland pay between $27 and $40 per SF per year and post annual sales in the range of $200 to $250 per SF per year, or about half the sales per square foot as those a regional shopping center food court, but at a fraction of the operating expenses. The rents required by a regional shopping center make it hard for an independent startup to enter the market. Food carts offer an alternative. Not only are rents lower, but so also are capital costs, as Food Cartology estimated, pushcarts can be purchased for as low as $2,000 up to $30,000 for stationary mobile carts. As previously mentioned, an online search for carts yielded higher prices, between $40,000 and $80,000 for a ready-made cart. However those making their own may be able to do it for a lower price.

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\(^8\) ULI, Dollars & Cents of Shopping Centers/The SCORE 2008
Food carts seem to flourish in the proximity of other carts that make them function as a unit, rather than a single entity. They have a shared common area where people wait for orders and sometimes find a place to sit and eat. They can help draw customers to other nearby retailers. Competition for patrons increases the variety and controls the repetition of similar carts. Just go to the one with the longest line, if you want the local vote indicating which cart is best. While most food cart pods have formed by happenstance, we may be entering a new phase of intentionally created pods, which tend to offer something more, a sense of community, almost like a shared outdoor kitchen and dining room.

Another advantage in locating together is a greater sense of reliability. If a group of food carts is able to survive in one location, the consumer can conclude, with some rational basis, that the carts meet a certain level of quality, market acceptance and oversight.

One problem with food carts, from a consumer point of view, is a lack of posted hours and a tendency to not always open during the posted hours. I have wanted to visit El Gallo, a new food cart in my neighborhood on SE Woodstock, but it has always been closed when I have made an effort to go there and there are no posted hours, so I do not know when to return. I rarely see hours posted on food carts, although FoodCartsPortland lists carts by hours of operation. I imagine the reason is that operators like maintaining flexible schedules. Locating in a pod, near other carts may be a way to keep from disappointing customers, who would have other options.

When clustered together, the food carts generate foot traffic that can be beneficial to surrounding retailers, as consumers want retailers to be near other retailers and on-street activity. As the PSU Food Cartology survey revealed, 94% of neighboring businesses other than restaurants have a positive, or very positive, impression of food carts, and 58% of the surrounding businesses at the downtown SW 5th and Oak site reported that the presence of food carts increased foot traffic on the streets, implying that sales increased as a result of food cart presence.

Source: ULI Dollars & Cents of Shopping Centers/The SCORE 2008

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<table>
<thead>
<tr>
<th>Regional shopping center</th>
<th>Median GLA (SF)</th>
<th>Median Sales/SF of GLA</th>
<th>Rate % rent</th>
<th>Median Total Rent per SF</th>
<th>Median Common area charges/SF</th>
<th>Median Property taxes</th>
<th>Median Total charges/SF</th>
<th>Median Total Charges as % of sales</th>
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</thead>
<tbody>
<tr>
<td>Pretzel shop</td>
<td>588</td>
<td>$628.35</td>
<td>8.02%</td>
<td>$66.15</td>
<td>$17.75</td>
<td>$3.33</td>
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<td>Independent fast food/carryout</td>
<td>696</td>
<td>$508.48</td>
<td>7.02%</td>
<td>$77.29</td>
<td>$31.36</td>
<td>$8.34</td>
<td>$114.19</td>
<td>24.88%</td>
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<tr>
<td>Neighborhood Shopping Center</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Other fast food/carryout</td>
<td>1,804</td>
<td>$246.32</td>
<td>5.56%</td>
<td>17.29</td>
<td>2.07</td>
<td>1.54</td>
<td>21.18</td>
<td>8.95%</td>
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<tr>
<td>Independent fast food/carryout</td>
<td>1,512</td>
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<td></td>
<td>18.56</td>
<td>2.23</td>
<td></td>
<td>23.18</td>
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<tr>
<td>Coffee/tea shop</td>
<td></td>
<td>$404.56</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$30.09</td>
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<tr>
<td>Doughnut/muffin shop</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$31.60</td>
<td></td>
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</table>
Figure 8. Select Food Cart Pods

<table>
<thead>
<tr>
<th>Location of Select Pods</th>
<th>Number of carts</th>
<th>Approximate Total SF shared by pods</th>
<th>Avg SF per Cart including common area</th>
</tr>
</thead>
<tbody>
<tr>
<td>SW Alder from 9th to 10th</td>
<td>29</td>
<td>14,850</td>
<td>512</td>
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<tr>
<td>SW 5th from Oak to Stark</td>
<td>22</td>
<td>10,500</td>
<td>477</td>
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<tr>
<td>SW 4th from Hall to College</td>
<td>15</td>
<td>7,600</td>
<td>507</td>
</tr>
<tr>
<td>Sw 3rd from Stark to Washington</td>
<td>13</td>
<td>7,500</td>
<td>577</td>
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<tr>
<td>SE 12th and Hawthorne</td>
<td>7</td>
<td>8,655</td>
<td>1,236</td>
</tr>
<tr>
<td>NE 25rd and Alberta, Area 25</td>
<td>4</td>
<td>5,600</td>
<td>1,400</td>
</tr>
<tr>
<td>4237 N Mississippi, Mississippi Marketplace</td>
<td>10</td>
<td>4,500</td>
<td>450</td>
</tr>
</tbody>
</table>

Source: Measurements taken from Google Earth, based on personal observations and count of the carts. March, 2010

Figure 9. Select Food Cart Pod Locations
Mississippi Marketplace is an intentional food cart pod, anchored by the German beer pub, Prost. As Roger Goldenray, developer of Mississippi Marketplace, said in the Oregon Business article, he intentionally chose a mix of carts that would “be in symbiotic relationships”, much in the way that a regional mall might choose food vendors for a food court. The website\(^\text{10}\) is advertising food cart sites measuring 8 feet by 16 feet, plus an area for seating, for $495 per month including electric and water hook-ups, although the 10 spaces advertised are currently filled.

Food carts are expected to provide seating for four to eight people, besides the additional seating provided by the developer in a covered common area in the middle of the carts. Capturing the community space mentality, “vendors will be asked to use recyclable serving containers, utilize local food sources where possible, recycle trash and compost or donate left-over food to Food Bank programs”. Trash service is pro-rated and shared among the vendors. A covered seating area in the middle of the space lends itself to social interaction. The marketplace also has over 20 artisan, craft or farmer booth spaces, either 8 feet 8 feet or 10 feet by 10 feet available for rent on a daily or monthly basis, none of which were in operation when I visited. Daily rates are $20 or $25 per day, based on a model in which the users provide and set up their own tents.

**Figure 10. Mississippi Marketplace and Area 23**

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**Is the Food Cart Bubble about to Burst?**

Is Portland about to experience the bursting of the food cart bubble? The downtown market seems to be saturated. The factors for success seem to be a walkable environment, a high concentration of office workers, a trendy yet gritty area with a strong sense of community, or an area with a vibrant nightlife. The PSU Food Cartology survey notes that 65% of customers indicated that they walk to food carts.

Where will the next food cart pod be? The Lloyd Center has a high presence of office workers and a fairly walkable neighborhood, with ample surface parking lots. It remains to be seen if the owners of

\(^{10}\) [http://www.missmarketplace.com/2009/06/17/hello-world/]
those lots are willing to sign leases with food cart owners, and if they can get a critical mass to generate enough pedestrian traffic to make it successful. Kruse Way also has a high concentration of office workers, but lacks the density or sidewalks to make it walkable, and may be too well manicured to allow food carts. The FoPo (or Foster-Powell triangle) is in the early stages of becoming an attractive neighborhood for the creative class, but may not quite have the density to support a pod, although it does get a substantial amount of drive-by traffic that could provide extra patronage.

**Developing Entrepreneurs**

Food carts allow local independent entrepreneurs to enter the market when they otherwise might be priced out by the cost and commitment required of brick and mortar leases. In a very real sense, the very entrepreneurial nature of food carts stimulates both foot traffic and retail marketplace regeneration around them. It is something that one commonly sees in other countries, part of what makes travelling to them fun, because it makes for a more active and engaging urban environment.

What would happen if the corner of SE 12th and Hawthorne were to be developed, displacing the food carts there? Neighborhood patrons would lament the loss of the food carts as people have become passionate about their favorite food carts. By embracing the food cart movement, developers and property managers can activate a vacant lot or an underutilized parking lot in areas that may not yet be ripe for development, but have enough surrounding population to support the carts. They can provide a way for budding restaurant owners to develop a following that could be later incorporated as a restaurant tenant in a new development.

A food court could be a brick and mortar alternative to a food cart pod, occupying ground floor retail space in a mixed-use building. However, an indoor court would lose the gritty, ephemeral adventure of the food carts and probably could not compete with low entry price of a cart, which would eliminate the possibility of luring independent entrepreneurs. Small food vendor nooks tucked into the outside of buildings such as the Elephants Deli on SW 5th Avenue can be profitable and help generate foot traffic and street activity in the certain locations.

Developers should also note the low capital costs of food cart pods as well as the potential to increase the desirability of the tenant mix by rewarding those food carts that reach higher sales levels with longer leases, while canceling those of food carts which do not achieve minimum sales levels, as well as earn a percentage rent by helping to make the pod successful. Such practices, common among retail center developers, reinforce market selection as consumers vote with their dollars.

Figure 11. Elephants Deli on SW 5th Ave
Office Market Analysis

Kyle Smith, Regional Multiple List Service [RMLS] Fellow & Certificate of Real Estate Development Graduate Student

Portland Office Market

Grubb & Ellis reports that the market-wide office vacancy rate moved up to 15.3 percent during the first quarter, even though there was positive net absorption of 204,936 square feet. The CBD Class A submarket was responsible for almost all of the demand in the overall market, which is a continuation of the general trend toward leasing higher quality spaces while rents and incentives are favorable toward tenants.

Norris, Beggs & Simpson (NBS) reported similar positive net absorption numbers, but differed from Grubb & Ellis on vacancy rates. NBS has total market vacancy at 18.0 percent, with the central city submarkets at 12.0 percent and the suburban submarkets at 21.9 percent. Colliers International also reported significantly different data with 11.8 percent total vacancy but with 53,075 square feet of negative net absorption market wide.

Net absorption is positive for the first time since 2008 while overall vacancy rates continue to increase
<table>
<thead>
<tr>
<th></th>
<th>CB Richard Ellis*</th>
<th>Cushman &amp; Wakefield*</th>
<th>Grubb &amp; Ellis</th>
<th>Norris, Beggs &amp; Simpson</th>
<th>Median</th>
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<tr>
<td><strong>Market-Wide Vacancy</strong></td>
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<td>-</td>
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<td>Previous Quarter</td>
<td>15.6%</td>
<td>16.6%</td>
<td>14.9%</td>
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<td>12.8%</td>
<td>13.5%</td>
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<td>10.7%</td>
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<td>11.3%</td>
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<td><strong>CBD and Downtown Vacancy</strong></td>
<td>-</td>
<td>-</td>
<td>10.4%</td>
<td>12.0%</td>
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<tr>
<td>Previous Quarter</td>
<td>10.3%</td>
<td>12.1%</td>
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<td><strong>CBD Class A Vacancy</strong></td>
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<td>-</td>
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<td>Previous Quarter</td>
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</tr>
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<td>First Quarter 2009</td>
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<tr>
<td>First Quarter 2008</td>
<td>12.8%</td>
<td>13.6%</td>
<td>13.4%</td>
<td>15.3%</td>
<td>13.5%</td>
</tr>
<tr>
<td><strong>Suburban Class A Vacancy</strong></td>
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<td>-</td>
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<td>23.1%</td>
<td>22.8%</td>
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<td>First Quarter 2009</td>
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<td>17.3%</td>
<td>17.5%</td>
<td>17.5%</td>
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<tr>
<td>First Quarter 2008</td>
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<tr>
<td><strong>Suburban Class A Asking Rents</strong></td>
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<td>$24.33</td>
<td>$24.37</td>
<td>N/A</td>
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</table>

Source: CB Richard Ellis, Cushman & Wakefield, Grubb & Ellis, Norris, Beggs & Simpson Quarterly Reports and Statistical Reports - First Quarter 2010

*CB Richard Ellis and Cushman & Wakefield first quarter reports were not complete at time of publishing
According to the summary chart above, the CBD Class A vacancy rate median of 8.0 percent remains lower than the overall CBD vacancy rate which remained relatively stable at 11.2 percent. The suburban market has the opposite relationship, with Class A continuing to have higher vacancy rates than the overall suburban market. Class A vacancy rose 150 basis points to 24.3 percent while market wide vacancy is 20.4 percent.

The seasonally adjusted unemployment rate for March was 10.6 percent in Oregon, which is down from the 11.0 percent December 2009 rate. The Portland metropolitan area’s seasonally adjusted unemployment rate was 10.7 in March after fluctuating to 10.9 and 10.2 in January and February respectively. An estimated 133,227 residents were unemployed in the metropolitan area, which is 9,862 more than December 2009 but only 992 more than March last year.

There are indications that Oregon’s economy is improving. One of these is the continued rise of The University of Oregon Index of Economic Indicators. The index rose 1.6 percent in January and another 0.3 percent in February. The index has been steadily rising since its low in July of 2009 of 84.0. It was 88.7 in February, which is the most recent data published.

The Oregon Employment Department reported that construction employment in the metropolitan area is down 14.4 percent from March 2009 with 7,100 fewer people employed. Construction employment was 42,300 in March of 2010. Nonresidential construction has had the steepest decline at 19.6 percent over the same time period.

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**Unemployment and Construction Employment**

Source: Oregon Employment Department

**Metropolitan area unemployment level remains stable and construction employment falls to a historic low**

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1 “University of Oregon Index of Economic Indicators”, University of Oregon College of Arts and Sciences, February 2010
Source: Grubb & Ellis Office Quarterly Report - First Quarter 2010

Delivery of First and Main causes YTD first quarter spike in new space

New commercial construction permits issued in Portland decreased by $45.5 million to $22.3 million during the first quarter and the value of all construction permits declined about 50 percent from $100.6 million during the fourth quarter to $50.6 million during the first. The dollar amount and quantity of both new and total construction permits in Portland is at a historic low.

Source: Portland Bureau of Development Services, Oregon Employment Department

Commercial construction permits continued to decrease during the first quarter
Now that First & Main is delivered to the market, there is very little in the office construction pipeline. According to Colliers International, there is only one multiple tenant construction project underway, a 70,020 square-foot Class A facility located in Wilsonville. Providence Health Services is also constructing a 238,000 square foot administrative building on the Eastside. They will be both the owner and user of that facility.

Source: Grubb & Ellis Office Quarterly Report - First Quarter 2010

**Large positive net absorption for CBD Class A office space fueled by GSA**

**CBD Trends**

Grubb & Ellis reports that CBD Class A vacancy ended the first quarter of 2010 with an 8.0 percent vacancy rate which is an increase from the 7.3 percent vacancy rate posted during the fourth quarter. The CBD office market has been impacted by the federal stimulus project for renovating the Edith Green/Wendell Wyatt building. The renovation has created federal demand for Class A office space downtown which has help to offset weaker demand in the market as a whole. Congress has approved the $133 million Edith Green/Wendell Wyatt Federal Building Renovation & Rehabilitation Project. According to Grubb & Ellis, The General Services Administration (GSA) executed six leases for over 280,000 square feet in the CBD during the first quarter of 2010. The First & Main building, which was completed earlier this year, accounts for 250,000 of the 280,000 total square feet of GSA leased space. The renovation of the Green/Wyatt building will substantially reduce the building’s energy and water consumption, and will incorporate numerous green building features. The most unique features are the 200 foot tall vegetated fins which will shade the western façade. The CBD vacancy rate increased during the first quarter partially because of the 368,800 square feet that was delivered to the market when First & Main was completed.

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The Portland office market has seen less volatility than other cities during the recession. Cushman & Wakefield reported that downtown Seattle office buildings had a 21 percent vacancy rate at the end of the fourth quarter in 2009. Cushman and Wakefield reported that the Portland CBD vacancy rate was 12.1 percent during the same period. This difference in volatility is part of why Grubb & Ellis recently ranked Portland’s office market as the fourth best in the country. In its Office Trends Report for the first quarter of 2010, Grubb & Ellis stated that the downtown office market has now stabilized. They forecasted that vacancy will begin dropping during 2010 and that the large concessions currently offered will be reduced and that rental rates will begin a slow accent upward.

The Port of Portland has moved from its Old Town office space at 121 NW Everett St. into its new headquarters built on top of the recently completed parking garage at Portland International Airport. The office space will house 478 workers, in large open spaces broken up by low-walled cubicles. The facility does not have traditional executive offices. The structure has 205,000 square feet of office space on three floors and can hold 3,500 cars in the seven floor parking garage. The additional parking capacity more than doubles the number of covered spaces at PDX. Construction costs for the garage were $156 million and the office space was $85 million, bringing the total project costs to $241 million. The strategic goal of the project was to consolidate the 238 employees at the airport terminal building and the 240 employees at its Old Town headquarters under the same roof to speed decision making. It is the first time both operating segments of the port will be located in the same

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3 “Overall Office Summary”, Cushman & Wakefield, Fourth Quarter 2009
4 “Port of Portland design driven by efficiency”, Daily Journal of Commerce, April 2, 2010
5 “Port of Portland spending on HQ, airport parking nearly complete”, The Oregonian, March 18, 2010
6 “Airport Building pushes green limits”, Portland Tribune, May 14, 2009
The Port estimates that consolidating its two offices will save approximately $3 million per year in costs which were previously duplicated. The Port of Portland sold its 160,000 square foot former headquarters to Washington Real Estate Holdings LLC for $29 million in December of 2007. The new owners have executed a lease with Northwest Evaluation Associates to occupy 107,000 square feet of the vacated space with approximately 300 employees of the educational testing service. The vacated space at the airport terminal building will also be leased to other organizations.

Sustainability played a large factor in the Port of Portland building design. The building has a sewage treatment facility which can treat up to 2,500 gallons per day of sewage generated by the building. This treated water is then used to flush toilets and urinals throughout the office building structure. There is a moving sidewalk that connects the headquarters to the airport that has motion sensors that turn it off when not in use. The Daily Journal of Commerce reports that this is the first motion activated moving sidewalk in the nation. Energy needs were also given consideration. Heating and cooling come from 300-foot deep geothermal wells and building temperature, artificial lighting and solar lighting are all adjusted automatically to maximize efficiency via monitors that respond to internal and external environmental conditions.

Near the old Port headquarters, a $30 million renovation of an historic warehouse into Class A office and retail space at Third and NW Glisan has been forced into foreclosure. The Portland Business Journal reported that the project known as Soho 321 has been placed in receivership and the Multnomah County Circuit Court appointed a receiver to manage the property until the auction takes place. The seven-story, 89,000-square-foot building was being developed by JBH Company whose president, Blaine Hoggard agreed to the receivership to ensure completion of the project. The foreclosure suit was filed on behalf of the lender and subcontractor, Total Mechanical Inc. for defaulting on loan terms and non-payment of construction liens respectfully. Work on the project stopped in September of 2009 and JBH Company’s attorney, Stephen Werts told the Portland Business Journal that, “the goal is to get the building done.” Problems for the project started in

7 “Port of Portland spending on HQ, airport parking nearly complete”, The Oregonian, March 18, 2010
8 “Airport Building pushes green limits”, Portland Tribune, May 14, 2009
9 “Northwest Renovations”, Northwest Construction, February, 2009
January of 2008 when Ensequence Inc. opted out of the lease which was signed in March, 2007 for five floors or approximately 65 percent of the building’s space. Ensequence Inc. is an interactive television firm which currently has offices in the U.S. Bancorp Tower in downtown Portland. Ensequence attorney, Jim Baumgartner stated that his client was within its legal rights to exit the lease. JBH Company does not share this opinion and sued Ensequence for over $27 million in damages. The case is currently pending. CB Richard Ellis is the brokerage company for Soho 321 and is marketing the space at an asking rent of $25 per square foot.

Office Vacancy: Metro Wide All Classes v. CBD Class A

Metropolitan area and CDB Class A vacancy rates continue to increase
Suburban Trends

Vacancy in the suburbs remained flat during the quarter at a 20.4 percent median rate as shown in the brokerage report summary at the beginning of the office report. Class A asking rents continued to decline and dropped almost $0.50 per foot during the forth quarter.

Camas now has the highest vacancy rate, replacing the Tualatin/ Wilsonville submarket at the number one spot according to Grubb & Ellis. The Eastside and Hazel Dell/Salmon Creek submarkets continue to have the lowest vacancy rates at 7.8 and 7.1 percent respectively. Submarkets which experienced declines in vacancy rates were the Eastside, Johns Landing/Barbur Blvd., Northwest, St. Johns/Central Vancouver and Vancouver Mall, which had rates drop by 0.8, 0.8, 0.4, 0.7, 0.5 percent respectively.

<table>
<thead>
<tr>
<th>Suburban Office Submarkets Ranked by Highest Percent of Vacancy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Submarket</td>
</tr>
<tr>
<td>----------------------</td>
</tr>
<tr>
<td>Camas</td>
</tr>
<tr>
<td>Cascade Park</td>
</tr>
<tr>
<td>Vancouver</td>
</tr>
<tr>
<td>Clackamas Sunnyside</td>
</tr>
<tr>
<td>Clark Co. Outlying</td>
</tr>
<tr>
<td>Columbia Corridor</td>
</tr>
<tr>
<td>Eastside</td>
</tr>
<tr>
<td>Hazel Dell/Salmon Creek</td>
</tr>
<tr>
<td>Johns Landing/Barbur Blvd</td>
</tr>
<tr>
<td>Northwest</td>
</tr>
<tr>
<td>Orchards</td>
</tr>
<tr>
<td>St. Johns/Central Vancouver</td>
</tr>
<tr>
<td>Sunset Corridor</td>
</tr>
<tr>
<td>SW/Beaverton/Sylvan</td>
</tr>
<tr>
<td>Tualatin/Wilsonville</td>
</tr>
<tr>
<td>Vancouver Mall</td>
</tr>
<tr>
<td>Washington Sq/Kruse Way</td>
</tr>
</tbody>
</table>

Source: Grubb & Ellis Office Quarterly Report – First Quarter 2010

Total Vacancy for Select Suburban Submarkets
In its Office Trends Report for the first quarter, Grubb & Ellis are forecasting continued vacancy problems throughout the year in the suburban markets. The forecast also includes a continuation of large concession packages, strong competition for tenants, and low or decreasing lease rates.

<table>
<thead>
<tr>
<th>Submarket</th>
<th>Current Market Size (Sq. Ft.)</th>
<th>1Q 09 Vacancy</th>
<th>2Q 09 Vacancy</th>
<th>3Q 09 Vacancy</th>
<th>4Q 09 Vacancy</th>
<th>1Q 10 Vacancy</th>
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<td>Washington Square/Kruse Way</td>
<td>6,140,468</td>
<td>16.3%</td>
<td>19.6%</td>
<td>20.6%</td>
<td>21.1%</td>
<td>21.9%</td>
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<td>Sunset Corridor</td>
<td>4,213,199</td>
<td>25.3%</td>
<td>25.6%</td>
<td>27.4%</td>
<td>28.0%</td>
<td>28.1%</td>
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<tr>
<td>Beaverton</td>
<td>3,530,939</td>
<td>16.5%</td>
<td>16.8%</td>
<td>15.8%</td>
<td>16.5%</td>
<td>16.6%</td>
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<tr>
<td>Eastside</td>
<td>2,735,967</td>
<td>7.6%</td>
<td>7.4%</td>
<td>7.4%</td>
<td>8.6%</td>
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<td>Johns Landing/ Barber Blvd.</td>
<td>1,758,613</td>
<td>13.9%</td>
<td>14.5%</td>
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<tr>
<td>Tualatin/Wilsonville</td>
<td>1,595,175</td>
<td>26.1%</td>
<td>26.9%</td>
<td>27.9%</td>
<td>28.3%</td>
<td>29.2%</td>
</tr>
</tbody>
</table>

Source: Grubb & Ellis Office Quarterly Report- First Quarter 2010 Statistics

Tualatin/Wilsonville, Sunset Corridor and Camas post highest vacancy rates in the metropolitan area.

Source: Grubb & Ellis Office Quarterly Report – First Quarter 2010
In March The Oregonian published a feature highlighting vacancies in the suburban office market and the 14 major office buildings in the Portland metropolitan area which are totally vacant. These 14 buildings account for over one million square feet of empty space which could house approximately 4,000 employees. The largest examples are Kruse Oaks III (Lake Oswego) with 108,454 SF and InFocus (Wilsonville) with 131,848 SF. The largest concentration of completely vacant office buildings is located in the Hillsboro area called Silicon Forest, which never fully recovered from the high-tech sector downturn and dot-com crash. According to the article, Oregon lost one out of every ten technology manufacturing jobs during 2009. These job losses dropped Oregon’s employment level in technology to 1996 levels and had a major effect on both real estate values and the area’s office market. One example of the effect on real estate is the portion of the AmberGlen Business Center which recently sold for 40 percent of its previous sale price.

Despite numerous new leases signed during the first quarter of 2010, the Washington Square/Kruse Way submarket’s vacancy increased from 21.1 percent to 21.9 percent during the first quarter of 2010, with a negative net absorption of 40,180 square feet according to Grubb and Ellis. Kruse Way used to have one of the metropolitan area’s lowest vacancy rates, which was as low as 3.7 percent during the first quarter of 2006. Historical data from Colliers International illustrates the timeline of the vacancy run up in Kruse Way. In 2006, the vacancy rate went from 3.7 percent at the beginning of the year to 10 percent by the end. This was approximately the time the mortgage-backed securities market became distressed. Then during the fourth quarter of 2008, while the overall US economy was weak, the vacancy rate rose from 15 percent to 23 percent. Referring to a general trend of downtown relocation for smaller class A office space, Gordon King, a commercial broker at Colliers, told the Daily Journal of Commerce that, “companies’ relocations to downtown Portland will likely trigger a third wave.”

Kruse Way’s 2.3 million square feet of Class A office space, which was built from 1981 to 2009, was attractive to many companies for reasons which include the area’s close proximity to Interstate 5 and housing options in Lake Oswego for employees. The City of Lake Oswego has acknowledged the impact. The economic development manager for the City of Lake Oswego told the Daily Journal of Commerce, “The vacancies on Kruse Way have affected the city in terms of employment and spending in our

11 “Vacant office buildings dot Portland suburban areas”, The Oregonian, March, 20, 2010
12 “Office Trends Report”, Grubb & Ellis, First Quarter 2010
14 “Kruse Way no longer the belle of the ball”, Daily Journal of Commerce, April 14, 2010
retail areas. We’re doing whatever we can by way of marketing and working with prospective tenants to fill that space.”

The submarket vacancy rate has changed substantially and has been affected both by new, un-leased office buildings like Kruse Oaks III and large tenants such as Lime Financial Services, Textron Financial, Northwest Evaluation Associates and SAIF Corporation exiting the area. There has been no new office construction in the area since Kruse Oaks III was completed in spring of 2009.

**Major Lease Transactions**  Q1 2010

<table>
<thead>
<tr>
<th>Lessee</th>
<th>Property</th>
<th>Submarket</th>
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<tbody>
<tr>
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<td></td>
<td>27,439</td>
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<td>Kruse Way</td>
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<td>Hampton Management Co.</td>
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<td>Kryptiq Corp.</td>
<td>Amberglen Business Center</td>
<td>Sunset Corridor</td>
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<tr>
<td>Indian Health Services (GSA)</td>
<td>Machine Works</td>
<td>CBD</td>
<td>19,431</td>
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</tbody>
</table>

Source: Norris, Beggs & Simpson, Grubb & Ellis Office Report – First Quarter 2010

Lease volume within all central city and suburban submarkets was low during the quarter, despite the GSA’s large lease in the CBD. Colliers International reported that there were leases signed for a total of 863,138 square feet with an average size of 3,319 square feet. If the GSA lease at First & Main is excluded, the average transaction size drops to 2,315 square feet. Colliers also reported that there are a large number of leases which are set to expire over the next six to 18 months. Because of this, Colliers expects that leasing activity will increase during future quarters.

Retail Market Analysis
Kyle Smith, Regional Multiple List Service [RMLS] Fellow & Certificate of Real Estate Development Graduate Student

Retail vacancy increased by 60 basis points to 8.0 percent during the first quarter, with negative absorption of 293,920 square feet according to the Norris, Beggs & Simpson retail report. Central City had the largest vacancy increase, climbing 150 basis points to 11.7 percent, the highest vacancy rate in any submarket.

![Graph showing total net absorption by submarket](image)

Source: Norris, Beggs & Simpson Retail Report - First Quarter 2010

Every submarket experienced negative net absorption

A majority interest in Lloyd Center was sold when owner Glimcher Realty Trust of Columbus, Ohio launched a joint venture with the Blackstone Group, a large private equity company headquartered in New York City. Under the deal which closed at the end of March, Blackstone acquired a 60% stake in Lloyd Center and another mall in Tampa, FL while Glimcher will maintain a 40% stake and will continue management and leasing responsibilities for both shopping centers. Glimcher reports that the value for the combined transaction is about $320 million, which includes $215 million in loans that are currently in place on the properties. The joint venture formation generated about $60 million in net proceeds for Glimcher which it used to reduce its outstanding borrowing. Although it hasn’t been confirmed, The Wall Street Journal reported that Blackstone paid $39 million in cash and assumed $75 million in debt for the Lloyd Center. The WestShore Plaza mall in Tampa reportedly sold for $27 million in cash and $54 million in assumed debt for Blackstone’s

1 “Retail Report” Norris, Beggs & Simpson, First Quarter, 2010
interest in the property. This represents an estimated cap rate of 9.5% for the two properties. Lloyd Center is one of Glimcher’s seven best malls and they classify its performance as market dominant. CoStar reports that Glimcher acquired the 1.42 million square foot Lloyd Center from SI-Lloyd Associates for $167 million, when it was 85% occupied and tenant sales were about $325 per square foot. At the end of 2008, Glimcher reported 94.7% occupancy at Lloyd Center and $379 per square foot in tenant sales. Glimcher recently reported a loss of $7.3 million on revenue of $228.5 million but says it has addressed all of its 2009 mortgage debt maturity issues.

![Graph showing Total Gross Leasable Area (GLA) and Vacancy](source: Norris, Beggs & Simpson Retail Report - First Quarter 2010)

**Vacancy rates bounce back up to third quarter 2009 level**

**Pending Debt Maturity Refinancing Issues**

There are numerous commercial real estate companies that either have or will have debt maturity refinance issues in the very near future. The Portland Business Journal reports that there is an estimated $1.8 billion in commercial mortgages that will expire during the next two years in Portland\(^2\). That figure covers all income-producing properties and could substantially alter the whole commercial real estate market if even a fraction of the properties sell because of an inability to refinance the old debt. Lenders and property owners are feeling the effects of the credit market and rising delinquency rates. This is particularly true of local banks and small commercial borrowers who depend on banks for loans on smaller projects with shorter maturity times. Bank of America filed court documents for a Gresham

---

\(^2\)“Slow sales slam office market” Portland Business Journal, October 30, 2009
Shopping complex on Fairview Drive that defaulted on a $6.8 million loan in July. Capital Pacific Bank declared Portland’s Greek Cusina building in default of a $1.4 million debt and sued to have a receiver assume management of the building. One result has been sizeable increases in the volume of loans placed in non-accruing status. Non-accrual means that the loan is not performing, interest is overdue, and the full collection of the principal is uncertain. Umpqua Bank, West Coast Bank and Capital Pacific Bank have all reported spikes with Umpqua’s being the largest at 146% annual increase bringing it to $35.7 million.

Banks and small companies aren’t the only ones struggling. Deutsche Bank released an analysis of the Commercial Mortgage Backed Securities market that shows its continued weakness. They looked at more than 54,000 loans worth roughly $600 billion and showed that there will be a significant number of maturity and term defaults during the coming years. This is attributed to depressed property values nationwide as well as decreased cash flows.3

Construction and deliveries to the market continued to be slow during the first quarter with only 24,499 square feet currently under construction in the metropolitan area. The almost 100 basis point decline in vacancy and the large drop off in construction during the fourth quarter of 2009 was driven by the 140,000 SF Cascade Station Target which opened in October. The Target super center was the only new delivery to the metro area during the fourth quarter. There was one building delivered during the first quarter and it accounts for all 93,000 square feet of delivered inventory.

Source: Norris, Beggs & Simpson Retail Report - First Quarter 2010

Construction at a historic low

3 “Quarterly Market Update” Melvin Mark Brokerage Company, November 20, 2009
Southeast and Vancouver submarkets are the only sites with current construction

Property owners and prospective tenants are responding to the softened retail market in several ways, one of which is through short leases and allowing temporary pop-up stores. A pop-up store is occupied by a retailer that opens up a traditional storefront for a limited time, then shuts down after a few weeks or months. Property owners are becoming increasingly open to short term leases as a way to generate revenue and bring foot traffic into otherwise vacant space. The Oregonian reported one such internet retailer that opened up a physical location in the Pearl District. Solestruck is an internet-based shoe retailer that stores its inventory in a Wilsonville warehouse. For the holiday season they chose to sign a three month lease and take their market presence beyond the internet, hoping to draw future traffic to their website. The pop-up store was successful and the company decided to make it permanent. They had a re-grand opening in March and are operating out of the same retail location on 11th Avenue.

There are several retailers planning future expansions into the metro area, and some that will be closing their doors. Walmart is looking to build a store at Hayden Meadows and there is a working plan to bring an H&M clothing store to Pioneer Place during 2010. The Puma and Adidas stores have closed, and the nearby Eddie Bauer store in the Pearl has also closed its doors.

---

4 “Temporary Stores Popping up amid tough retail leasing Market” The Oregonian, November 4, 2009
Three apparel retailers close their doors in the Pearl District

Saks Fifth Avenue has announced that they will be closing its downtown Portland stores by midsummer. According to the Oregonian, Saks was scheduled to close the 23,000 square foot men’s store on April 25, 2010 while the 60,000 square foot main store will close its doors on August 1, 2010. Saks Inc. may not be leaving the Portland area entirely though. Saks has been negotiating a lease with Bridgeport Village to secure space for Off Fifth, which is the company’s store that sells private-label, clearance and closeout items. Saks spokeswoman Julia Bentley said, “It wasn’t a great fit with Portland even before the economy.” Ms. Bentley added that the store wasn’t meeting the company’s profitability standards and that the store’s lease expired this year. If it opens, Off Fifth will locate in the space vacated by a grocery store at Bridgeport Village.

The Oregonian reported that the Swedish retail chain H&M was interested in the space Saks men’s store currently occupies and were close to signing a lease. This report has not been confirmed by H&M, Mayor Sam Adams or the PDC. Mayor Adams did release this statement though, “I’m not allowed to talk yet about potential replacements. We expect to announce within the coming weeks and months new retail offerings at Pioneer Place that we are confident will excite Portlanders.”

5 “Saks closing downtown Portland store, may open Saks Off Fifth at Bridgeport Village”, The Oregonian, March 23, 2010
6 “H&M setting up shop in Portland by 2010”, The Oregonian, December 19, 2009
Portland Industrial Market

Kyle Smith, Regional Multiple List Service [RMLS] Fellow & Certificate of Real Estate Development Graduate Student

The Portland metropolitan industrial market experienced rising vacancy and negative net absorption during the first quarter of 2010 according to Grubb & Ellis. The market reversed the multiple quarter trends of rising vacancy rates and negative net absorption during the fourth quarter of 2009 when vacancy remained stable at 8.8 percent and there was positive net absorption of 271,000 square feet.\(^1\) During the first quarter of 2010 vacancy increased to 9.1 percent and there was 98,027 square feet of negative net absorption.\(^2\)

Norris, Beggs & Simpson reported dramatically different market data in its Industrial/Flex Report than Grubb & Ellis did. According to Norris, Beggs & Simpson, warehouse and distribution vacancy decreased 30 basis points down to 14.6 percent and absorbed 118,458 square feet, while R&D/Flex vacancy increased by 180 basis points to 18 percent with 166,559 square feet of negative net absorption.\(^3\)

According to Grubb & Ellis, the warehouse and distribution sector of the market had positive net absorption of 150,000 square feet and a comparatively mild vacancy increase of 30 basis points. In

\(^1\) “Industrial Trends Report”, Grubb & Ellis, Fourth Quarter 2009
\(^2\) “Industrial Trends Report”, Grubb & Ellis, First Quarter 2010
\(^3\) “Industrial/Flex Report”, Norris, Beggs & Simpson, First Quarter 2010
contrast, the R&D/Flex market posted a 250,000 square foot negative absorption and a 80 basis point vacancy increase, bringing the sector to 9.2 percent vacancy. R&D/Flex rents have also decreased substantially, dropping $0.04 per square foot during the first quarter and are down $0.07 since the first quarter of 2009. The hardest hit submarket has been the Class A flex space which is primarily located in the Sunset Corridor and saw vacancy rates jump from 16 to 19.1 percent during the first quarter. There are currently about one million square feet of vacant, Class A flex space in the Sunset Corridor. Much of space was the result of Intel vacating over 100,000 square feet at the Amberglen Business Center and moving back into its headquarters.

<table>
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<th>CB Richard Ellis</th>
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Source: CB Richard Ellis, Cushman & Wakefield, Grubb & Ellis, Norris, Beggs & Simpson Quarterly Reports and Statistical Reports - Fourth Quarter 2009

There was no new construction during the first quarter, and there is no speculative space currently being constructed. Tenant demand is the primary driver of the current market and certain industries are showing signs of growth. The Port of Portland reported that the volume of marine cargo handled
was up 46 percent in January and February. Boeing is reportedly investing up to $120 million to upgrade its Gresham operation. The upgrade will add 60,000 square feet of space on its Gresham campus. The facility will treat metals used in aircraft manufacturing and will add 152 jobs over the next three years. On a national level the manufacturing industry may be showing some strength. The Institute for Supply Management’s manufacturing index has been over 50 for eight straight months. The index measures multiple facets of the manufacturing industry such as new orders, inventories and production volumes. Index values below 50 signal industry contraction, while values over 50 indicate expansion.

![Industrial Absorption and New Construction (Sq. Ft.)](image)

**Industrial Absorption and New Construction (Sq. Ft.)**

Source: Grubb & Ellis Industrial Trends Report- First Quarter

**Negative net absorption and zero square feet of new construction**

**Major Lease Transactions Q1 10**

<table>
<thead>
<tr>
<th>Tenant</th>
<th>Property</th>
<th>(Sq. Ft.)</th>
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<td>Owens Corning</td>
<td>Bybee Lake Logistics Center</td>
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<td>Cardinal Aluminum</td>
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<tr>
<td>CEVA Logistics</td>
<td>Alderwood Corporate Center</td>
<td>113,190</td>
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4 “Industrial Trends Report”, Grubb & Ellis, First Quarter 2010
5 “Industrial/Flex Report”, Norris, Beggs & Simpson, First Quarter 2010
<table>
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<tr>
<th>Company</th>
<th>Location</th>
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<td>Mission Foods</td>
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<tr>
<td>Danner Shoe</td>
<td>LogistiCourt at Portal Way</td>
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</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>537,046</strong></td>
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</tbody>
</table>

Source: Grubb & Ellis, Norris, Beggs & Simpson Quarterly Industrial Report
Multifamily Market Analysis
Scott Aster, Oregon Association of Realtors [OAR] Fellow
& Certificate of Real Estate Development Graduate Student

According to Norris, Beggs & Simpson’s First Quarter 2010 Multifamily Report, the overall multifamily vacancy rate has decreased to 4.82% from 5.43% in the fourth quarter of 2009 and is down from 4.96% this time last year. The average rents for the quarter are $704 ($1.00/SF) for a 1BR/1BA, $731 ($0.82/SF) for a 2BR/1BA, $906 ($0.87) for a 2BR/2BA and $984 ($0.80) for a 3 BR/2BA. These numbers are up slightly from the previous quarter. Average 2BR/2BA new units rent for $1,537 per unit, an increase of $207 over last quarter. This extreme increase is likely due to a flood of upscale condo conversions entering the market. Seasoned 2 BR/2BA units rent for an average $847 per unit, which is an increase of $17 over last quarter.

Source: Norris, Beggs & Simpson "Portland Area Multifamily Report First Quarter, 2010"

The poor economy and high unemployment rates remain but the outlook for the multifamily market appears to be brightening, if only slightly. First quarter vacancies, according to Norris, Beggs & Simpson’s Multifamily report, range from 3.99% to 10.15% across the Portland market. Downtown has the highest vacancy rate as the conversion of condos has produced oversupply in the multifamily rental market. Concessions, in the form of free rent and parking, remain commonplace though rental rates have stabilized somewhat.
The downtown Portland submarket shows the highest total vacancy rate at 10.15%, while Lake Oswego/West Linn has the lowest submarket vacancy at 3.99%. Downtown Portland has the highest new unit vacancy at 10.6% while Southeast Portland and Lake Oswego/West Linn have the lowest vacancy rate at 0%.
The high local unemployment rates are having a strong negative impact on vacancies, as shown in the charts below. The dramatic rise in the unemployment rate from 5.7% in 2008 to 10.6% in 2009 suggests that, despite the slight dip this quarter, vacancy rates might continue to rise until unemployment levels stabilize and decline.


Vacancies are still high not because residents are moving from Portland but primarily because tenants are doubling up, moving in with family, or moving into single-family rental homes. According to Mark Barry, condominium conversions are also having an impact on vacancy rates. The glut of conversions has put pressure on the higher end of the market and has caused effective rentals to be 15%-30% below pro forma. However, Norris, Beggs & Simpson cites U-Haul’s records showing that 10.16% more people are moving to Portland than from Portland illustrating potential growth in the market and possible further vacancy decline. Colliers International’s First Quarter 2010 report states that rent declines are beginning to stabilize.

To prevent tenants from fleeing, landlords are still resorting to concessions. Two months worth of free rent concessions as well as free parking are commonplace throughout the Portland metro area. Colliers International states in its midyear report that, “some new buildings even guarantee that if a tenant loses his/her job, they can end their lease agreement without penalties, early termination fees or adverse impact on credit.” The widespread discounting produces net effective rents, including parking and rent concessions in select buildings throughout the metro area, ranging from 5.6% to 16.8% lower.
One of the driving factors behind the vacancy issue is affordability. According to Colliers International, the middle-income workforce that drives demand for multifamily rental housing earns between 50% and 80% of median family income (MFI). The 2009 MFI for a single person in Portland is $49,000. Assuming rents are at 30% of gross income, the individual could afford a monthly rent of between $613 and $980. Options are very limited within this price range in the Portland area as studios and one-bedrooms are between $710 and $740 and higher range luxury options are in excess of $1,000.

Norris, Beggs & Simpson’s list of major apartment sale transactions for the first quarter include the Hallwood Apartments (76 units) in Beaverton/Aloha for $5.6 million and the Willow Creek Apartments (77 units) in Hillsboro for $4.8 million. There were no transactions involving properties over 100 units, as there were four in the previous quarter.

According to Mark Barry, apartment sales volumes were down significantly in 2009 relative to the prior six years. Total sales volume for the Portland metropolitan area in 2009 was estimated to be $300 million as compared to the decade high of 1,115 million in 2007. Similarly, multifamily land sales for future development have also dried up. However, as NBS indicates in its report, it expects sales to accelerate once the availability of financing increases.
Condominium and Attached Market

The number of condominium sales in the Portland metropolitan market is down significantly from the prior quarter as the Portland metropolitan area experienced a 42% decline in transactions while Vancouver was down 43%. However, both Portland and Vancouver sales are up annually with Portland up 29% and Vancouver up 74%.

Despite the quarterly sales decline the prices at which those sales has occurred are up slightly. The Portland metropolitan area’s price per square foot is at $178, an increase of 2% quarterly though it is still down 8% from 2009. The median price per Portland condominium unit is $185,000 up 0.5% from the fourth quarter. Vancouver, at a price per square foot of $112, is down 7.0% for the quarter and 3% for the year. Vancouver’s median price per condominium is up to $119,500 a decrease of 1.2% for the quarter.
Results for single-family attached housing are down for the quarter but up annually. The number of attached home sales in the Portland metropolitan area decreased 20.8% from the fourth quarter to 293. The number of sales of attached homes is up 74.4% annually with a median price of $190,000. The Vancouver area also saw a quarterly decrease (-57%) and an annual increase (24%) as the number of attached homes sold fell to 96 from the previous quarter. For Portland, price-per-square-foot numbers ($128) are down 3.8% from the prior quarter and 7.7% annually. Vancouver, at $97 per square foot, saw a quarterly decrease of 7.1% but an annual increase of 0.26%. The median price for attached homes in Vancouver was $157,500.
Housing Market Analysis

Scott Aster, Oregon Association of Realtors [OAR] Fellow & Certificate of Real Estate Development Graduate Student

### Median Home Values of Existing Detached Homes

<table>
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<th></th>
<th>U.S.</th>
<th>West</th>
<th>Portland Metro Area</th>
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<td>February 2009 Median Sales Price</td>
<td>$ 168,200</td>
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<td>$ 265,000</td>
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<tr>
<td>February 2010 Median Sales Price</td>
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<tr>
<td>% Change in Median Sales Price</td>
<td>-1.8%</td>
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<tr>
<td>% Change in Number of Sales</td>
<td>7.0%</td>
<td>3.4%</td>
<td>11.5%</td>
</tr>
</tbody>
</table>

Source: National Association of Realtors (February 2010) and RMLS (February 2010)

Once again the housing market statistics reflect a decrease in value from the prior year. Median home prices were down 1.8% annually in February, and 4.2% from $269,000 to $257,700 for the western part of the nation.

According to the National Association of Realtors, the metropolitan areas with the greatest annual depreciation rates are Las Vegas (-23.3%) and Chicago (-12.1%) while San Francisco (13.2%) and Denver (11.2%) experienced the most significant increases in value.

However, prices are still substantially higher than they were before the housing bubble. For Portland, according to the Standard and Poor’s Case Shiller Index, a home valued at $100,000 in 2000 stood at $147,290 at the end of January 2010.

The number of building permits issued was down 37% nationally, with an increase of 64% in Oregon.

Foreclosures in the Portland metropolitan area, including Clark County are up 20% annually and 120% since 2007. According to RealtyTrac, there are currently 7,152 foreclosures on the market in Multnomah County. Meanwhile, Washington County has 5,301 foreclosures on the market, Clackamas County has 4,802, Clark County has 3,204 and Deschutes County has 6,042.

According to these various counties’ recorders offices, Washington (46.2%), Deschutes (31.6%), Multnomah (28.7%) and Clackamas (28.6%) counties experienced increasing annual foreclosure rates, while Clark County (-25.1%) experienced a decrease in foreclosure filings from the previous year.
Foreclosure Filings by County

SOURCE: Clark, Clackamas, Deschutes, Multnomah and Washington county recorders' offices

Median Sales Prices of Existing Single Family Homes By Metropolitan Area

San Francisco-Oakland-Fremont, CA
Denver-Aurora, CO
Cincinnati-Middletown, OH-KY-IN
San Diego-Carlsbad-San Marcos, CA
Sacramento--Arden-Arcade--Roseville, CA
Austin-Round Rock, TX
Boston-Cambridge-Quincy, MA-NH
**U.S. Average**
Albuquerque, NM
Seattle-Tacoma-Bellevue, WA
Phoenix-Mesa-Scottsdale, AZ
Salt Lake City, UT
Spokane, WA
Portland-Vancouver-Beaverton, OR-WA
Salem, OR
Chicago-Naperville-Joliet, IL
Las Vegas-Paradise, NV

Source: [http://www.realtor.org/Research.nsf/Pages/MetroPrice](http://www.realtor.org/Research.nsf/Pages/MetroPrice)
Building Permits Issued

<table>
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<th>UNITED STATES</th>
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Source: National Association of Home Builders (November 2009)

Portland

The number of Portland metropolitan area home sales decreased by 28.28% over the first quarter, as buyers closed purchases on 2,805 existing homes. However, this represents an increase of 40.53% over the previous year.

Median prices for the first quarter were at $245,000, a 2% decrease over the previous quarter, and a 3.92% reduction annually. Prices are still being marked down, with average sales taking place at 90.89% of the original list price, 0.84% less than the previous year. Sellers in the Portland area, on average, have their homes on the market for 84 days before closing, reflecting a three day decrease from 2009. Price per-square-foot values dropped to $130, a 6.47% decrease from the previous quarter. This reflects a 2.93% decrease annually.
Aster • Housing Market Analysis

Median Sales Price & Number of Transactions – Existing Detached Homes
Portland Metro (Excluding Clark County)

8-Year outlook for Median Sales Price & Number of transactions
1st Quarter Median Price: $245,000
Quarterly % Change: -2.00%
Annual % Change: -3.92%
Number of Transactions: 2,805
Quarterly % Change: -28.28%
Annual % Change: 40.53%

Sale Price/Original List Price & Average Days on Market – Existing Detached Homes
Portland Metro (Excluding Clark County)

4-year outlook for average DOM and Sales Price/Original List Price Ratio
1st Quarter Sale/Original ratio: 90.89
Quarterly % Change: -1.62%
Annual % Change: 0.93%
Days on Market: 84
Quarterly % Change: 15.07%
Annual % Change: -3.45%
Five of the submarkets listed below experienced quarterly price appreciation. The other submarkets experienced a decline in value. West Portland home prices increased the most at 9.40% followed by Mt. Hood Government Camp at 7.50%, Hillsboro/Forest Grove at 3.89%, Tigard/Wilsonville at 2.98% and Lake Oswego/West Linn at 2.96%.

Conversely, the Milwaukee/Clackamas area experienced the highest depreciation rate at (-8.01%), followed by NW Washington County (-6.98%) and Northeast Portland (-5.66%).

Annual results are negative for all but three Portland area submarkets. Lake Oswego/West Linn (4.25%), Columbia County (2.50%) and West Portland (1.63%) are the only submarkets that experienced an increase in value from the previous year.

Conversely, Yamhill County (-12.33%) and Mt. Hood/Government Camp/Wemme (-10.42%) home values depreciated the most on an annual basis since the first quarter of 2009.
Appreciation Rates of Existing Detached Homes - Portland Sub-Market
Q4 2009- Q1 2010

West Portland (148)
Mt. Hood Govt. Camp/Wemme (153)
Hillsboro/Forest Grove (152)
Tigard Wilsonville (151)
Lake Oswego/West Linn (147)
Columbia County (155)
Southeast Portland (143)
Overall
Oregon City/Canby (146)
Yamhill County (156)
North Portland (141)
Gresham/Tualatin (144)
Beaverton/ Aloha (150)
Northeast Portland (142)
NW/ Washington County (149)
Milwaukie/Clackamas (145)

% Appreciation

Map Courtesy of the RMLS
Vancouver

Vancouver’s median home price was $195,000 resulting in a quarterly increase (0.13%) and an annual decrease (-4.7%) in home values. Clark County’s unemployment rate was at 14.8% at the end of the last quarter. The number of homes sold throughout the first quarter decreased to 457, down 36.0% quarterly but up 20.6% annually. The number of days on the market is down to 94, a 10.5% decrease from 2009.

In the suburbs of Clark County, home prices have dropped to $232,000, a 2.5% drop from the previous quarter’s median price. An annual outlook indicates that home prices are down -5.5% from 2009.
The number of home transactions in the Clark County suburbs is down 3.4% for the quarter but up 43.1% annually. The number of days on the market has increased 8.0% annually and is up to 103.

Eleven Vancouver/Clark County submarkets experienced price appreciation for the quarter. The Ridgefield area had the strongest quarter with an appreciation rate of 13.69% followed by North Salmon Creek (11.19%) and Northeast Heights (9.94%).

Conversely, the North Hazel Dell area had the highest depreciation rate at (-10.91%) followed by downtown Vancouver (-10.24%) and Northwest Heights (-8.61%).

Annual changes show that only North Salmon Creek (15.6%), Brush Prairie (11.6%) and Orchards (7.2%) increased in value.

Most of the submarket depreciated, however, led by North Hazel Dell (-16.6%) and Lincoln/Hazel Dell (-15.7%).
Appreciation Rates of Existing Detached Homes
Vancouver and Clark County Sub Market - Q4 2009 - Q1 2010

- Ridgefield (50)
- N Salmon Crk (44)
- NE Heights (20)
- Camas City (32)
- Orchards (21)
- Lincoln/Hazel Dell (14)
- S Salmon Crk (42)
- Brush Prairie (62)
- E Hazel Dell (15)
- N Felida (43)
- Five Corners (25)
- E Heights (23)
- Evergreen (22)
- Washougal (33)
- E Orchards (26)
- Cascade Park (24)
- Fisher's Landing (27)
- Battleground (61)
- NWHeights (12)
- Downtown Vancouver (11)
- N Hazel Dell (41)

% Appreciation

Map Courtesy of the RMLS
Central Oregon

Both Bend and Redmond experienced significant increases from the previous year with respect to the number of homes sold. Bend home sales are up 59% to 357 while Redmond’s increased 125% to 171. The number of days on the market dropped to 143 for Bend and 141 for Redmond. But the median home prices declined significantly for both Central Oregon submarkets. Bend home prices dropped (-14%) to $190,000 while Redmond prices plummeted (-24%) to $125,730. Price-per-square-foot numbers also declined significantly for Bend and Redmond at $102 and $76.
As it is commonly reported 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 is provided to control for lot size between both categories. Fourth quarter statistics are mixed for Central Oregon homes lying on acreage. Bend transactions increased 91% from 2009 while Redmond experienced an increase of 9%. However, Bend home prices dropped (-9%) to $314,950 while Redmond prices slipped (-33%) to $200,000. Price per square foot is down to $132 for Bend and $106 for Redmond. The number of days on the market dropped for both areas as Bend is at 147 and Redmond is at 185.

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**Number of Transactions and Days on the Market**

Single Family 1-5 Acres - Bend and Redmond

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**Median Single Family Price and $/SqFt**

1-5 Acres - Bend and Redmond

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Willamette Valley

With the exception of Lane County (6.8%) and Marion County (0.6%), all Willamette Valley submarkets experienced annual depreciation on existing home prices.

Keizer suffered the worst year in the valley with declining prices of (-15.1%) followed by Linn County (-11.1%).

The number of transactions over the past year increased annually for all of these areas except for Polk County (-2%) and Keizer (0%). Marion County (57.4%) and Benton County (49.3%) had the highest annual increase in transactions.

The number of days on the market increased for all of these submarkets with the exception of Benton County.
Salem

Salem’s housing market once again experienced annual depreciation while the number of days on the market increased. However, the number of transactions increased from the prior year.

Prices declined (-7.92%) from the previous year to $174,950. Meanwhile, the number of days on the market increased to 136, approximately four and a half months.

The number of transactions increased (9.96%) from the previous year to 298.
Eugene/Springfield

The Eugene/Springfield area experienced declining home prices relative to the first quarter of 2009. However, the number of transactions rose 40.5% annually to 392. The median price was down 5.3% to $208,448. Sellers currently have their houses on the market for 88 days before closing and are realizing 90.64% of their original listing price on the sale.