# SUMMARY AND EDITORIAL

ERIC FRUITS

Editor and Adjunct Professor, Portland State University

As noted in the past few issues, our economy is groping its way out of recession. The US economy remains weak, but several economic indicators have turned upwards in recent months. Many economists are now somewhat more optimistic about the recovery. The Wall Street Journal survey of economists now say there is a 1-in-6 chance that that the U.S. will experience a recession in the next 12 months, which is down from the 1-in-3 chance reported in the last issue. The Economist Intelligence Unit has reduced its probability of another recession in the US.

Real estate markets are seeing some strong signs of recovery outside of the residential markets. For example, Marcus & Millichap project that the Portland area will be one of the country's top retail real estate markets for investors this year. The apartment sector is another bright spot in the overall housing market, with rising rents and very low vacancies. However, tight credit remains an issue. At a National Association of Home Builders conference, the chairman of NAHB's Multifamily Leadership Board remarked, "Capital is limited in this current market, and developers are having a difficult time obtaining the credit needed to finance the development of new apartments. Credit restrictions are so tight that even developers with a strong balance sheet and reputation are having difficulty."

■ Eric Fruits is editor of the Center for Real Estate Quarterly Report and an adjunct professor at Portland State University. He is president of Economics International Corp., an Oregon based consulting firm specializing in economics, finance and statistics. Any errors or omissions are the author's responsibility. Any opinions expressed are those of the author solely and do not represent the opinions of any other person or entity.

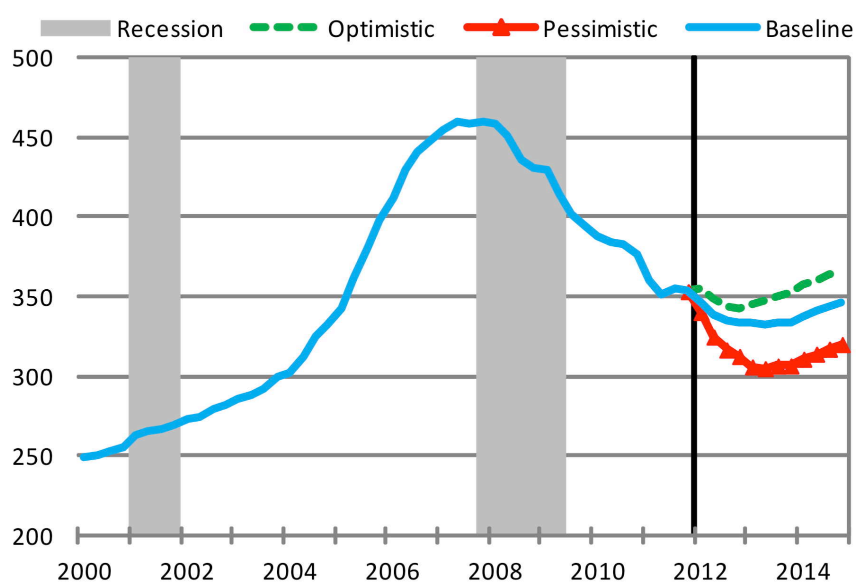
With financing scarce and often difficult to obtain, it's little wonder that real estate developers across the Northwest are looking for new ways to fund their endeavors. In this issue of the Quarterly Report, **Bradley Maier** reports that within the past three years, there has been an increasing amount of interest in the EB-5 Investor Visa Program as a potential source of capital as foreign nationals seek to invest in the US. Mr. Maier provides a very informative and easy-to-read primer on this growing program.

Forecasters note that there has been some positive news in the housing market but a large overhang of houses will prevent a strong recovery. On the one hand, Oregon State University economist Patrick Emerson writes on his blog that "the thaw has begun" in Oregon's housing market:

> We do seem to have hit the bottom but there are a lot of factors that will keep a lid on prices for some time: unemployment, foreclosures, uncertainty, tight credit, etc. But I would not be surprised to see 2012 end with modest gains in average home values as measured by Case-Shiller. And I think Portland will be one of those areas in which we will see improvement by the end of the year.

On the other hand, Zillow projects that Oregon house prices will decline by 4.1 percent in 2012. In addition, as shown in Figure 1, the Oregon Office of Economic Analysis anticipates declining house prices through 2013. The OEA does not see prices recovering to their pre-recession levels until sometime in the early to mid-2020s. It should be noted, however, property prices saw a bubble-like run-up from 2004 through 2007.

**Figure 1: FHFA Oregon Housing Price Index**




Source: Oregon Office of Economic Analysis

According to ForeclosureRadar, for the counties it follows, Oregon foreclosure filings have been on a somewhat steady downward trend. Figure 2 shows that January 2012 notices of sale filings are approximately half what they were in January 2011. Figure 3 shows that Portland's experience is similar the state as a whole.

RealtyTrac predicts that 2012 foreclosure activity 2012 will look less like a tsunami and more like a series of smaller waves rolling into shore over the course of the year. The company believes this should allow the market to absorb foreclosure inventory without imposing another 20 or 30 percent hit to home prices. Even so, the steady stream of foreclosure activity will likely keep home prices from appreciating substantially during the year.

**Figure 2: Oregon Foreclosure Filings 2011–2012**

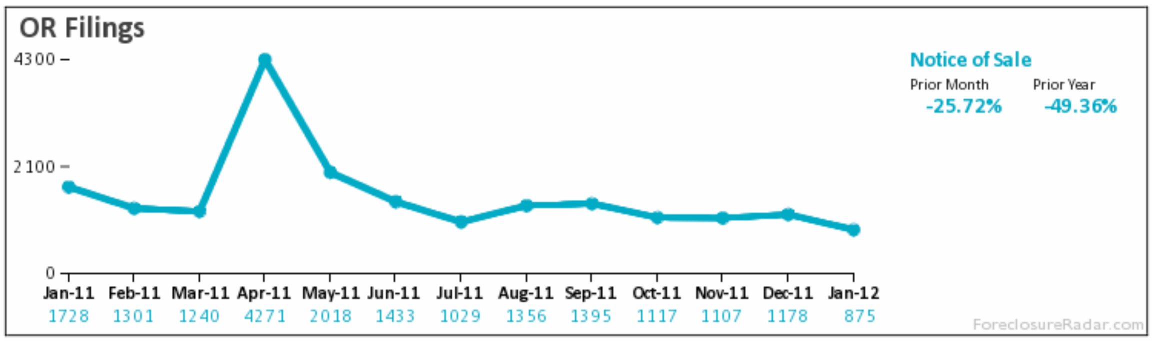
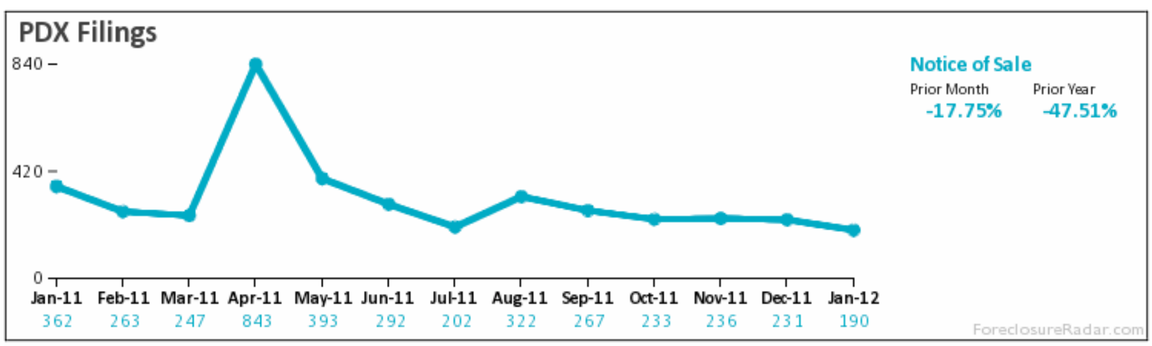



**Figure 3: Portland Foreclosure Filings 2011–2012**



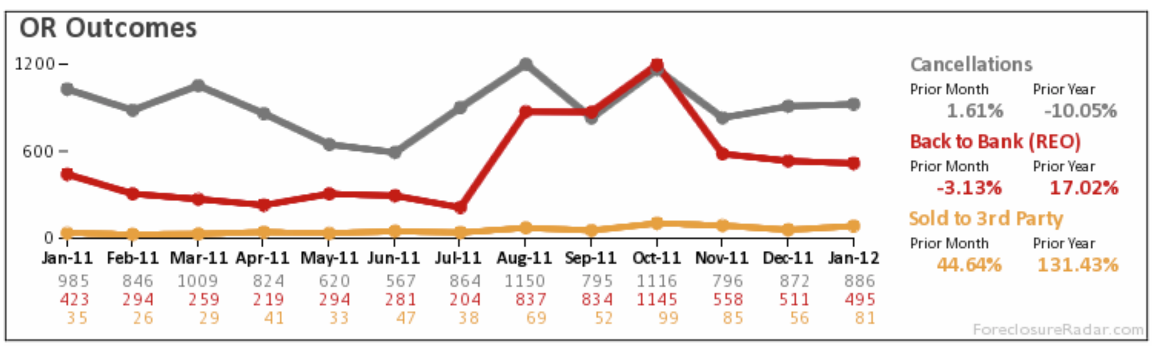

Earlier this month Oregon signed onto the settlement with Bank of America, JP Morgan Chase, Citibank, Ally Financial, and Wells Fargo regarding the "robo-signing" fuss. Oregon will receive about $230 million in settlement funds. About $30 million of that will go to the state to support foreclosure relief programs. The remainder will be distributed to struggling or foreclosed upon Oregon homeowners.

Attorney General John Kroger, indicated that qualifying homeowners will receive an average of about $1,800 in relief in the form of loan modifications, interest rate reductions, principal reductions on negative equity mortgages, and assistance to unemployed homeowners. Exactly how, when, and to whom relief will be disbursed is still up in the air. The settlement requirements will be implemented over three years and borrowers may not know immediately if they are eligible for relief.

In this issue of the Quarterly Report, **Michael Collins** reports on who gets loan modifications and what the terms of the modifications are. He studied a set of subprime loans made in 2005 among borrowers in Oregon, California, and Washington. He finds that first, that loan modifications are a rarely used option among the servicers for which he had data. Second, he finds no evidence that minority borrowers are less likely to receive a modification or less aggressive modification than white borrowers. In addition, he finds that most modifications involve reductions in the loan's interest rate, and an increase in principal balance. Perhaps most importantly, he also finds that modifications reduce the likelihood of subsequent default, particularly for minority borrowers.

Legal issues, property maintenance costs and other issues complicating the foreclosure process will lead lenders to more likely approve short sales in 2012, according to RealtyTrac. Many of the properties that started the foreclosure process in the third and fourth quarters of 2011 will end up as bank-owned properties in 2012, but many will also end up as short sales. This trend appears to be playing out already, as Figure 4 show that REOs are up nearly 20 percent over last year.

**Figure 4: Oregon Foreclosure Outcomes 2011–2012**




In this issue, we welcome **Kyle Brown**, who is working toward a master's degree in real estate development. As an RMLS fellow, he has prepared this issue's office, retail, and industrial reports. **Evan Abramowitz** provides the latest updates in the residential and multifamily markets. ■