SUMMARY AND EDITORIAL

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

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

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

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

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

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

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

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

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

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