SUMMARY AND EDITORIAL

With the uncertainty surrounding the US and Oregon economies, we tend to focus on projections of where we are going in the future. In this issue of the Real Estate Quarterly Report, we will take a look back to the past to the history of city planning in Portland. Based on his keynote presentation at the Urban Land Institute’s Oregon Young Leaders Group Cascadia Regional Conference, Chet Orloff provides a comprehensive and visually rich look at the birth, the growth, and future of Portland’s urban environment.

As noted in the past few issues, our economy is in the middle of a turbulent turnaround. The question is now seems to be: Which way are we turning? The Oregon Office of Economic Analysis relies, in part, on IHS Global Insight to form its forecasts of the Oregon economy. Global Insight projects growth—but weak growth—over the next year. At the same time, Global Insight assigns a 40 percent probability of recession. In contrast, economists surveyed by the Wall Street Journal in November, on average, gave 1-in-4 odds that the U.S. will experience a recession in the next 12 months, down from a 1-in-3 chance they projected in September. At the same time, the most recent forecast from the Economist Intelligence Unit places a “very high probability” on the chance that the global economy falls into recession.

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Economists at the State of Oregon report that credit markets are easing, but consumers and businesses still have difficulty getting loans. The figure below from the Wall Street Journal highlights this difficulty. For example, five years ago few borrowers with a credit score below 637 got prime mortgages. For subprime borrowers the median credit score was 729. In September of this year, hardly anyone with a credit score lower than 691 got a prime mortgage and the median among prime borrowers was 770. In other words, what many consider to be a “good” credit score is not good enough to get a prime mortgage. Now, lenders are demanding a “very good” or an “excellent score.”

![Credit scores at origination for prime mortgages](image)

State economists find signs that the housing market has hit bottom, at least in terms of housing starts. At the same time, they predict that housing prices may have further to fall. In particular, foreclosures and delinquency rates are still relatively high. Nationwide, the Mortgage Bankers Association reports that approximately 13 percent of outstanding loans are delinquent or in foreclosure. The Oregon Office of Economic Analysis concludes that the housing market appears to be the biggest threat to a sustained economic recovery in Oregon. Nevertheless, the state’s economists project a relatively steep recovery in housing starts beginning in 2012, as shown in the figure below.
While the single family residential market remains troubling, the multi-family sector is robust and growing. At a panel discussion at the National Association of Real Estate Investment Trusts’ REIT World conference in Dallas, Thomas Toomey, president and CEO of UDR Inc., which owns stakes in 62,000 apartments, reported his properties are more than 96 percent occupied. His experience is not unique—the national vacancy rate for apartments in the U.S. was 5.6 percent at the end of the third quarter, down from 5.9 percent in the second quarter, and the lowest level since 2006, according to real estate research company Reis Inc. With the lower vacancy rates, average rents were up 1.8 percent in the third quarter from the same period a year earlier. Portland’s experience appears to have mirrored the nation. **Evan Abramowitz** reports that the growth in effective rents has increased 5.3 percent over the same time last year.

Moody's Investors Service reports that commercial real estate prices fell 1.4 percent in September. The decline ended a four-month growth streak in commercial real estate prices. Analysis by **David West** in this month’s office market report suggests that Portland may be following the national trend of sluggish commercial real estate pricing. Moody’s expects the “bottoming process” in the sector to continue for the next two years.