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There has been extensive debate about newly elected Mayor Sam Adams’ ethical lapses, but in the Portland development community, there has been little discussion of the steps that the Mayor has already undertaken that could potentially be 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 are integrated well, 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.

Within the Mayor’s purview will be planning, economic development, community development, sustainable development, transportation, management, finance and law. In policy terms, only Commissioner Fish’s housing bureau, which acquires the previous housing activities of the Portland Development Commission, will be outside the mayor’s immediate supervision, and the
water and development services functions, primarily operating line entities, will function separately. How will the mayor use these tools to formulate an Adams agenda for Portland's urban development?

To make this discussion more tangible, let us revisit some of the local public policy decisions I outlined just one year ago in a piece here entitled “An Invisible Urban Development Agenda” [CRE Quarterly & Urban Development Journal, 1st Quarter 2008, February 2008 http://www.pdx.edu/media/r/e/RE_Quarterly_08_1Q.pdf] Let us view some of these issues through the lens of the new mayor's roles and suggest some of the ways that Mayor Adams could integrate some of his new multidisciplinary functions in ways that could transform projects into far more than their individual pieces and into effective urban networks.

**Portland Development Commission [PDC]**

For all intents and purposes, the mayor will have license to integrate all the urban development policies of the city as well as to set both the agenda for, and oversee the projects of, the city as a public partner in urban development. This is particularly true since the independence of the PDC in recent years has been substantially reduced as the Council has asserted its authority.

Once led by PDC Commissioners who were primarily developers chosen for their development expertise, now only a single developer sits on the Commission. Urban renewal districts within which tax increments have financed large bond issues are about to expire. The Council has supported satellite appendages with no rational nexus to the district. Authority to acquire private property by condemnation for the purpose of sale to other private owners for development is now limited by changes in reaction to a Supreme Court decision.

Mayor Adams and the newly elected city council members will need to address how to revitalize the PDC, increase its development expertise, augment its resources and refine its goals. Public-private deal-making is a challenging art not susceptible to traditional governmental decision-making. Experience and sophistication in negotiating with the developers whom the PDC assists, or with whom it enters into public-private partnerships, is absolutely vital to protect the public interest and to produce sustainable projects.

Independent development agencies have been used in various cities around the country to do what neither the private nor the public sector has been able to do as well alone. By its very nature, development involves definable physical projects that require literally thousands of detailed decisions to be made quickly with only the interest of the project's success as the primary criterion for decision-making. 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.

For example, existing hoteliers have resisted public subsidies for a convention center headquarters hotel precisely for that reason. An independent development entity charged with making such judgments solely on the basis of development feasibility and long-term sustainability not only will make better decisions but will also insulate elected officials both politically and economically from conflicting decisions, either actual or perceived.
Economic Development:

By necessity and by design, the Mayor and Council will need to devote scarce City resources towards innovative forms of economic development. The traditional, and most expensive, approach towards economic development has been to entice and subsidize large corporations from elsewhere to set up local plants in Portland through the construction of infrastructure to create so-called “shovel-ready” industrial parks. These expenditures are usually supplemented by generous tax abatements and other enticements as corporations play one city off against another for a race to the bottom in terms of tangible economic benefits that accrue to the city.

This conventional wisdom and approach is not only expensive, it is also outmoded. Large manufacturing companies have been more likely to retrench than expand. The lion’s share of job growth has been in smaller companies as well as in local ones. According to the U.S. Small Business Administration, smaller companies have generated between 60% and 80% of all net new jobs in the last decade and over 98% of all jobs within inner cities. Moreover, most of that growth is locally generated. A good example of these conclusions is the experience of Seattle with Microsoft, Amazon and Starbucks that grew in place as indigenous companies, without subsidies, creating more jobs in the local area, with lower public risk.

Moreover, the largest number of jobs is created both by and for the creative class, who are college-educated 25 to 34-year-olds that Portland has been so successful attracting with no public investment, as compared with other American cities, most of which have lost population of their creative class. So the mission of the PDC from the Council should be to find and nurture those startups and young companies that our creative class has generated in places like the Eastbank Commerce Center, Olympic Mills and other affordable venues created by local entrepreneurs.

And the most likely kinds of companies will likely be in the areas of green building, alternative energy and other sustainable urban technologies for which Portland has justly become noted.

Urban Infrastructure:

On the local level, the ways in which the Mayor and Council prioritize federal projects to repair and rebuild urban infrastructure, both hard and soft, can have an enormous effect on the ways in which developers are able to build to accommodate the growth projected for the metropolitan area. How are we going to fix and fund a staggering backlog of under-investment in urban infrastructure and deferred maintenance of roads, bridges and railroads? Do we simply repair potholes or can we devise smarter ways to control traffic? Can we overhaul our taxi franchise system to integrate taxis, shuttles and towncars into an efficient para-transit system? Can we overhaul our zoning laws to eliminate single-use zoning in favor of mixed-use zoning that eliminates the need for multiple trips and shortens their distance, lessening urban infrastructure demand? These elements of soft infrastructure can be as important as hard.

Crossings:

There is no better example of the need for multidisciplinary thinking and action than the so-called Columbia River Crossing. Its name in the singular denotes its single-minded genesis as a freeway bridge replacement. Even though at its cost of at least $4.2 billion it would be the
single most expensive infrastructure project ever in the Portland/Vancouver metropolitan region, it did not derive from a cost-benefit study, which has not been undertaken to this day. Arguments about the number of lanes and iconic symbols miss the essence of the problem.

It’s planning did not integrate with planned urban development of the more than 2,300 undeveloped acres just to its west, 1,900 of which are already in public ownership. It avoided integrating the twin problems of rail and river congestion that plague the crossroads of north-south and east-west transportation on the largest river and at the busiest rail corridor in the West. Nor did it even consider alternatives to connect the 5-mile long, 1,500-acre Hayden Island to the two states by means other than a freeway bridge. And it adds not one single connection to the urban network of streets and bridges that stitches the region together. That is because it never analyzed traffic congestion in the context of an urban network. The current discussion about design in terms of adding essentially ornamental wind turbines to sell the bridge as “sustainable” misunderstands the fundamental need for a sustainable network, to which the replacement bridge does not add.

To understand this graphically and simply, point the fingers of both of your hands at each other and connect only your two long middle fingers. Each finger represents an arterial road on each side of the river but the only place they can connect is through the single crossing. Every car and bus and truck on all eight arterials must converge at that central point to continue its journey. Of course it is congested and will continue to be so after a single freeway bridge replaces three lanes in each direction with three through lanes. The source of the congestion is the mandatory convergence, not the bridge’s lane capacity. How vital would Portland’s commerce be if the only connection between its east and west sides was the Marquam Bridge rather than the seven bridges that traverse its downtown? Yet downtown Vancouver, an area the same size as downtown Portland’s 380 city blocks, has only a single bridge connecting it to Portland despite the fact that it carries more north-south traffic than does Portland, east-west.

Mayor Adams was a member of the Columbia River Crossing Task Force that, strangely, was formulated by the two state transportation departments in such a manner that elected officials are purely advisory to technocrats, rather than vice-versa, as one would expect in a democratic government. Moreover, he is primus inter pares, first among equals, on the Project Sponsors Council, as the leader of the largest city in the region and without whose blessing the project cannot proceed in its current form. So he essentially, with the Council, holds veto power over the project as presently conceived. That confers leverage to devise better alternatives, of which there are several, at far lower cost and greater benefit for the city and the region.

An intensive 11-week PSU development workshop recommended that the lift span of the I-5 Bridge be eliminated by raising the 530-foot long center high span by as little as 18 feet, which permits removal of the anachronous drawbridge lift span, while seismically reinforcing bridge piers. Removal of the lift span recovers the 38 feet between the spans and permits adding there two reversible lanes in the center, without the need for any interchange reconstruction or right-of-way acquisition. In addition we recommended an arterial road and rail bridge, with light rail and commuter rail, which would be a twin to the BNSF Rail Bridge a mile downriver, that would connect to Marine Drive and North Portland Road, divert traffic between the Ports of...
Portland and Vancouver, be 500 feet shorter, far less expensive, reinforce the urban street network and tie Hayden Island to both states. The cost for the two bridges was less than a quarter of the $4.2 billion cost for one freeway replacement bridge. [CRE Quarterly & Urban Development Journal, 2nd Quarter 2008, May 2008 http://www.pdx.edu/media/r/e/RE_2008quarterly.pdf] and [CRE Quarterly & Urban Development Journal, 3rd Quarter 2008, August 2008 http://www.pdx.edu/media/r/e/RE_3Q08.pdf]

With his new tools to link transportation and planning, sustainable and community development with economic development, think what Mayor Adams could do for the metropolitan area if he articulated a better alternative for Portland and the region, at a savings on the order of $3 billion, to build two crossings instead of one, both of which could sustainably stimulate urban and economic development in both states. And since the proposals have seven different sub-projects that are easily phased with the least disruption, think of the benefits of being able to build them more quickly, and with less disruption, than the behemoth bridge:

1. Replace the narrow 175’ rail bridge swing span with a 300’ center lift span.
2. Build a low twin road & rail arterial twin bridge for cars, trucks, light & commuter rail.
3. Reinforce I-5 Bridge pier footings and seismic performance of existing spans.
4. Raise the east span of the I-5 Bridge 18’ at its 530’-long center span.
5. Raise the west span of the I-5 Bridge 18’ at its 530’-long center span.
6. Eliminate the I-5 Bridge lift spans
7. Insert two reversible center lanes in the 38’ between the I-5 Bridge spans.

The only right-of-way needed is a narrow strip on Hayden Island owned by the Port of Portland. There is no work or cost necessary for new on-ramps and off-ramps. Phasing is less disruptive and cheaper. Traffic is dispersed, bottlenecks reduced and homeland security enhanced. Embodied energy and materials are re-used and sustained. History is preserved. Light rail and inter-city rail are connected. Light rail stimulates dense urban development in the center of Hayden Island and the west end of downtown Vancouver and on the redeveloped Boise Cascade waterfront. Future waterfront development is stimulated on the 800 acres on the west side of Hayden Island owned by the Port of Portland and the 1,100 acres owned by the Port of Vancouver. Tolls that would act economically as tariff barriers in the center of the metropolitan area are unnecessary. Tolling I-205 is also unnecessary. Political costs of imposing tolls on those who do not benefit, such as those in East Vancouver and East Portland, are avoided. Rather than just short-term construction jobs, permanent jobs are created and will be sustained because of the permanent nature of the economic development that will occur with downtown and waterfront development on both sides of the river.

Para-Transit:

In the summer of 2008, [CRE Quarterly & Urban Development Journal, 3rd Quarter 2008, August 2008 http://www.pdx.edu/media/r/e/RE_3Q08.pdf] I described how Portland franchise regulation constricts the growth of para-transit. In Portland, the taxi system is inefficient, among other reasons, because hailing a cab is almost impossible by reason of the very small number of taxis is permitted by the City of Portland, and the practice of taxi companies of clustering cabs at taxi stands only at high traffic locations. Portland caps the number of taxis at 382, or only one for every 1500 residents. By way of contrast, Seattle has nearly twice as many [651 taxis or one per 890 residents].

Rather than a static, inefficient, isolated taxi and shuttle model, think what could happen if the City, Metro and/or TriMet started and operated a real-time metropolitan urban taxi dispatch network that ties all the taxis, towncars, limousines and shuttles together into a real-time GPS,
cell phone and computer dispatch network that sends the nearest vehicle immediately to the site of the caller.

The result would be a smarter, inter-connected taxi/shuttle/towncar network that creates an alternative urban transportation system based on existing assets and investments. Para-transit ridership could increase significantly because more vehicles would be available to get quickly to where users need them, when they need them. Unlike mass transit, point-to-point travel times would be reduced because para-transit both solves the first mile and last mile travel problems [getting to and from transit stops, from origins and to destinations] as well as transit schedule delay problems. Taxi franchise regulation is wholly within City control and the Mayor should lead the reform.

Parking:

Parking is the most powerful tool in the planners’ tool chest, but planners who view automobiles as unwelcome visitors in the urban landscape often misunderstand it. If used wisely, smarter parking policies are essential to be able to create dense, vital mixed-use urban centers. There are several major components of parking policies that Mayor Adams should address:

Parking Management: Cities control more parking than any developer and the parking policies to manage that supply are critical public functions, every bit as much as the management of traffic on city streets.

Detailed inventories of both actual and functional capacity are necessary. Some of that has been recently completed by Kittelson & Associates for the City [http://www.portlandonline.com/transportation/index.cfm?c=36899&a=224235]. While a large portion of that study was a survey of opinion rather than observation of facts of occupancy on multiple days, time periods and seasons, it can form the beginnings of analysis for more innovative parking management policies.

Urban Parking Network: The combination of on-street and off-street parking should be treated as an urban parking network where dynamic real-time pricing is integrated across all downtown facilities to better adjust supply and demand. In Urban Land magazine, [Parking Street Smarts, W. P. Macht, Urban Land, June 2006 pp. 141-143] I have written about the Streetline Networks’ system of wireless mesh sensors that link both on-street and off-street parking spaces into a real-time information network that shows every space, whether it is occupied or vacant and the time of arrival and departure.

Enforcement: The Port of San Francisco has installed a pilot demonstration of the Streetline system that showed that 45% of metered parking was unpaid because of the inefficiency of random enforcement. But the potential goes far beyond efficient enforcement. Using a criminal law enforcement system is not only very aversive for downtown visitors, it also leads to inefficient use of scarce parking resources. Rather than hold the threat of an expensive ticket to shorten parking times and increase turnover, the City could eliminate the criminal system and use price as a regulator, at lower cost both to the City as well as to the parker. By linking the system with smart meters, payment can be made via cell phones. If the City structures a graduated price structure, cost will regulate parking time. For example, the City could price the first hour at $1.00, the second at $2.00, the third at $3.00 and so on. Different parts of downtown could be priced differently depending on actual real-time occupancy.
Way-finding System: Germany, Japan and many other countries have sophisticated electronic systems on the street and online that show just how many spaces are available at any parking facility. Rather than drive around spewing carbon into the atmosphere wishing randomly for a vacant space, drivers know before they arrive just where empty spaces are. Portland should be on the leading edge in adopting these urban technologies.

Multiblock Underground Parking: In an extensive article I described how multiblock underground parking greatly increases the efficiency and occupancy of expensive parking spaces for a mixture of uses. [http://www.pdx.edu/media/r/e/RE_2007REQuarterly3q.pdf] The greater the use of any parking space, the greater the density of uses it can support. A multiblock structure like the 1,300-space Brewery Blocks garage, or the 1,477-space Fox Blocks garage, supports smarter shared parking for a much wider variety and greater density of retail, office, residential and other uses, which could include a hotel, than each of those uses could collectively with separate but equal numbers of spaces divided by use. Since the City owns the streets under which such garages must run, it must be a partner in their development.

Smarter Parking Spaces: The City can increase the on-street parking supply with a variety of techniques. The simplest is reducing the length of the spaces and, particularly, the wasted space between lined parking places. Since the City has installed central smart parking meters in downtown that dispense stickers to be placed in any car, no meters would need to be replaced. Long stalls with spaces between them may ease parallel parking, but they decrease efficiency, incentivize larger vehicles and artificially reduce shared parking, which all on-street spaces represent. Another way to increase on-street shared parking is by converting wide streets to diagonal parking, which acts as a traffic calming device too as drivers slow down to watch for cars backing out. The City has been progressive in buying Smart Cars, which are only 8 feet long, the width of most parking spaces. But the City should also be smarter in incentivizing their use by providing areas where Smart Cars can park perpendicular to the curb. Smart Cars are only 5 feet wide and at least three can park in a single 20-foot parking space.
Smarter Meters: The City has been progressive in purchasing smarter meters that can accept credit cards. However, the City could much more effectively tie smart meters into a real-time network with wireless mesh sensors to monitor actual occupancy in real time. Moreover, the City should tie the system into cell phone payment systems so that parkers could simply add time to their monthly cell bills.

Plug-in Meters: In a City that prides itself on being sustainable, in a state whose Governor is promoting electric cars, the City should install plug-in meters all over downtown and, especially, in its SmartPark garages. That will not only incentivize electric car ownership, it will also increase income for the City. Since a large number of cars park for long periods of up to 8 hours during the day, such meters could cover the typical charging cycle and double the range of electric cars.

Coliseum Reuse: Over seven years ago, at a time when one developer was advocating its conversion to an athletic center, I taught a workshop on the reuse of the Coliseum. We developed four alternative reuses for the Coliseum, each one of which was viable. Supported by 2,600 under-utilized existing parking spaces owned by the City, with some additional spaces, they included [1] a 650-room convention headquarters hotel within the structure; [2] a 540,000 square-foot Sustainable Technology Center housing up to 2,000 jobs in energy and environmental technologies; [3] a retail Urban Home Center anchored by IKEA (before it was considered for Cascade Station) and an EXPO Design Center or [4] a Memorial Arts Center housing Portland ballet, opera, symphony, drama and film institutions along with an 80,000 square-foot commercial broadcast center, 10-screen Cineplex, a 10,000 square-foot Powell’s arts and music bookstore and a 15,000 square-foot terrace restaurant overlooking the Willamette River and downtown Portland. Seven years later, the City has not pursued a single one of these five alternatives, or any other alternative. Mayor Adams should convene a task force to reexamine these options and/or pursue others.

Headquarters Hotel: Metro is now the locus of decision-making for a potential headquarters hotel for the Oregon Convention Center (OCC), although Mayor Adams has expressed considerable interest in having the City take a more leading role in the project. Advocates say a headquarters hotel is needed to help ensure viability of the OCC. Public ownership and subsidies have been issues that have generated a backlash among existing hoteliers. Public activists are concerned about priorities for public spending. Some economists question the validity of projections about the feasibility of capturing forecasted shares of a market that grows more competitive with the construction of additional convention centers and headquarters hotels, in many cases subsidized by other cities. [http://www.brookings.edu/metro/pubs/20050117_conventioncenters.pdf] Others note that a headquarters hotel cannot likely survive on convention business alone and question whether a headquarters hotel in that location can capture the business and leisure traveler markets needed to reach viability.

Convention centers are one of the most competitive types of development projects in the country with cities subsidizing both their capital costs and operating expenses in hopes of luring large groups to their cities. Large conventions themselves are more threatened than ever as large institutions have splintered, the convenience of travel has been restricted by security...
procedures and the low economic cost of more ubiquitous communication and video conferencing has supplanted considerable need for larger and more expensive conventions.

This is especially true as the extraordinarily weak economy has made travel and lodging unaffordable to many and among the first of the expendable items to be cut from a company’s or government’s budget. Headquarters hotels, usually avoided by business travelers unaffiliated with the conventions because of their size and more limited services during conventions, will be especially vulnerable in a location like that of the Portland OCC that needs such business travelers for survival. At a minimum cost of $205 million in public tax-exempt bonds floated in an uncertain municipal market, the project represents a high-risk venture in a declining marketplace for which the City should exercise extreme caution. If it concludes that a headquarters hotel is a high priority, it should consider building one inside the Coliseum where the subsidy could be the lowest because the City already owns the land, the building, the parking and a 40,000-square-foot public exhibition hall.

**Accelerated Mixed-Use Zoning:** Single-use zoning is less than 85 years old in Portland. By definition, zoning land for a single use reduces its ability to accommodate different uses and any mixture of them. Urban growth boundaries in the Portland/Vancouver area restrict the supply of urban land in order to reduce urban sprawl. Some argue that the boundaries should simply be expanded to accommodate growth. But with two-thirds of spending controlled by aging Baby Boomers and their children, the Echo Boomers, and with each at a period in their lives when they are making major housing decisions and expressing a preference for close-in urban mixed-use environments, does it make sense to expand at the periphery?

The city zoning code is also replete with provisions beyond single-use zoning that restrict density and encourage sprawl. Among them are maximum lot coverage requirements, minimum setback requirements, restrictions on accessory dwelling units and home occupations, requirements that restrict residential use in commercial and industrial areas and others that restrict the sharing of residential parking. In many ways, zoning codes are perpetuating outmoded planning principles and restricting the very density and “messy vitality” that planning professionals since Jane Jacobs have espoused. Mayor Adams should direct an overhaul of the Portland zoning code.

**Urban Density Bonuses:** In addition to mixing uses, accommodating substantial numbers of new residents will require increasing urban densities. Multiple tests of visual preference analyses show that it is not density *per se* to which many people object, but rather in-artful density. With its Living Smart (Skinny House) and Courtyard Housing Competitions, the City of Portland has dipped a toe into design waters but scarcely into development. And the relatively low-density nature of these solutions belies the significant increases in density they can accommodate that can still be urbane. What kinds of urban density bonuses can be crafted to reward developers to try new approaches to projects? Can Mayor Adams and the Council articulate them in simple terms to the public that lead to their development? Rather than restrict the use of Accessory Dwelling Units [ADUs] can the City award density bonuses for their development?

**Carbon Feebates:** Portland City Commissioner Dan Saltzman and his Office of Sustainable Development have proposed a system of “feebates”, a combination of rebate carrots financed by carbon pollution fee sticks, for development that exceeds, matches or fails high performance green building standards. In addition to reducing energy consumption and creating
more healthful buildings in Portland, they hope to stimulate the creativity and commitment of the local development community in a way that will foster local economic development along with the ability of Portland developers to export their expertise and skills as Gerding-Edlen and Williams & Dame have done. Will Mayor Adams and the new City Council support the feebate system in a way that can incentivize developers for using it? The development community has resisted the idea of penalties for meeting all the standards of the energy and building codes. Can the codes be revised to increase the standards with incentives for exceeding them?

**University Development:** Portland State University is not only the largest university in Oregon, it is also the largest landowner in downtown Portland with over four million square feet of space on over 45 city blocks and over 4,000 parking spaces. Its projected growth and development from 27,000 to 35,000 students in less than a decade will require enlightened development policies and creative public-private partnerships on an unprecedented scale. The University of Oregon has expanded its beachhead in downtown Portland with its lease of the White Stag Building, rehabbed for its occupancy. OHSU’s plans for a new medical campus on South Waterfront have been set back by the removal of the liability cap on malpractice claims against the partially state-supported institution.

All of these university developments require public discussion, leadership and action on the part of state, local and academic leaders on the full range of potentials and pitfalls of these growth plans. The academic background of the new Portland State University President, Wim Wiewel, is in his expertise on universities as developers. Portland State should grow to the east as well as to the north and south. Can Mayor Adams accelerate that development?

The principal tenant in the new Student Recreation Center under construction at the Urban Center is the City archives. While it pays market rent which is badly needed by the University, it strikes many as ironic that old records need to be stored at the very heart of the University, at the convergence of Light Rail and the Streetcar. The new building is right next to the College of Urban Affairs and the Toulan School of Urban Studies & Planning, both of which are bursting their seams and also need to have multi-disciplinary joint instruction with other entities like the Schools of Architecture, Engineering and Business. Joint high-technology classrooms are desperately needed to teach multi-disciplinary urban development studies. Can Mayor Adams figure a way to relocate the archives and jointly use the reclaimed space with his new Bureau of Planning & Sustainable Development, just two blocks away?

**Multifamily Modular Workforce Housing:** The term “affordable” has now come to mean subsidized housing. But there is a large need for housing that is not subsidized and is typically for younger workers who may earn from approximately 80% to 120% of median family income.
Now termed “workforce” housing there is a paucity of development incentives to developers to build to that market segment. While local governments can award density bonuses, how can the local government adjust its housing policies to address these needs?

In the four decades since the architect Moshe Safdie demonstrated the potential of urban multifamily modular housing with Habitat at Expo 1967, American ingenuity has languished while European progress has continued. As I explained in an earlier article, [CRE Quarterly & Urban Development Journal, 1st Quarter 2008, February 2008 http://www.pdx.edu/media/r/e/RE_Quarterly_08_1Q.pdf] Seattle developer Unico is taking the first steps in that direction with its research, development and demonstration of its Inhabit modular system that I call iMods. It clearly offers a system that is faster, cheaper and better in terms of structural integrity. Moreover, it has been designed to be scaleable and flexible so that it can be built on small, scattered urban sites while still reaping the benefits of economies of scale essential to reduce the price of producing workforce housing. Can Mayor Adams reduce the impediments from zoning and building codes, work rules and financing obstacles to lead to wide-scale development of affordable multifamily modular housing in Portland? Can he go one step further and make it possible to build units from shipping containers as the University of Amsterdam has done for the 1,000-unit Keetwonen project, at left?

Post Office Blocks: The plan our BOMA development workshop developed last summer would add over $1 billion dollars to the Portland tax base, provide four income streams to the PDC, foster economic opportunity and over 5,000 jobs, exclusive of construction jobs. Called ParkPlace, the plan would transform the 13.4-acre obsolete postal facility into a green, mixed-use urban center as the extension and terminus of the North Park Blocks. It was conceived as an economic development catalyst with space for over 5,000 jobs and a Sustainable Technology/Green Building products mart and incubator; a 2.5-acre rooftop Urban Greenhouse Farm; a diverse urban neighborhood with over 1,800 apartments, condominiums and hotel units housing the creative class workforce, young families, empty nesters, retirees and visitors, and a complete 270,000 SF urban retail center anchoring the NW Lovejoy retail corridor, larger than the Brewery Blocks. An efficient multi-block underground shared, smart parking structure supported the highest urban density at ParkPlace, Union Station & Old Town and incorporated a sustainable district-wide energy system. The PDC is negotiating a purchase
of the property. Can Mayor Adams lead a plan like this one that develops the multi-block parking structure that supports it and lease the air rights above it to produce maximum development density as well as long-term income for the City?

**PGE Park & Lents Stadium:** Private business interests that own the Portland Beavers baseball and Timbers soccer teams have advocated that the City issue $85 million in City-backed bonds to upgrade PGE Park for a new soccer franchise and build a Triple AAA baseball stadium in Lents. Mayor Adams has expressed interest in this plan and has formed a task force to study it. In an era when Oregon's unemployment exceeds 9%, when City and State budgets face daunting shortfalls, when education, housing, transportation and health care demand larger resources, why should City credit be pledged to support private sports entertainment? In an era of extremely finite and scarce resources, what could elevate sports complexes above educating, employing, housing and feeding its citizens?

Mayor Adams’ decision to take control of planning, economic development, community development, sustainable development, transportation, management, finance and law could prove to be a golden age for progressive urban development in Portland. With ambition to do great things, along with the aggregation of power to implement them, can come extraordinary results. It will require innovation in conceptions, prioritization of projects and judicious application of scarce resources.

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.

In addition, we greatly appreciate the assistance of each of the following in the preparation of this journal:
- CB Richard Ellis
- Cushman Wakefield
- Gerding-Edlen Development
- Grubb & Ellis
- Metro
- Norris Beggs & Simpson
- Lane Powell
- Davis Wright Tremaine
- City of Portland
- TMT Development
- Willamette Valley MLS
Green Leasing:
Implementing Sustainability Concepts in Commercial Leases

Dominic G. Colletta, Shareholder, Lane Powell PC

Everyone wants to own or occupy a green building. Unfortunately, traditional full service and net leases are seriously deficient in fostering sustainability practices. Current commercial leasing practices and documents can have numerous undesirable consequences when used in a green project. Traditional full service and net leases result in inappropriate allocation of the costs and benefits of going green, are deficient in describing the ongoing responsibilities of landlord and tenant in maintaining green certifications and fail to create a relationship between landlord and tenant that will foster compliance with sustainability goals. Green leasing demands new approaches to meet the needs of both landlord and tenant.

The Green Building

Buildings are major consumers of resources. In the United States, commercial and residential buildings use almost 40% of our total energy, 70% of our electricity, 40% of our raw materials and 12% of fresh water supplies. A green building is one that is constructed (or retrofitted) to minimize this impact.

Making a building green requires consideration of:

“…a gamut of topics from site designs through water and energy efficiency, material and resource conservation, indoor environmental quality and construction techniques. The goal is to properly balance sustainable features and their costs to give building owners the best overall performance.”

Different organizations have developed their own concepts of what constitutes green building. The U.S. Green Building Council is the nonprofit organization that developed and administers the LEED® (Leadership in Energy and Environmental Design) Green Building Rating System. The Council focuses on “design and construction practices that significantly reduce or eliminate the negative impact of buildings on the environment and occupants.” These practices include “sustainable site planning, safeguarding water and water efficiency, energy efficiency and renewable energy, conservation of materials and resources and indoor environmental quality.”

The United States Environmental Protection Agency (EPA) administers the Energy Star® program that focuses on energy use. According to the EPA:

“Energy Consumption represents 30 percent of a typical commercial office building’s operating costs, making it the single largest controllable cost of operations….a 30 percent reduction in energy use (commonly achievable in the average commercial office building) can yield the equivalent of a five percent increase in net operating income and overall asset value.”

Other building certification programs include Green Globes®, administered by the Green Building Initiative, and the Federal Sustainable Buildings Principles. The General Services Administration’s (GSA) green leasing practices address re-use of building materials, maintenance of indoor air quality during and after construction, use of recyclable and recycled content products and use of environmentally friendly building products and materials.

**The Greening of the Lease Marketplace**

The old conventional wisdom was that building a project in accordance with sustainability concepts was too expensive and that tenants would not pay the higher rents necessary to make such a project profitable.

A new wisdom has emerged. In 2003 a group of 40 California state government agencies, banded together as the “Sustainable Building Task Force,” commissioned a study of cost data from 25 office and eight school projects that were LEED® certified. The study was a net present value analysis of the stream of current and future benefits and costs, quantified in then-present-day dollars. The study assumed a discount rate of five percent, an inflation rate of two percent annually and a term of 20 years.

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5 GSA Acquisition Letter to Implement Executive Orders 13101 and 13123 issued July 2000
The findings were a revelation. The average initial cost premium associated with obtaining LEED® certification was about two percent, averaging about $4 to $5 per square foot. However, the 20-year net present value of financial benefits accruing from the practices leading to certification was in the range of $49 to $65 per square foot. The study reported benefits including reduced energy, water and waste costs, reduced emissions, lower operating and maintenance costs, lower insurance and risk costs, increased productivity and improvements in the health of the work force.

Another, even more comprehensive, study was reported a year later. This study compared the construction costs of 45 projects for which LEED® certification was sought with 93 projects that did not seek certification, evaluating the costs of pursuing each LEED® point and entire green projects. The report concluded that there was no statistically significant difference between LEED® and non-LEED® project costs.

The U.S. government has thrown its considerable weight behind the green building movement. Based on a study it commissioned, the GSA has adopted a program that requires all new construction and major modernization projects to be certified through the LEED® program with an emphasis on achieving a Silver rating. In order to achieve such a rating, GSA budgets for projects include allotments varying from 2.5 percent to 4 percent to cover the anticipated additional cost.

The leasing marketplace has reacted positively to green building practices. A recent study by CoStar Group analyzed more than 1,300 LEED® and Energy Star® buildings representing about 351 million square feet and assessed those buildings against similar non-green properties. The study reveals that buildings receiving LEED® or Energy Star® certification command higher rents and have higher occupancy rates than their non-certified peers. The same study found that the Energy Star® certified buildings in the study sold for an average of $61 per square foot more than their peers, and that the LEED® buildings examined sold for a premium of $171 per square foot over their non-certified competition.


Most landlords, brokers and office managers would now agree that for a project to be competitive in the leasing market place, it must be green.

**An International Movement**

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7 Costing Green: A Comprehensive Cost Database and Budgeting Methodology, Lisa Fay Matthiessen and Peter Morris, Davis Langdon Adamson, (July 2004)
9 As reported online by Andrew C. Burr in USGBC “In the News” April 26, 2008
Australia has been leading the charge for adoption of green leasing practices. In 2006, the cities of Sydney and Melbourne, the Department of Environment and Conservation of New South Wales, the Institute of Sustainable Futures and the University of Technology Sydney sanctioned the “Green Lease Guide for Commercial Office Tenants” published by Investa Property Group (the “Green Lease Guide”). In that same year, templates for use in lease transactions by government entities were developed by the Australian Government Solicitor for the Commonwealth of Australia.

Other countries are following Australia’s lead. Canada, Sweden and other countries are in the process of developing green leasing models. In Great Britain, the British Property Federation (“BPF”), Usable Buildings Trust and the Carbon Trust have jointly developed the Landlord’s Energy Statement and the Tenant’s Energy Review as government recognized tools for understanding energy use.

As noted above, property owners and tenants in the United States, as well as various government entities, are jumping on the green leasing bandwagon. One of the many challenges facing those who want to do well by doing environmental good is how to adapt the landlord/tenant relationship to conform to the growing spirit of environmental stewardship.

The Benefits of Green Leasing

The Green Lease Guide (see Footnote 10) describes the following principal benefits of a green lease:

1. Enhancement of reputation;
2. Attraction and retention of talented employees;
3. Enhancement of employee wellbeing and productivity;
4. Enhancement and protection of organizational knowledge;
5. Reduction of liability; and
6. Increased profitability.

Commercial Investment Real Estate, the magazine of the CCIM (Certificate of Commercial and Industrial Mastery) Institute adds increased market demand and lower operating costs to the above list.

Current Leasing Practices

In general, commercial leases fall into two broad categories, gross and net. In the purest form of the gross lease, the landlord is responsible for all costs and expenses relating to the structure and its underlying real property and the tenant pays a fixed rent. In the purest form of the net lease (sometimes called an “absolute net” lease), the tenant pays a fixed rent and all costs and expenses, even structural repairs and costs that are commonly deemed capital improvements.

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11 Linda Fletcher, [United Kingdom: The “Green” Lease-How Concerns about Sustainability are being Reflected in Contractual Arrangements](http://www.les-ter.org/page/home), United Kingdom, Environmental & Energy, the Green Lease-Bird & Bird-10-07-2008, Environmental Law.htm.
12 [www.les-ter.org/page/home](http://www.les-ter.org/page/home)
13 [Green Lease Guide, pp 4 and 5](http://www.ciremagazine.com/article_id=80)
14 Ken Pientka, [Commercial Investment Real Estate, Investing in Sustainable Design](http://www.ciremagazine.com/article_id=80)
Hybrids of these “pure” forms are conventionally used. Frequently seen are leases where the landlord is responsible for capital improvements and structural repairs, while the tenants pay pro rata shares of operation expenses of areas of common use (frequently referred to as “common area maintenance” or “CAM” charges). The variants are endless, and leases vary dramatically from one another in defining the relative responsibilities of landlord and tenant for improvements, repairs, replacements and ongoing operational expenses. However, all commercial leases have the same purposes: to recover costs, yield a profit, and make the property attractive to potential investors or buyers.

Over the years, the net lease has come into increasing favor. Landlords who remember the extreme inflationary rates of the 1970s want to pass on increases in operating expenses to their tenants. Such leases also customarily include upward rent adjustment clauses, frequently based on percentage increases from year to year in Consumer Price Index figures or providing for fixed rent increases.

As noted in studies previously cited, some of the goals and quantifiable benefits of green building practices are reduced energy and water use, with concomitant savings in utility and other charges. Often, these goals are attained by use of materials, equipment and practices that allow for certification of a building project in accordance with LEED® or Energy Star® (or both) criteria.

**Deficiencies in Current Lease Practices**

In a net lease situation, the cost of new construction, or retrofitting of existing improvements, to comply with such criteria is a capital cost customarily borne by the landlord, while the benefits of lower utility and other common area costs are passed through to tenants in the form of lower common area maintenance charges. Benefits for the landlord may not accrue unless and until the building is sold, and there is no certainty that a particular building may achieve the value premium described by the CoStar study previously cited.

In addition to the foregoing, very few existing leases discuss construction or maintenance in accordance with LEED® or any of the other accepted green certification systems. Provisions dealing with tenant improvements may be lacking in descriptions of acceptable materials that are acceptable under the criteria of a particular rating system. Landlord approval criteria for alterations or additional improvements that may be requested by a tenant will also likely not reference conformity with LEED® or other specific green criteria as a ground for granting or withholding approval.

...commonly used leases are seriously deficient in properly rewarding the landlord for implementing sustainability practices...

Taken as a whole, commonly used leases are seriously deficient in properly rewarding the landlord for implementing sustainability practices, fail to adequately inform the tenant as to standards that must be maintained, result in an inappropriate skewing of benefits from sustainable practices, and fail to create a “partnering” relationship between landlord and tenant designed to assure uniform application of green practices through the life of the building.

Alan Whitson asserts the landlord’s position in describing why the net lease does not work for green leasing:
Proponents of the net lease say this creates a more transparent lease arrangement, and creates an incentive for tenants to use less energy. While good in theory, it doesn’t always work in practice. In the average office building, energy costs approximately $1.59 per square foot a year, which is 16 percent of the total operating costs, according to the Building Owners and Managers Association’s 2005 Experience Exchange Report (BOMA EER). However, energy only represents 0.6 percent of an office tenant’s cost of doing business.

If the average tenant with a net lease could reduce their energy usage by 40 percent—the average for EPA Energy Star® buildings—the savings would be $1.00 per day per employee. Clearly this is a miniscule reward for the cost and effort needed to reduce energy usage....

For the owner of an office building with gross leases, it’s a different situation. Reducing energy costs in the average office building by 40 percent would save $0.64 per square foot. If these savings were capitalized at 7.75 percent this would increase the building’s value by $8.26 per square foot.15

The net lease format also has potential pitfalls for tenants when used in the green lease context. According to Mr. Whitson, the net lease:

…transfers operating risks from the landlord to the tenant. Doing so reduces the landlord’s incentive to apply efficient management or sustainable principles to cut operating costs, since these costs are now excluded from calculating a building’s net operating income (NOI); this is the basis for calculating a building’s economic value.16

Resources for Crafting a Green Lease

From the viewpoints of both the landlord and tenant, the common form of net lease does not work well in the context of green leasing. A modified form of gross lease is far more likely to satisfy the green leasing requirements of both landlord and tenant, and should be used whenever possible. Tenants must be informed of their obligations in operating their space within a green project, including descriptions in the lease of materials to be used in tenant improvements and implementation of air quality, recycling, energy efficiency and other practices consistent with sustainability principles and green certification criteria. In turn, tenants may want to share in operational savings as a reward for their commitment to green practices in construction of improvements, materials and products used, recycling and energy efficiency. Neither a traditional gross nor net lease does the job.

In response to these perceived deficiencies in traditional lease documents, various groups and organizations have created their own lists of green leasing issues, and a number have published sample lease provisions.

California Sustainability Alliance

The California Sustainability Alliance is a group of public and private organizations having the goal of helping to meet California’s “aggressive energy, climate and other resource and environmental goals by increasing and accelerating energy efficiency in combination with complementary green measures and strategies.”17 As part of its mission, the Alliance has

15 www.edcmag.com/copyright/cc0c0b5scale7c010VgnVCM1000000f932a8c0
16 www.sustainableindustries.com/commentary/1736004.html
17 www.sustainca.org
drafted its Leasing Toolkit that describes myriad green goals, purposes and strategies, and offers short sample lease provisions on topics including building certification, alternative transportation, water use, energy use, building operations and maintenance, recycling and toxic material source reduction.\textsuperscript{18}

Experienced commercial leasing practitioners may find the Leasing Toolkit to be a valuable checklist of matters to consider in the drafting of a green lease. However, in the opinion of this author it provides little in the way of usable lease provision language.

**Australia's Green Lease Guide**

The Green Lease Guide (See Footnote 10), although crafted primarily for tenants, contains substantive discussion and checklists that will likely prove to be of assistance to both landlords and tenants in considering almost every aspect of building operations, including indoor air quality, energy use, transportation options, water use, cleaning services and recycling of office waste. The checklists will suggest matters to be addressed in the lease, and may provide starting places for the drafting of specific provisions.

**Federal Government**

Anyone dealing with the federal government on leasing matters would be well served to review GSA directive RSL-2007-12 dealing with the implementation of environmental policies in leasing matters. The attachments to the document are of particular note and suggestive of lease provisions that should appear in government leases.\textsuperscript{19}

In addition to the foregoing, interested persons must review the “Federal Leadership in High Performance and Sustainable Buildings Memorandum of Understanding”.\textsuperscript{20} The Memorandum emphasizes five guiding principles:

1. **Integrate Design** through use of a collaborative planning and design process that establishes performance goals for siting, energy, water, materials and indoor environmental quality, considers all stages of the building’s lifecycle and employs total building commissioning practices.

2. **Optimize Energy Performance** through establishment of whole building performance targets to earn Energy Star\textsuperscript{®} targets and reduce energy cost budgets by 30 percent for new construction and 20 percent for major renovations with ongoing monitoring of actual performance.

3. **Protect and Conserve Water** by employing strategies that in aggregate use a minimum of 20 percent less potable water than the indoor water use baseline calculated for the building, by use of water efficient landscape and irrigation strategies to reduce outdoor potable water consumption by a minimum of 50 percent over that consumed by conventional means, and by reducing storm water and polluted site water runoff.

4. **Enhance Indoor Environmental Quality** by meeting ventilation and thermal comfort standards, moisture control mechanisms to prevent building damage and mold contamination, providing for significant daylighting of interior spaces, use of low pollutant emitting materials, and use of air quality controls during construction.

\textsuperscript{18} [www.sustainca.org/content/leasing_toolkit](http://www.sustainca.org/content/leasing_toolkit)

\textsuperscript{19} Available through use of the “Search” feature at [www.gsa.gov](http://www.gsa.gov)

\textsuperscript{20} [www.wbdg.org/references/mou.php](http://www.wbdg.org/references/mou.php)
5. Reduce Environmental Impact of Materials by use of recycled content, bio-based and certified sustainable wood products, programming design to recycle or salvage at least 50 percent of construction, demolition and land clearing waste, and elimination of the use of ozone depleting compounds during and after construction.

Building Owners and Managers (“BOMA”)

Perhaps the most comprehensive resource for green leasing currently available is BOMA’s “Guide to Writing a Commercial Real Estate Lease Including Green Lease Language.” The Guide contains a draft lease with specific provisions and commentary on newly included green provisions as well on the more commonplace provisions of an office lease. The Guide was prepared with input from the EPA (administrator of the Energy Star® program), from the U.S. Green Building Council (administrator of LEED®) and from the Green Building Initiative (administrator of Green Globes®).

Despite input from three organizations involved in certification programs, the Guide does not adopt any particular rating system. The purpose of the Guide is described in the introduction:

“It is designed to work off the sustainable practices that a company or building has implemented, and not to dictate what those practices are or should be. To this end, we did not seek to define the terms green, sustainable or high performance, but to create a lease that would facilitate the ongoing management and operations for the features, policies, amenities or management practices of a particular building – and thereby to also facilitate the continual improvement of that building.”

Essential Elements of a Green Lease

The resources described above will assist persons in adapting lease documents for green leasing purposes. A synthesis of some of the basic considerations that must be covered in a green lease is as follows:

1. Consider use of a gross or modified gross lease that rewards the landlord for capital improvements necessary to obtain green certification, lists building standard materials and practices that further sustainability goals and provides incentives to the tenant for its employment of green practices.

2. If the building has been or is intended to be certified, state the certification granted or sought (e.g. LEED®, Energy Star®, etc.).

3. Incorporate building rules and regulations that encompass ongoing certification requirements. Consider inclusion of a smoking ban.

4. Incorporate specific tenant improvement requirements that conform to certification requirements or the building standard, including descriptions of allowable and prohibited materials, and require certification of tenant work as conforming to standards.

5. Define annual operating expenses to include a sharing of costs related to green practices.

21 Copyright 2008 Steven A. Teitelbaum, Jones Day. Published by Building Owners and Managers Association International, Suite 800, 1101 15th Street, NW, Washington, DC 2005
22 Id., at page vii
6. Include provisions describing or promoting transportation options.

7. Conform use provisions to certification requirements.

8. Describe special conservation systems (e.g., gray water, lighting) and the relative duties of landlord and tenant as to their operation and maintenance.

9. Include requirements for use of green products and materials (e.g., cleaning products).

10. Provide for sub-metering when possible.

11. Include landlord inspection rights to monitor compliance with green standards and practices.

As each building and lease negotiation is different, no list of considerations can cover every situation. The foregoing is intended as a very basic checklist that should be used in conjunction with a careful consideration of specific building systems and processes, and the needs of each particular landlord and tenant. Reference to the resources described earlier in this article will likely yield other insights that should be reflected in a particular green lease.

**Conclusion**

Awareness of the need to conserve and manage natural resources is now firmly imbedded in the collective psyche of the business community. Green leasing is just a part of the greater picture of responsible business practices being embraced by businesses large and small around the world. As our understanding of the interaction of people, buildings, technology and the environment continues to grow, the commercial sector will embrace new concepts and approaches we cannot predict. Green leasing practices and documents need to reflect our current understanding, but must also be flexible and adaptable to take advantage of new and better ways of dealing with buildings and their environmental impacts that are certain to develop.
Workforce Housing:
New Tools for Solving the Affordable Housing Dilemma

Eugene L. Grant, Partner, Davis Wright Tremaine LLP

The Dilemma

One of the major dilemmas of US cities is providing affordable workforce housing in close proximity to available jobs. Housing cost typically bears an inverse relationship to job proximity. This relationship of housing price to employment makes simple economic sense in that greater housing demand near employment centers drives housing prices higher than in areas lacking employment. As a result, lower income families, who can least afford long commutes, are the ones most often making long commutes from affordable housing to their jobs.

Originally, zoning and land use laws were based upon the concept that the segregation of jobs and housing was desirable to avoid conditions created by jobs such as traffic noise, odors and vibrations that would disturb nearby residents. The rise of the auto industry and cheap oil and gas gave urban planners an ability to segregate homes and jobs to reduce, if not completely avoid, these use conflicts. Families obtained peace and quiet in suburban housing far removed from their central city jobs.
It now seems fairly obvious to planners, if not to average homeowners, that to avoid long commutes, jobs should be dispersed in larger metropolitan areas to create a good balance between jobs and housing. Today mixed-use, high density housing is favored by officials who have grown to understand that long distance commuting is cost prohibitive when all costs are factored in, such as the capital cost for vehicles, the cost of lost family time, the cost to mental and physical health, road construction and maintenance costs and, last but not least, the cost of global warming.

The tendency of residents to seek cheaper, low density housing away from jobs will continually subvert any efforts to solve the workforce housing problem by balancing jobs and housing throughout a metropolitan area. If one moves jobs out into the suburbs, then lower-income homebuyers will keep moving farther out for cheaper housing in a kind of endless cycle of jobs chasing the workforce and driving up prices, which then causes the next round of outward suburban and ex-urban sprawl. If a growth boundary is imposed around a metropolitan area to stop the sprawl, then the small villages and towns near the metropolitan area will likely become fast-growing satellite cities of relatively inexpensive housing producing even longer distance commuting. What has become apparent to urban planners is that avoiding sprawl requires a way to avoid having nearby jobs drive up the price of the housing stock to unaffordable levels and a means of helping homeowners consider the true costs of commuting when making housing decisions. Merely integrating housing and jobs will not stop suburban sprawl. The trick to reversing sprawl is integrating permanently affordable housing with the jobs.

**User Fees and Affordable Housing**

So, how can planners best help people consider all the costs of the proximity of their housing and jobs? While educational programs help, charging user fees that recover the true public costs of commuting will have the most impact. Government should stop subsidizing commuting by adopting user fees that directly impose on commuters the costs of the infrastructure systems serving the commuters and the costs of counteracting their vehicular greenhouse gases. Fortunately, the technological means of imposing commuter user fees based upon their vehicular mileage driven already exists and has been tested in an Oregon pilot project. The beauty of such user fees is the inherent fairness of making commuters pay their true commuting costs rather than taxing everyone to subsidize their commuting. So, what does this have to do with affordable housing? A sizable vehicular mileage fee makes housing near jobs relatively more affordable by offsetting the lower cost of remote housing by increasing commuting costs through the mileage fee. The relative affordability of mixed-use workforce housing will be increased in direct proportion to the degree to which commuting costs are charged directly to commuters instead of being paid by the public’s general tax funds.

**Inclusionary Zoning**

The affordable housing problem is connected to land use planning and community growth management. Some states, like New Jersey, have required by law that homebuilders include a fair share of low-income housing in new developments. Over 100 cities around the country have similar inclusionary zoning on their books. Oregon is the only state, however, that has adopted a ban on inclusionary zoning1.

Some Oregon cities have tried to mitigate this prohibition by tying annexation of new land to the landowner’s agreement to provide a fair share of affordable housing on the newly annexed land. The legal ban on inclusionary zoning does not extend to such voluntary annexation

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1 Oregon Revised Statutes §197.309
agreements. Such inclusion of affordable housing on newly annexed land can only add affordable housing at the edge of the urban area and inherently cannot remedy the lack of affordable workforce housing near existing jobs in already urbanized Oregon areas resulting from the lack of inclusionary zoning.

Since the stick of inclusionary zoning is unavailable in Oregon, cities need to modify their plans to create incentives for developers to include affordable housing in redevelopment of the existing urban housing stock. Since increased density is generally needed inside cities, the inclusion of affordable housing should be rewarded with density bonuses, transferable development rights, waivers of system development charges and similar tools. It is a simple financial value proposition for developers, and if incentives are worth more than the cost of the affordable housing then developers will build it.

**Funding Affordable Housing**

Just as we need to stop subsidizing long distance commuting, we need to subsidize workforce housing near existing jobs in already urbanized areas, because of the high land costs in such locations. Unfortunately, existing federal, state and local resources are inadequate to provide such subsidies. Portland affordable housing advocates have advocated subsidizing affordable housing by using Portland Development Commission urban renewal funds that traditionally have been used for economic development.

... the creation of the jobs allows residents to afford more expensive housing, rather than sacrificing jobs to pay for more affordable housing needed due to resulting unemployment...

Economic development advocates argued that the creation of the jobs allows residents to afford more expensive housing, rather than sacrificing jobs to pay for more affordable housing needed due to resulting unemployment. As the economy has entered a severe recession, economic development has understandably become the top priority in Portland and other cities around Oregon, and affordable housing subsidies will have to come from other funding sources.

For years, affordable housing advocates have tried to get the legislature to provide greater support for affordable housing, including repeal of the inclusionary zoning ban and a permanent funding source, such as a transfer tax or real estate document recording fee dedicated to affordable housing. But the lobbyists of the Oregon Association of Realtors and the Oregon Homebuilders Association, among other real estate trade groups, have always been able to defeat such efforts. With the sweeping change to Democratic of control of the Oregon legislature in November, these real estate industry opponents may need to be more cooperative with affordable housing advocates. Similar to the cities, Governor Kulongoski sees economic development as a higher priority than affordable housing due to the recession and has excluded any new affordable housing funding in his 2009 budget.

**Dealing with Gentrification**

Even if a city develops a stock of affordable housing, successful economic development leads to the loss of the existing affordable housing by gentrification of many residential neighborhoods. The recent boom in condominium conversions is a prime example of this process by which more affordable rental housing becomes less affordable owned housing. Long before the latest condominium conversion boom, the city of Ashland attacked this problem by requiring
condominium projects to contain a percentage of affordable units. This problem is more severe in a city like Ashland where its economic development success has been based largely upon tourism creating many relatively lower-paying jobs in the center of the city, where the property values are the highest. Ashland apparently believes its ordinance avoids the inclusionary zoning ban in ORS 197.309 because the restriction is not a part of Ashland’s land use regulations.

The Ashland condominium ordinance defines affordability based upon a percentage of the median income for the city and allows the units to be either sold or rented. The ordinance only requires that the units remain affordable for a period of 20 years, so typically the units are rented in order to preserve the prospect of a sale at full fair market value once the price restriction is no longer in effect. The ordinance also uses the incentive of a waiver of the system development charges to obtain longer-term affordability restrictions on the condominium units. The affordability restrictions are recorded in Jackson County real estate records and are enforceable by the city.

One of the strengths of the Ashland approach is that it integrates low-income housing and market-rate housing in the very same project. Experience has taught city planners that segregated affordable housing projects are more likely to become crime-ridden and blighted, whereas integrated affordable housing tends to succeed. The problem of income-segregated housing is not limited to city-subsidized low-income rental projects. Mid-Multnomah County is an example of how neighborhoods can become seriously blighted over the years when there is too little housing ownership. Trying to overcome this economic segregation and the resulting blight will take many years and much more effort at urban renewal than the effort that would have been required at the outset to properly plan this area to balance housing types and create economically integrated and sustainable neighborhoods over the long term.

**Urban Land Cost**

A problem of the Ashland approach is that its affordable housing program is solely limited to condominium projects. A large proportion of families with children want to live in single-family detached (SFD) housing. It is axiomatic that the cost of land will increase if the population is growing faster than the available land supply. As our cities grow, land scarcity will continue to drive up land values for residential development particularly in the more highly populated western half of the state. That means it is unlikely to ever be less expensive to acquire urban Oregon land to provide affordable SFD housing for families with children.

Because the rising value of Oregon urban land is one of the chief impediments to the development of more affordable urban housing, it is incumbent upon local governments to acquire and retain ownership of as much urban land as is possible especially near employers. PSU Professor Will Macht made a similar point in Section 7 (From Zoning to Mixing, page 12)\(^2\) of his article in the last edition of this publication, noting that the current recession will provide an opportunity for Oregon local governments to dedicate to affordable housing land that is foreclosed and escheats to the city for failure to pay property taxes, rather than selling it

\(^2\) [http://www.pdx.edu/realestate/research.html](http://www.pdx.edu/realestate/research.html) Professor Macht wrote: “The enormous increase in housing foreclosures will help to decimate neighborhoods. Those single-use suburbs that are too distant and without a mixture of services will suffer sharp declines in values. This is an obvious problem for former homeowners and struggling lenders. But communities can use the housing crisis as an opportunity to transform the underlying problem. Foreclosures will result in tax delinquencies that put cities in ownership of large numbers of properties. Cities should aggregate those properties into a land and housing bank that can be planned for more intensive mixed uses. Cities can retain ownership of the land and sell the houses much in the manner of the Community Land Trusts. Cities can reduce sales prices to increase affordability but be repaid by inclusion of shared equity provisions upon later resale of the houses when the market recovers.”
as surplus land. Portland metropolitan local governments have been doing this for years by donating such foreclosed land to the local community land trusts (the CLTs) and other non-profit housing agencies for a permanently affordable housing stock.

In many cases such surplus land is used by the housing agency to develop attached rental housing projects, and in such cases it is important to avoid large projects exclusively consisting of low-income residents that may, over time, become blighted and adversely affect entire neighborhoods. Income-integrated rental projects not only avoid most blight, but the higher income units will provide additional revenue to the housing agency that may be used as a subsidy that can leverage scarce affordable housing funds. The housing agency retains full ownership of such rental projects, which are typically subject to permanent restrictive covenants that assure the local government that the land will always be dedicated to the provision of affordable housing.

**Community Land Trusts [CLTs]**

The more interesting and complex use of such surplus land is for the permanent provision of affordable housing through the Community Land Trust (CLT) model that is focused on helping low-income families obtain affordable homeownership and overcome their low incomes, in part, by gaining the equity benefit of amortization of their home loans as well as appreciation in the value of their homes (collectively their equity). While it is true that the equity in affordable rental projects can be used to leverage the development of more affordable rental housing, the CLT advocates argue persuasively that there is a higher social value in helping low-income families participate in the American dream of homeownership by using their home equity to obtain more desirable housing, pay for a college education for their children and help pay for a more comfortable retirement.

...The subsidy equals the fair market value of the land, plus the fair market value of the improvements, less the actual price paid by the purchaser...

The CLT model has traditionally been based upon the construction of SFD homes on the land acquired by tax foreclosure and donated to the CLT by the local government. The CLT typically partners with the lowest-cost local homebuilder available, which is often Habitat for Humanity, because it uses volunteer labor, donated materials and contributions from the public to subsidize the cost of construction. One of the keys to the success of Habitat for Humanity projects is the requirement that the ultimate purchasers of the home contribute a required number of hours of their own labor to the construction of the home and that they pay a down payment and monthly mortgage payments for the affordable price of their home. The subsidy equals the fair market value of the land, plus the fair market value of the improvements, less the actual price paid by the purchaser. Any net income achieved by Habitat for Humanity on a particular home sale is reinvested in more affordable housing.

**Community Land Trust [CLT] Ground Leases**

The price of a CLT home does not include the value of the land. Traditionally, the CLT retains ownership of the land and ground leases it to the home purchaser for 99 years. By this means, the land is retained for the permanent provision of affordable housing. Implicit in this CLT
method is that the ground rent is nominal, as opposed to typical ground rent being set at a fair market rate of return on the value of the land.

Implicit in the nominal ground rent and 99-year term is the fact that the CLT ground lease is in many respects more like a trust deed or mortgage than a true lease. Leases have remedies for a rent default that are far more summary in nature than for a trust deed foreclosure on the purchase of a market-rate house. At the risk of slightly oversimplifying, a tenant can be evicted in about 30 days for nonpayment of rent without any right of reinstatement by paying the past due rent, whereas a normal homeowner can be evicted only after a foreclosure that takes six months and gives the owners the opportunity to reinstate their home loan at any time prior to the foreclosure by paying the past due loan payments. For this reason, the courts have evolved a doctrine that leases that are more like mortgages or trust deeds must be foreclosed judicially before the tenant can be evicted. Another way of putting it is that there would be a fair amount of irony if a charitable organization like a CLT could summarily evict one of its low-income home purchasers who the CLT is trying to help achieve the American dream of homeownership.

If you think about it, the nominal ground rent and 99-year term means that the CLT is really only trying to protect the permanent nature of the subsidy in the affordable house. The real default any CLT (and the local government which donated the land) is worried about avoiding is an attempt by the homeowner to sell the house and retain more than its share of the affordable price upon resale. The heart of the CLT ground lease is the long section defining the amount the low-income seller is entitled to retain from any sale and the requirement that the sale price be permanently affordable. The amount the seller may retain (again at the risk of some minor oversimplification) is equal to the equity (paid amortization of the mortgage and a defined percentage of the appreciation in the value of the improvements). This means that the nature of the ground lease is more similar to a restrictive covenant regarding the amount and sharing of the resale price than a true ground lease. The reason CLTs have traditionally used ground leases is that the law is unclear in many states as to whether such restrictions on affordable housing will be permanently enforced by the courts.

**Affordable Housing Covenants [AHCs]**

Because of concerns about the possibility that the CLT ground lease might be re-characterized by Oregon courts as a disguised mortgage, and the possibility that result might avoid the permanent enforcement of the restrictions protecting the affordable housing, affordable housing advocates persuaded the 2007 legislature to pass a new statute validating affordable housing covenants (an AHC). This law has been codified at Oregon Revised Statutes 456.270 to .295. The author of this article participated in the drafting of one of the first AHCs under this new law.

...The exact amount of the subsidy will be stated in the conveyance deed for each home, since the subsidy may vary from one house to another, even within the same project...

Because the AHC is long and complex, a master AHC is recorded once, much like a condominium declaration, to be applicable to a multi-unit project and then referenced in each conveyance deed as an encumbrance affecting the title to the residence. The individual homeowners are automatically subject to the covenant without signing it, because it runs with ownership of their home as a recorded encumbrance.
The parties to the AHC are the developer of the housing, the grantor of the subsidy, such as the Portland Development Commission, and the holder of the covenant, such as the Portland Community Land Trust (PCLT). The AHC will recite specifically the nature of the subsidy being provided that will be protected by the affordability covenants. The exact amount of the subsidy will be stated in the conveyance deed for each home, since the subsidy may vary from one house to another, even within the same project. The grantor of the subsidy may retain enforcement rights under the AHC, even though not the primary holder of the covenant, in order to be assured that the subsidy will not be lost through any failure of the AHC holder. In fact, the grantor may want to provide that it will become the holder in the event the original AHC holder is ever dissolved or wants to assign the AHC

Because the AHC is complex and the homebuyers are relatively unsophisticated, the grantor of the subsidy and the AHC holder should require that a knowledgeable attorney advise the homebuyer. The PCLT form of AHC requires the buyer to submit a letter confirming that the buyer is being advised by qualified legal counsel as to the meaning of the AHC. Typically the AHC will be perpetual and will require the owner occupy the house as its primary residence.

**AHC Maintenance, Taxes and Insurance**

In a sense, the holder of the covenant must act in some respects like a landlord to protect the interest of the holder of the AHC in the property. Like a lease, the AHC used by PCLT has provisions regarding payment of taxes and insurance premiums to protect the subsidy from being lost either through destruction of the property or property tax foreclosure, which would wipe out the AHC. Similarly, construction activities are restricted to avoid construction liens that in Oregon have a superior priority over the AHC, among other interests. The foreclosure of a construction lien would terminate the AHC and could result in a total loss of the subsidy. The AHC holder may want to require reserves to avoid the lack of budgeting skills in the homeowner exposing the holder to loss of the AHC. Similarly, if the housing is converted to cash due to an insured loss, or due to condemnation, then the proceeds must be divided between the owner and the holder of the AHC as their interests appear in the AHC.

...the subsidy can be lost just as much through depreciation of the property as well as by a resale of the property for its full fair market value...

An important aspect of the AHC is the proper maintenance and operation of the affordable housing to avoid blighted conditions that would degrade the value of the housing. The AHC used by PCLT requires maintenance of the house in compliance with both HUD and City of Portland housing maintenance requirements. The concept is that the subsidy can be lost just as much through depreciation of the property as well as by a resale of the property for its full fair market value, rather than for the lower price that factors out the subsidy of the property.

Essentially the CLT acts like a homeowners’ association would in a higher-income neighborhood. Like a typical homeowners’ association, a certain number of CLT homeowners are elected to the CLT board to have a voice in the enforcement of the restrictions affecting them. The majority control of the CLT will, however, be in the hands of board members elected from the non-homeowners, typically being affordable housing advocates from local governments and private sector real estate related occupations. Because of the ongoing active
role of the AHC holder, the PCLT charges the homeowner a small monthly administrative fee that helps defray the costs of inspecting the property and enforcing the AHC requirements.

**AHC Priorities and Remedies**

Another danger to the perpetual nature of an AHC is the loss of the property subsidy through foreclosure of the home loan used to finance the purchase of the improvements. The unfortunate reality for holders of AHCs is that the home loan sources will not provide loans unless they have priority over the AHC. That means the AHC must have provisions similar to those in a home equity loan allowing the AHC holder to receive a notice of default on the home loan and the ability to protect its interest by paying off the home loan and foreclosing on the homeowner acting in the shoes of the home loan holder.

The problem that PCLT and other AHC holders have had is that lenders do not recognize and treat the AHC the same as they would the holder of a junior mortgage or trust deed on the property. In order to assure notice and an opportunity to protect the subsidy, the PCLT and most other holders record a junior trust deed against the property as a belt and suspenders approach to protecting against home loan foreclosures. The subsidy is essentially the indebtedness that is secured by such a junior lien on the property.

...the owners are limited to obtaining the amount of the principal balance of their home loan that they have paid plus 25% of the appreciation in the improvements during their ownership...

The heart of the AHC is the section on sale or other disposition of the property by the homeowner. This is the section that requires that the sale or other disposition be approved by the holder of the AHC to assure an affordable price to the purchaser of the home, and assure that the seller is not obtaining more from the sale or other disposition than the agreed upon share of the sale proceeds. In the PCLT AHC, the owners are limited to obtaining the amount of the principal balance of their home loan that they have paid plus 25% of the appreciation in the improvements during their ownership. They obtain no part of the appreciation in the land value because their original purchase price did not include the value of the land.

If the homeowner defaults on the AHC, then the holder may specifically enforce requirements such as maintenance and repair, or recover damages equal to any funds the homeowner has obtained that represent the subsidy or the share of sale proceeds that were allocated to the holder by the terms of the AHC. The PCLT also includes the remedy of purchasing the property for the purpose of reselling it to another low-income party who will comply with the AHC requirements. Even though the AHC is recorded in the real estate records, it is not unheard of for escrow officers, brokers and other real estate professionals to fail to understand that the homeowner is restricted on the price it may charge and the amount of the proceeds it may retain from any sale. The ancillary trust deed is as much for the education of these parties involved in the sales process as for protection relative to the first priority home loan holder.

If there is any dispute between the parties, then the PCLT AHC provides for alternative dispute resolution by mediation and arbitration, rather than resorting to the courts. That is much more cost efficient and less adversarial. Experience shows that there are rarely disputes that require such resolution, and typically the failure of an AHC will result in the abandonment of the property, rather than an actual contest over the requirements of the AHC.
Space Leases as Affordable Condominium Alternative

In some circumstances, a long-term PCLT type of lease might be desirable and appropriate, together with an AHC, because the lease is a less expensive means of dividing up multi-unit developments into separate residential unit ownership. On larger multi-unit projects, the Oregon Condominium Act is typically used to create the separate dwelling units and the cost of the condominium document preparation (typically at least $20,000) is relatively small when spread over a large number of units. However, when a duplex, triplex or fourplex is developed, the small number of units makes the condominium cost a real impediment to keeping the housing units affordable. To avoid this cost, the author assisted the PCLT in modifying its traditional ground lease to convert it into a virtually permanent space lease. In the interest of affordability, both the lender and the title insurance company approved the combination of the PCLT ground lease and a multi-unit space lease addendum in lieu of the more costly condominium documents.

The space lease addendum is relatively short and gives exclusive use of one of the dwelling units to each of the lessees and allocates to each lessee his or her share of the operating costs like utilities, maintenance, insurance and property taxes. The addendum also allocates the repair and maintenance responsibilities between the PCLT and the lessee, as would be typical of a space lease such that the exterior and structural elements are the PCLT responsibility and the interior dwelling unit improvements are the lessee’s responsibility. The addendum also allocates the use of the yard, so that each lessee will have exclusive use of his or her portion of the yard. Essentially, all the same issues covered in a condominium declaration are covered in the addendum, but the expense of a survey plat, bylaws, disclosure statement and the extensive application forms for review and approval by the Oregon Real Estate Agency are all avoided, greatly reducing costs.

Affordable Assessments

In mixed-income projects, the homeowner assessments must be restricted to avoid exceeding the ability of low-income residents to pay the assessments. This is a balancing act between affordability and providing sufficient funds to avoid project blight. The unresolved issue is how associations resolve a dispute between the low-income and higher-income owners. One has the danger of some class warfare in homeowner association politics. Traditionally, the courts have provided protection against majority oppression of the minority, but the idea of having the courts involved in homeowner disputes about replacing roofs or siding is not very practical or appealing especially to judges. This is the kind of issue that might best be solved by a creative arbitration and mediation provision in the homeowner documents.

...The City of Ashland considered requiring the market-rate units to subsidize the assessments of the affordable units...

The tendency even in market-rate condominium projects is for condominium associations to want to cut corners financially and pay as they go for capital repairs and replacements, rather than to build up reserves for future expenses, as required by the Oregon Condominium Act. The City of Ashland considered requiring the market-rate units to subsidize the assessments of the affordable units, but the Oregon Real Estate Agency objected to this approach. The City then modified its ordinance to provide that the affordability of units under its program must take into account not only the usual items like the monthly principal, interest, taxes and insurance, but also the estimated monthly condominium assessment, including the reserve
assessment. This simply requires an even lower price to make the units affordable and increases the tendency for developers to rent, rather than sell.

**Promoting Pride of Ownership**

Related to the issue of affordable assessments is the issue of the optimal balance of renters to homeowners. Based upon experience, secondary mortgage market lenders will not finance projects unless over 50 percent are owner-occupied. As in cities, when individual condominium projects get out of balance in the proportion between owners and renters, experience tends to show that the projects will more likely become blighted, similar to the situation in neighborhoods of primarily rental housing.

In the aftermath of the severe housing recession, we face a danger that decreased levels of homeownership will encourage affordable housing advocates to give up on the goal of increasing homeownership in lieu of rental housing for low-income families. Why is the reduced homeownership and increased rental housing a danger? Because long experience has shown that pride of ownership is a most powerful tool in avoiding urban blight. Alternative non-governmental organizations like community land trusts and Habitat for Humanity have the advantage of a sense of mission and single-minded focus on affordable homeownership, which may be contrary to that of governments and other affordable housing advocates who too often fail to fully appreciate the inherent connection between urban blight and rental housing.

...The community land trust model of affordable homeownership, with standard fixed-payment, fully amortizing home loans, can help to sustain the American dream of homeownership...
Already some major cities are suing subprime lenders for predatory lending practices leading to foreclosures, in turn leading to increased blight in their cities. These local government leaders are angry and frustrated that the American dream of homeownership has been crushed for so many of their residents by greedy lenders who made predatory loans the borrowers never had the ability to repay.

Hopefully, these governmental leaders, and the victims of predatory lending they represent, will not give up on homeownership. The community land trust model of affordable homeownership, with standard fixed-payment, fully amortizing home loans, can help to sustain the American dream of homeownership for everyone who has the desire, ability and willingness to work towards it.

It is incumbent upon responsible local officials, developers, lenders, realtors and others in the development community to work towards a system of sustainable homeownership, rather than lose it simply because the deregulation of the lending industry led to such widespread abuse that essentially defrauded borrowers and cities in the name of affordable homeownership.
Office Market Analysis
April Chastain, RMLS Fellow & Certificate of Real Estate Development Student

Portland Office Market

The office market in Portland’s CBD is faring better than most across the country. Grubb & Ellis consistently ranks Portland in the top 10 cities for current real estate investment for office (2nd/60), industrial (9th/55), retail (10th/53) and multi-family housing (9th (tied)/56). It ranked second behind Washington D.C., in office investment potential, out of 60 markets evaluated by Grubb & Ellis.

U.S. OFFICE MARKET STRENGTH FORECAST
Top 10 Markets 2009 – 2013*

<table>
<thead>
<tr>
<th>United States</th>
<th>Overall Score*</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Washington, D.C.</td>
<td>74.5</td>
<td>1</td>
</tr>
<tr>
<td>Portland, Ore.</td>
<td><strong>68.4</strong></td>
<td>2</td>
</tr>
<tr>
<td>Los Angeles County, Calif.</td>
<td>68.0</td>
<td>3</td>
</tr>
<tr>
<td>San Francisco</td>
<td>66.5</td>
<td>4</td>
</tr>
<tr>
<td>Austin, Texas</td>
<td>65.1</td>
<td>5</td>
</tr>
<tr>
<td>Dallas</td>
<td>63.4</td>
<td>6</td>
</tr>
<tr>
<td>Houston</td>
<td>62.2</td>
<td>7</td>
</tr>
<tr>
<td>Raleigh-Durham, N.C.</td>
<td>61.5</td>
<td>8</td>
</tr>
<tr>
<td>Boston</td>
<td>59.9</td>
<td>9</td>
</tr>
<tr>
<td>Oakland/East Bay, Calif.</td>
<td>57.1</td>
<td>10</td>
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</tbody>
</table>

*Markets were ranked from 0 to 100 against 13 property, economic and demographic variables.
Source: Grubb & Ellis, “Press Release Jan. 5, 2009”.

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

Source: Grubb & Ellis, Co., Office Quarterly Reports 2008 Statistics and 2009 Real Estate Forecast
<table>
<thead>
<tr>
<th>OFFICE</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>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Market-Wide Vacancy</strong></td>
<td>10.5%</td>
<td>12.6%</td>
<td>11.7%</td>
<td>12.9%</td>
<td>12.2%</td>
</tr>
<tr>
<td>Previous Quarter</td>
<td>10.7%</td>
<td>11.9%</td>
<td>11.6%</td>
<td>13.4%</td>
<td>11.8%</td>
</tr>
<tr>
<td>Fourth Quarter 2007</td>
<td>10.8%</td>
<td>11.7%</td>
<td>11.5%</td>
<td>12.8%</td>
<td>11.6%</td>
</tr>
<tr>
<td>Fourth Quarter 2006</td>
<td>11.2%</td>
<td>12.60%</td>
<td>11.70%</td>
<td>12.90%</td>
<td>12.2%</td>
</tr>
<tr>
<td><strong>CBD and Downtown Vacancy</strong></td>
<td>6.6%</td>
<td>8.7%</td>
<td>5.1%</td>
<td>9.3%</td>
<td>7.6%</td>
</tr>
<tr>
<td>Previous Quarter</td>
<td>7.6%</td>
<td>8.5%</td>
<td>7.6%</td>
<td>9.0%</td>
<td>8.1%</td>
</tr>
<tr>
<td>Fourth Quarter 2007</td>
<td>8.0%</td>
<td>9.4%</td>
<td>8.2%</td>
<td>10.1%</td>
<td>8.8%</td>
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<tr>
<td>Fourth Quarter 2006</td>
<td>8.8%</td>
<td>10.70%</td>
<td>9.30%</td>
<td>10.70%</td>
<td>10.0%</td>
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<tr>
<td><strong>CBD Class A Vacancy</strong></td>
<td>3.8%</td>
<td>6.4%</td>
<td>5.1%</td>
<td>5.4%</td>
<td>5.3%</td>
</tr>
<tr>
<td>Previous Quarter</td>
<td>4.6%</td>
<td>5.6%</td>
<td>4.8%</td>
<td>5.6%</td>
<td>5.2%</td>
</tr>
<tr>
<td>Fourth Quarter 2007</td>
<td>4.9%</td>
<td>4.9%</td>
<td>5.3%</td>
<td>5.5%</td>
<td>5.1%</td>
</tr>
<tr>
<td>Fourth Quarter 2006</td>
<td>5.0%</td>
<td>6.30%</td>
<td>5.90%</td>
<td>N/A</td>
<td>5.9%</td>
</tr>
<tr>
<td><strong>CBD Class A Asking Rents</strong></td>
<td>$26.63</td>
<td>$27.07</td>
<td>$26.80</td>
<td>$15 to $31.50</td>
<td>$26.80</td>
</tr>
<tr>
<td>Previous Quarter</td>
<td>$26.91</td>
<td>$26.61</td>
<td>$26.48</td>
<td>N/A</td>
<td>$26.61</td>
</tr>
<tr>
<td>Fourth Quarter 2006</td>
<td>N/A</td>
<td>$23.10</td>
<td>$23.60</td>
<td>N/A</td>
<td>$23.35</td>
</tr>
<tr>
<td><strong>Suburban Vacancy</strong></td>
<td>14.1%</td>
<td>16.3%</td>
<td>15.2%</td>
<td>16.2%</td>
<td>15.7%</td>
</tr>
<tr>
<td>Previous Quarter</td>
<td>13.6%</td>
<td>15.3%</td>
<td>14.0%</td>
<td>15.6%</td>
<td>14.7%</td>
</tr>
<tr>
<td>Fourth Quarter 2007</td>
<td>13.4%</td>
<td>13.9%</td>
<td>14.8%</td>
<td>14.5%</td>
<td>14.2%</td>
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<tr>
<td>Fourth Quarter 2006</td>
<td>13.7%</td>
<td>14.60%</td>
<td>13.40%</td>
<td>13.83%</td>
<td>13.8%</td>
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<tr>
<td><strong>Suburban Class A Vacancy</strong></td>
<td>N/A</td>
<td>16.3%</td>
<td>15.2%</td>
<td>17.0%</td>
<td>N/A</td>
</tr>
<tr>
<td>Previous Quarter</td>
<td>N/A</td>
<td>15.8%</td>
<td>15.6%</td>
<td>N/A</td>
<td>15.7%</td>
</tr>
<tr>
<td>Fourth Quarter 2007</td>
<td>N/A</td>
<td>14.4%</td>
<td>14.6%</td>
<td>N/A</td>
<td>14.5%</td>
</tr>
<tr>
<td>Fourth Quarter 2006</td>
<td>N/A</td>
<td>14.8%</td>
<td>8.6%</td>
<td>N/A</td>
<td>11.7%</td>
</tr>
<tr>
<td><strong>Suburban Class A Asking Rents</strong></td>
<td>N/A</td>
<td>$24.48</td>
<td>$23.69</td>
<td>$16.50 to $33</td>
<td>$24.09</td>
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<tr>
<td>Previous Quarter</td>
<td>N/A</td>
<td>$24.46</td>
<td>$24.11</td>
<td>N/A</td>
<td>$24.29</td>
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<tr>
<td>Fourth Quarter 2007</td>
<td>N/A</td>
<td>$24.38</td>
<td>$24.25</td>
<td>N/A</td>
<td>$24.32</td>
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<td>Fourth Quarter 2006</td>
<td>N/A</td>
<td>$22.54</td>
<td>$24.55</td>
<td>N/A</td>
<td>$23.55</td>
</tr>
</tbody>
</table>

Source: CB Richard Ellis, Cushman and Wakefield, Grubb & Ellis, Norris, Beggs & Simpson

1 Vacancy rates above include subleases except those reported by CBRE. CBD figures include close-in neighborhoods, except Class A figures reported by CBRE. All rents are full service. All other suburban figures include Vancouver.
Central Business District

It may be surprising that asking rents have continued to rise in the CBD, even though the market is softening. Large tenants may not have many options downtown for a couple of years, as most of the new office space has been absorbed. According to Cushman & Wakefield, the CBD’s overall absorption remains positive at 264,696 square feet and Class A asking rents have actually increased from $26.61 per square foot in the third quarter to $27.07 in the fourth quarter. Rates have increased $5.15 since the low point in the third quarter of 2005. However, both Cushman & Wakefield and Grubb & Ellis see the office market at a turning point, going from a landlord’s market to a tenant market, where proactive managers are starting to make more concessions, while trying to keep rental rates steady.

*Source: Cushman & Wakefield, Quarterly 2008 Market Updates Portland, Oregon Office & Industrial Markets
As reported by Cushman and Wakefield, sublease space as a percentage of the direct availability has continued to increase in the CBD, and is up from 19.9% in the fourth quarter of 2007 to 38.7% in the fourth quarter of 2008, with 179,939 square feet available for sublease. However, it is still well below the peak seen in the fourth quarter of 2002 when it reached 49.3%.
According to Grubb & Ellis, the overall net absorption remains positive at a total of 795,117 square feet, which was just shy of the ten year average absorption rate of 800,000 square feet. The vacancy rate of 11.7% remains below the 16.6% peak seen in 2002. It also reports an almost static Class A office absorption of 734 square feet during the fourth quarter in the metro-wide area. The CBD remains positive counterbalancing the negative absorption seen in certain submarkets in the suburbs.

Source: Grubb & Ellis, Co., Office Quarterly Report, Second, Third, Fourth Quarter 2008 Statistics
Suburbs

Most vacancies are felt in the suburbs, especially southwest. Kruse Way has been hit hard because of the nature of the financial businesses located there. This trend is expected to continue into 2009 with the expected first quarter addition of 115,000 square feet at Kruse Oaks III. The Sunset corridor experiences an even greater vacancy rate of 22.3%, although the total vacant square footage is only slightly less than that of the Kruse Way/Washington Square submarket. The Tualatin/Wilsonville submarket shows the greatest vacancy rate of 27.3%, although its current vacant square footage of 436,289 square feet equals only half the vacant square footage found in Kruse Way.

<table>
<thead>
<tr>
<th>Submarket</th>
<th>Market Size (Sq. Ft.)</th>
<th>2Q 08 Vacancy</th>
<th>3Q 08 Vacancy</th>
<th>4Q 08 Vacancy</th>
<th>% change</th>
<th>Current Vacancy Square Footage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Washington Square/Kruse Way</td>
<td>5,955,954</td>
<td>13.8%</td>
<td>13.5%</td>
<td>14.7%</td>
<td>-8.9%</td>
<td>873,396</td>
</tr>
<tr>
<td>Sunset Corridor</td>
<td>3,721,895</td>
<td>21.2%</td>
<td>22.3%</td>
<td>22.3%</td>
<td>0.0%</td>
<td>831,548</td>
</tr>
<tr>
<td>Beaverton</td>
<td>3,484,188</td>
<td>17.2%</td>
<td>16.9%</td>
<td>15.4%</td>
<td>8.9%</td>
<td>537,153</td>
</tr>
<tr>
<td>Eastside</td>
<td>2,102,026</td>
<td>6.7%</td>
<td>8.2%</td>
<td>8.2%</td>
<td>0.0%</td>
<td>171,363</td>
</tr>
<tr>
<td>Johns Landing/Barber Blvd.</td>
<td>1,679,436</td>
<td>13.3%</td>
<td>14.2%</td>
<td>13.1%</td>
<td>7.7%</td>
<td>219,213</td>
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<tr>
<td>Tualatin/Wilsonville</td>
<td>1,600,522</td>
<td>21.9%</td>
<td>28.7%</td>
<td>27.3%</td>
<td>4.9%</td>
<td>436,289</td>
</tr>
</tbody>
</table>

Source: Grubb & Ellis, Co., Office Quarterly Report, Second, Third, Fourth Quarter 2008 Statistics

Major Lease Transactions Q4 2008

<table>
<thead>
<tr>
<th>Lessor/Agent</th>
<th>Property</th>
<th>Submarket</th>
<th>Size (SF)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stoel Rives</td>
<td>TMT Development</td>
<td>CBD</td>
<td>157,000</td>
</tr>
<tr>
<td>Nike</td>
<td>BRCP</td>
<td>Sunset Corridor</td>
<td>75,010</td>
</tr>
<tr>
<td>Jive Software</td>
<td>Harsch Investment</td>
<td>The Reserve</td>
<td>37,667</td>
</tr>
<tr>
<td>Ater Wynne LLP</td>
<td>Unico Properties</td>
<td>The Lovejoy</td>
<td>36,336</td>
</tr>
<tr>
<td>Tripwire</td>
<td>RREEF</td>
<td>One Main Place</td>
<td>36,000</td>
</tr>
<tr>
<td>Heald College</td>
<td>BB&amp;S Development</td>
<td>6035 NE 78th Court</td>
<td>39,600</td>
</tr>
<tr>
<td>ITT Tech</td>
<td>Trammell Crow</td>
<td>Cascade Station</td>
<td>34,029</td>
</tr>
<tr>
<td>Multnomah County</td>
<td>Norris &amp; Stevens</td>
<td>Columbia Pacific Plaza</td>
<td>27,243</td>
</tr>
<tr>
<td>Evraz, Inc</td>
<td>TMT Development</td>
<td>1000 Broadway Building</td>
<td>15,962</td>
</tr>
<tr>
<td>David Rothwell</td>
<td>Unico Properties</td>
<td>US Bancorp Tower</td>
<td>12,855</td>
</tr>
</tbody>
</table>

Source: Grubb & Ellis, "2009 Real Estate Forecast", Norris, Beggs & Simpson, "Market Summaries 4Q08", Cushman and Wakefield, "MarketBeat 4Q08"
Portland Industrial Market

There is very little construction in pipeline, which is helping to hold vacancy rates relatively low. FedEx, now underway in the Troutdale-Reynolds Industrial park, will be adding a 415,000-square-foot distribution hub expected to deliver in 2010. Common speculation holds that Portland is in a good position to receive green, renewable, industrial jobs, especially considering the potential deal with Vestas headquarters, which would be targeted for the South Waterfront area. Other growth is projected to be mostly in the Rivergate district, and along Columbia. Grubb & Ellis show the Gresham/Outer Southeast submarket as having the highest fourth quarter vacancy rate at 13.7%, and Swan Island/Close in Northeast with the lowest vacancy rate at 1.7%.

<table>
<thead>
<tr>
<th>INDUSTRIAL</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>
</tr>
</thead>
<tbody>
<tr>
<td>Market-wide Vacancy</td>
<td>6.4%</td>
<td>6.2%</td>
<td>6.9%</td>
<td>12.1%</td>
<td>6.6%</td>
</tr>
<tr>
<td>Previous Quarter</td>
<td>6.1%</td>
<td>6.7%</td>
<td>6.6%</td>
<td>N/A</td>
<td>6.6%</td>
</tr>
<tr>
<td>Fourth Quarter 2007</td>
<td>5.2%</td>
<td>5.6%</td>
<td>6.7%</td>
<td>8.7%</td>
<td>6.2%</td>
</tr>
<tr>
<td>Fourth Quarter 2006</td>
<td>6.1%</td>
<td>6.2%</td>
<td>6.3%</td>
<td>N/A</td>
<td>6.2%</td>
</tr>
<tr>
<td>Warehouse/Distribution</td>
<td>N/A</td>
<td>6.6%</td>
<td>7.0%</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Previous Quarter</td>
<td>N/A</td>
<td>5.8%</td>
<td>6.7%</td>
<td>N/A</td>
<td>6.3%</td>
</tr>
<tr>
<td>Fourth Quarter 2007</td>
<td>N/A</td>
<td>5.3%</td>
<td>6.8%</td>
<td>N/A</td>
<td>6.1%</td>
</tr>
<tr>
<td>Fourth Quarter 2006</td>
<td>N/A</td>
<td>5.4%</td>
<td>5.4%</td>
<td>N/A</td>
<td>5.4%</td>
</tr>
<tr>
<td>R&amp;D/Flex Vacancy</td>
<td>N/A</td>
<td>9.4%</td>
<td>6.7%</td>
<td>13.2%</td>
<td>9.4%</td>
</tr>
<tr>
<td>Previous Quarter</td>
<td>N/A</td>
<td>9.5%</td>
<td>6.3%</td>
<td>13.0%</td>
<td>9.5%</td>
</tr>
<tr>
<td>Fourth Quarter 2007</td>
<td>N/A</td>
<td>6.3%</td>
<td>6.5%</td>
<td>15.2%</td>
<td>6.5%</td>
</tr>
<tr>
<td>Fourth Quarter 2006</td>
<td>N/A</td>
<td>11.2%</td>
<td>9.4%</td>
<td>N/A</td>
<td>10.3%</td>
</tr>
<tr>
<td>Asking Monthly Shell Rates</td>
<td>$0.39</td>
<td>N/A</td>
<td>$0.42</td>
<td>N/A</td>
<td>$0.41</td>
</tr>
<tr>
<td>Previous Quarter</td>
<td>$0.39</td>
<td>N/A</td>
<td>$0.42</td>
<td>N/A</td>
<td>$0.41</td>
</tr>
<tr>
<td>Fourth Quarter 2007</td>
<td>$0.38</td>
<td>N/A</td>
<td>$0.43</td>
<td>N/A</td>
<td>$0.41</td>
</tr>
<tr>
<td>Fourth Quarter 2006</td>
<td>$0.35</td>
<td>N/A</td>
<td>$0.37</td>
<td>N/A</td>
<td>$0.36</td>
</tr>
</tbody>
</table>

Source: Grubb & Ellis, Cushman and Wakefield, Norris, Beggs & Simpson, Quarterly Reports
As predicted last quarter, new construction outpaced absorption for the first time since 2003. Grubb & Ellis report a negative absorption of <22,187> square feet in the fourth quarter. The 2008 year-end absorption of 1.28 million is less than half of the nine year average (2000-2008) absorption of 3 million square feet per year, and even farther behind the 2004-2007 average of 3.8 million square feet per year. The year’s delivery of new construction, just over 2.7 million square feet, is above the ten year average (1999-2008) of 2.5 million square feet per year. However, the 2008 vacancy rate of 6.9% falls below the nine year average of 7.9%, and well below the low-point in 2003 of 11.6%.

Asking rates are holding steady, but as with the office market, brokers report that landlords are starting to give more concessions in response to market conditions.

*Source: Grubb & Ellis Co., Industrial Quarterly Report, Fourth Quarter 2008

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

![Graph showing industrial absorption and new construction](image)

*Source: Grubb & Ellis Co., Industrial Quarterly Report, Fourth Quarter 2008

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**Historical Industrial Deliveries (sq. ft.) and Vacancy (%) for Portland Market**

![Graph showing historical industrial deliveries and vacancy rates](image)

*Source: Grubb & Ellis Co., Industrial Quarterly Report, Fourth Quarter 2008*
As Norris, Beggs & Simpson reported, “Manufacturer’s News, Inc, released a study this quarter ranking Portland 13th among major American cities for the number of manufacturers and 23rd for industrial jobs”.

**Major Lease Transactions Q4 2008**

<table>
<thead>
<tr>
<th>Tenant</th>
<th>Building</th>
<th>(Sq. Ft.)</th>
<th>Submarket</th>
</tr>
</thead>
<tbody>
<tr>
<td>Colgate-Palmolive</td>
<td>Rivergate Corp. Ctr</td>
<td>151,050</td>
<td>Portland</td>
</tr>
<tr>
<td>M&amp;I Air Systems</td>
<td>18500 SW 108th Ave</td>
<td>98,977</td>
<td>Tualatin</td>
</tr>
<tr>
<td>Samuel, Son &amp; Company</td>
<td>LogistiCourt at Portal Way</td>
<td>58,644</td>
<td>Portland</td>
</tr>
<tr>
<td>Pacific Nutritional</td>
<td>Sifton Industrial Park</td>
<td>55,800</td>
<td>Vancouver</td>
</tr>
<tr>
<td>Freyco</td>
<td>Lakeview Business Center</td>
<td>43,000</td>
<td>Lake Oswego</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>407,471</strong></td>
<td></td>
</tr>
</tbody>
</table>
Portland Multifamily Market

According to Norris, Beggs & Simpson’s Fourth Quarter Multifamily Report, the multifamily vacancy rate has increased in the fourth quarter to 4.71% compared to 3.31% this time last year. It reports a total overall average rent of all apartments in the Portland metro area, from studios to 3BR/2BA, both new and seasoned units, to be $0.88 per square foot.

Norris Beggs reports an average 2BR/2BA rent for new units of $1,074 per unit or $0.98 per square foot, which is an increase of 24% over 2007 asking rents. Seasoned 2BR/2BA units rent for an average $820 per unit or $0.81 per square foot, which is an increase of nearly 15% over last year.

The Wilsonville submarket shows the highest total vacancy rate at 6.95%, while Gresham/Troutdale has the lowest submarket vacancy at 3.33%.

**Fourth Quarter 2008 Market Vacancy**

Most sources agree that the single-family market is affecting the multi-family market, as the “shadow inventory”, or the amount of available single family rentals as well as the rental of unsold condominiums, increases due to problems in those markets. Mark Barry estimates a current 2.5 to 3.5 years of inventory in the condominium market. He also mentions that the homeownership rate in Oregon has dropped from 69% at the peak of the housing bubble to its current level of 65%.

Some homeowners have put their houses up for rent in an effort to hold on to them. Some previous homeowners are returning to the market as renters after having lost or rented their homes, while other would-be-renters have chosen to live with relatives or roommates, making 2BR apartments very popular.

Incomes and jobs are down so many renters cannot afford to pay rent on their own. In light of these market factors, most investors expect a challenging year ahead. Most forecasters expect vacancies to increase and rents to remain stable or decrease. As in other markets, landlords are starting to make concessions to attract and keep renters, such as giving free rent for a month or more with a new rental contract and not increasing rents for existing tenants.
As the chart above shows, rents have increased significantly since 2005 while vacancy has remained fairly low. Colliers International, in its Portland Multifamily 2008 Year End Report, expects this trend to change in the coming year. It forecasts an increase in cap rates, which will decrease the market value of apartment buildings, especially those that were recently purchased. Combined with the addition of another 2,400 units expected to be delivered by the end of this year, this could prove very challenging for investors in the multi-family market in Portland.

The above chart, based on the figures reported by Mark Barry, shows the inverse relationship between the median sales price and the cap rate, showing how big the bubble has been and how we need to get closer to the 2002 cap rate to get to more normal valuation levels.
According to recent apartment sales reported by Norris, Beggs & Simpson, the average sales price is $92,594 per unit. However, the average price drops to $69,772 when the 28-unit complex, at 7701-7820 NW Quinalt in Clark County, purchased for $11,790,000 by Columbia Credit Union, which is much higher than the other reported sales, is dropped from the equation. Mark D. Barry & Associates report a median sales price of $75,000 per unit in the four county metro-wide area.

As shown in the table below, fully 2100 new, higher-end units will have been added to the supply in and around downtown Portland by late 2009. The large increase in supply, coupled with the deep recession, will be expected to adversely affect absorption, rents and vacancies.

<table>
<thead>
<tr>
<th>Project</th>
<th>Units</th>
<th>Location</th>
<th>Developer</th>
<th>Expected Completion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wyatt</td>
<td>245</td>
<td>Pearl</td>
<td>Sobrato</td>
<td>complete</td>
</tr>
<tr>
<td>2120 Belmont</td>
<td>109</td>
<td>Close-in SE</td>
<td>WD</td>
<td>complete</td>
</tr>
<tr>
<td>3720</td>
<td>323</td>
<td>South Waterfront</td>
<td>Gerding Edlen</td>
<td>Aug-08</td>
</tr>
<tr>
<td>Lovejoy Apartments</td>
<td>234</td>
<td>Pearl</td>
<td>Unico</td>
<td>Dec-08</td>
</tr>
<tr>
<td>North Mississippi</td>
<td>188</td>
<td>N. Portland</td>
<td>TCR</td>
<td>Jun-09</td>
</tr>
<tr>
<td>12th &amp; Washington</td>
<td>274</td>
<td>Downtown</td>
<td>Gerding Edlen</td>
<td>May-09</td>
</tr>
<tr>
<td>Park Apartments</td>
<td>101</td>
<td>Northwest</td>
<td>Opus</td>
<td>2009</td>
</tr>
<tr>
<td>Alexan</td>
<td>294</td>
<td>South Waterfront</td>
<td>TCR</td>
<td>late 2009</td>
</tr>
<tr>
<td>Ladd Tower</td>
<td>332</td>
<td>Downtown</td>
<td>Opus</td>
<td>late 2009</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2100</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Housing markets across the nation have lost billions of dollars in value during 2008. Median U.S. home values were down –2.86% from third quarter, and -9% from a year ago. Home price indices showed broad-based declines in October, with record rates of annual decline. As seen above, the West Coast has been hit especially hard, with San Diego, San Francisco, and Las Vegas still suffering double digit losses. As the number of building permits issued has decreased by 41% across the nation, the state of Oregon faced bleaker results, with all but Eugene experiencing more than 50% declines in single family building permits.

**Median Home Values of Existing Detached Homes**

<table>
<thead>
<tr>
<th></th>
<th>U.S.</th>
<th>West</th>
<th>Portland Metro Area</th>
</tr>
</thead>
<tbody>
<tr>
<td>November 2007 Median Sales Price</td>
<td>$207,300</td>
<td>$333,000</td>
<td>$299,250</td>
</tr>
<tr>
<td>November 2008 Median Sales Price</td>
<td>$180,800</td>
<td>$248,200</td>
<td>$275,000</td>
</tr>
<tr>
<td>% Change in Median Sales Price</td>
<td>-12.8%</td>
<td>-25.5%</td>
<td>-8.1%</td>
</tr>
<tr>
<td>% Change in Number of Sales November 2007-08</td>
<td>-8.8%</td>
<td>19.8%</td>
<td>-41.0%</td>
</tr>
</tbody>
</table>

Source: National Association of Realtors (November 2008) and RMLS (November 2008)
The Portland-Vancouver market is no exception to this serious market downturn. According to the Case-Shiller index (pegged at 2000 price levels), Portland’s November index was 162.62 – meaning that a home worth $100,000 in 2000 was worth $162,000 in November 2008.¹ This past November marked the slowest month in 15 years for Portland, with only 1,041 homes sold. For the year, Portland home prices fell by 11.5%. Despite its boom a few years ago, Clark County suffered even higher setbacks, with the number of days on the market reaching 17 months in November, and median homes sales down 13% from the previous year.

**Building Permits Issued**

*Year to Date*

<table>
<thead>
<tr>
<th>SINGLE-FAMILY</th>
<th>MULTI-FAMILY</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>UNITED STATES</strong></td>
<td><strong>PCT</strong></td>
</tr>
<tr>
<td>Nov-08</td>
<td>Nov-07</td>
</tr>
<tr>
<td>OREGON</td>
<td>Bend OR</td>
</tr>
<tr>
<td>7.60</td>
<td>0.66</td>
</tr>
<tr>
<td>-51%</td>
<td>-56%</td>
</tr>
<tr>
<td>-21%</td>
<td>-58%</td>
</tr>
</tbody>
</table>

**Portland²**

In Portland, for existing single-family homes, the number of transactions in the fourth quarter decreased by an astonishing 35%. The median home price was down 5% from third quarter, and 8% from last year. Though the sale price to original asking price ratio of 93.64 looked promising for sellers in the third quarter, the ratio dropped back down to 90.59 by the end of the year, attributable possibly to the average number of days on the market hitting almost two and a half months’ selling time.

Again, it is important to note that at the close of 2008, price per square foot values are still 16% above 2005 pre-bubble values. Despite the dramatic drop in home sales to 379 for the Portland metro area, the median price remained stable, and actually increased by 2.8% annually.

¹ “Case-Shiller: November worst ever for home prices in Portland”. Tuesday, January, 2009
² All Single Family Home data was compiled through RMLS (December 2008)
Median Sales Price & Number of Homes Sales Per Quarter - Existing Detached Homes

Portland Metro (Excluding Clark County)

8-Year outlook for Median Sales Price & Number of transactions

4th Quarter Median Price: $274,900
Quarterly % Change: -5.17%
Annual % Change: -8.21%
Number of Transactions: 2,379
Quarterly % Change: -35.21%
Annual % Change: -28.67%

Sale Price/Original List Price & Average Days on Market – Existing Detached Homes

Portland Metro (Excluding Clark County)

2-Year outlook for Average DOM and Sales Price/Original List Price ratio

4th Quarter Sale/Original ratio: 90.59
Quarterly % Change: -3.26%
Annual % Change: -3.90%

Days on Market: 76
Quarterly % Change: 16.92%
Annual % Change: 31.03%

Median Sales Price & Number of Transactions – New Detached Homes

Portland Metro (Excluding Clark County)

8-Year outlook for new construction single-family home sales

4th Quarter Median Price: $359,900
Quarterly % Change: 0.00%
Annual % Change: 2.83%
Number of Transactions: 379
Quarterly % Change: -28.36%
There is wide variation by sub-market. In previous quarters, North Portland was the strongest area for new home sales, and Beaverton joined the ranks in the third quarter. Now it appears that more cities are having more stable new home prices. Lake Oswego remains the most volatile for new home sales, depreciating by levels of 20% from the last quarter.

Existing home prices in Lake Oswego appreciated 7.5% from last quarter. For other markets, the depreciation rate for most far exceeded their new home sales.

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**Appreciation of New Detached Homes - Portland Sub-Market**  
Q3 2008 - Q4 2008

**Appreciation Rates of Existing Detached Homes - Portland Sub-Market**  
Q3 2008 - Q4 2008
Vancouver

For Vancouver and the surrounding area, the story is similar to that in Multnomah County. For the unincorporated areas of Clark County, the total building permits issued in 2008 hit just under 600, a 52% decrease from 2007’s already low 1,245 permits. Existing home prices in Vancouver dropped 11.2% from third quarter numbers. In the suburbs of Clark County, prices depreciated by 12.7%. The number of transactions fell 23% to 335 and the average number of days on the market increased by over 60% to 102 days.

In Clark County, similar trends continue throughout the suburbs. Trends fell back to first quarter levels, with average days on the market increasing by 14% to 86 days, and the number of transactions falling to 422 homes sold, one of only two quarters to fall below 500 transactions in a 5-year outlook.
In the Vancouver and Clark County submarket, fourth quarter statistics were depressed. Brush Prairie took the lead, with a 33% quarterly drop in median home price, and 38% annual depreciation. For those realizing substantial appreciation in the third quarter, the numbers are not so generous in the fourth quarter. Where Southwest Heights enjoyed a 20% rise in third quarter prices amid the current recession, they depreciated by 20% this quarter. For those with rising median prices, the results were modest and remained below the 5% range.
Condominium and Attached Market

The condominium and attached markets followed the familiar trends of this current recessionary period. Buyer-starved developers have announced plans this year to add roughly 3,000 condominium-to-rental unit conversions to the downtown and surrounding market. As Portland rides the wave of new construction conversion to apartments, vacancy rates, rents, and marketing strategies will change. The median condominium price per-square-foot in the Portland metropolitan area dropped 2% to $199.65, and the number of transactions is down 30% from the previous quarter. Again, the downtown Portland neighborhoods continue to show the strongest market for both attached and condominium development.

---

3 RMLS defines attached as "an element of the residence construction is shared with another property. Condominiums are excluded. Condominiums are defined as an attached or stand-alone residence for which the owner has title to the space inside the unit and shares common spaces with other unit owners in accordance with specific legal guidelines."
For the attached single-family market, the number of transactions went down dramatically across Portland. However, sales prices stayed relatively stable. In Vancouver, although median sales were down 10%, the number of transactions increased by 16% in the central Vancouver area, while the city’s suburbs enjoyed a strong 60% increase in sales from the previous quarter. As would be expected, annual appreciation was negative across the board, as were the number of transactions (Vancouver suburbs did report an annual 33% increase single-family attached sales).
Willamette Valley

4th Quarter 2008 Results

**Benton County**
- Median Price: $258,450
- Days on Market: 115
- Units Sold: 106
- Appreciation: 0.1%

**Linn County**
- Median Price: $155,000
- Days on Market: 114
- Units Sold: 181
- Appreciation: -8.8%

**Marion County**
- Median Price: $165,000
- Days on Market: 138
- Units Sold: 75
- Appreciation: -10.8%

**Polk County**
- Median Price: $178,000
- Days on Market: 455
- Units Sold: 65
- Appreciation: -3.1%

**Lane County**
- Median Price: $195,725
- Days on Market: 89
- Units Sold: 102
- Appreciation: -5.4%

Existing home sales in the Willamette Valley plummeted, with Marion and Lane County again taking the lead. As seen below, the Willamette Valley area has shown a steady decline since the beginning of 2008. However, because of steep falls in median prices at the beginning of the year, Polk and Linn Counties and Keizer registered positive numbers for annual appreciation.

For Lane County, existing homes sold at approximately 88.1% of their original list prices with quarterly median values falling by 5.4% and 12.43% annually.

The Eugene-Springfield area shares a similar story with homes selling at values 91% of their original list prices. Annual home prices fell by 5.8% quarterly, and 8.33% annually. While all counties enjoyed substantial appreciation in the second quarter, all but Benton County are now on the slow decline that has been felt across the state.

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* Quarterly Appreciation for existing detached homes (Q3 2008 – Q4 2008)
** Data provided by WVMLS December 2008
In the Salem area, the fourth quarter resulted in a small, but positive, appreciation of single-family detached homes. Annual median sales registered at the same $200,000 number and, Salem’s housing values appreciated by 1% annually. Although this is small, it still provides optimism during recessionary times. However, the number of transactions continues to decline by 24% and the average days on the market rose 8% to 127 days.

In neighboring Keizer, annual appreciation for median single-family home values was 3.4%. Although the median value fell by 1% from third quarter, the average days on the market fell by 5%. The number of transactions was low, at 67 homes sold, a 24% decrease from third quarter totals.
Central Oregon

Cities of Bend & Redmond – Properties under 1 Acre

Number of Transactions and Days on the Market
Single Family Under 1 Acre - Bend and Redmond

Median Single Family Price and $/SqFt
Under 1 Acre - Bend and Redmond
The downward trend across Oregon continues in Bend and Redmond. Median prices dropped 9% to $255,950 in Bend, and -11% to $189,500 in Redmond. The number of transactions registered 252 for Bend, and hovered at 104 in Redmond. The average number of days on the market was up 4% from last quarter in Redmond, and the price per square foot fell 20% since last quarter. In Bend, the number of days on the market decreased by 2% since third quarter, and the price per square foot fell 12%.

For the larger properties of between 1 and 5 acres, the trends are a bit harder to discern given the small number of transactions. In Bend, the median price appreciated by 12% to $468,000, the number of days on the market was down 6%, and the price per square foot increased by 11% to $221/sq. ft.
For Redmond, the seven transactions showed a 46% appreciation rate with the median price hitting $410,000. This appreciation from the last quarter brought the median back up from the sharp downturn in the third quarter and closer to earlier quarter prices in the mid to high $400s range. The number of days on the market decreased by 53%, while the price per square foot increased by 42% to $227/sqft.