



Center for Real Estate
Quarterly & Urban Development Journal

• *1st Quarter 2010*



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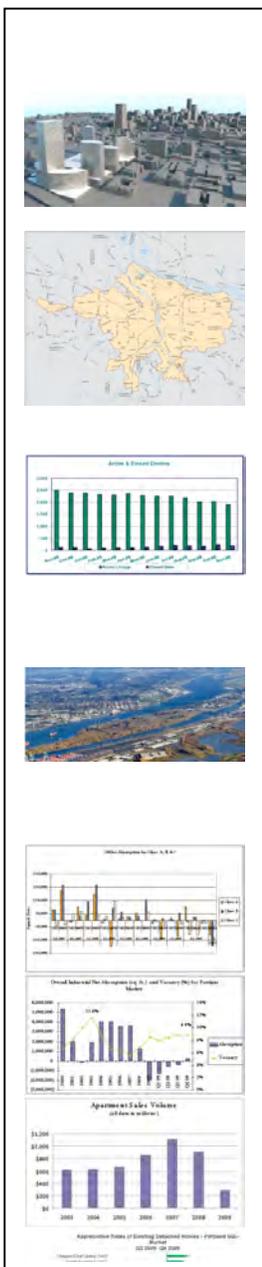
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*Editor's Urban Development Journal:
A Decade of Development Needs*

Professor Will Macht, Editor



The private development community has been wracked by the implosion of the mortgage market, the near demise of collateralized mortgage-backed securities, the failure of multiple banks, record high unemployment, rising vacancies in the office, retail, hotel and even residential markets, widespread bankruptcies of large retailers and large-scale layoffs in the construction, architecture, engineering and development enterprises.

The public development community has also been beset by many of the same underlying forces. Planning and building departments have been forced to engage in wholesale layoffs and furloughs. Public development agencies and ports, along with their cities, find capital markets, rating agencies and investors wary of purchasing public debt in the face of reduced tax bases and tax revenue collections and looming deficits in federal, state and local budgets.

Large scale unemployment in the development community not only imposes great hardships on the professionals who practice within it, and the students who we teach to aspire to it, but also the unemployment and underemployment exacts a great toll on the larger community that will be deprived of the districts and buildings cities need to be well-rounded places in which to live, learn, work, heal, recreate and thrive. We need to find ways for the development community to build the many things that the cities need in a way that profits both the private sector and the common wealth.

In these trying circumstances, can the development community, both private and public, be the leader in urging the public sector to reset its priorities? Can it do it in a way that the development community itself can build a myriad of needed public and private places that its citizens so much require to live lives of meaning, with the resources to thrive in their jobs, their homes, their schools, their offices, shops, factories, hospitals, clinics, theaters, meeting halls, libraries and civic buildings?

What has the development community, both private and public, been building in the prior decade? In large measure, in the private sector it has been only the things that the financial community will fund, building larger houses than ever, [average house size rose from about 1,200 square feet in the 1950s to 2,500 square feet at the height of the bubble] elaborate condominiums, high-end rental residential units, high-priced hotel suites, big-box retail stores, upscale lifestyle centers, expansive suburban office parks, Class A downtown towers and mammoth high-cube warehouses. That has been what could be financed and profitably sold with easy credit.

What has the public development community been building? To too great an extent, we have seen cities focus on soccer and baseball stadiums, major league sports, entertainment centers, convention centers and hotels, high-cost subsidized housing, shopping strategies and generalized vision processes. When 11 percent of our community is unemployed, many more are discouraged job seekers or underemployed, more than 3,000 homeless and sleeping on the streets of Portland every night and many thousands dependent on food banks whose stocks are depleted, is this good enough? When to large segments of the population housing is unaffordable, classrooms are dilapidated, teachers are furloughed and libraries are on restricted hours, is this good enough?

And why have these choices been made? It has been determined in large part by concentration of the financial sector, both private and public, on short-term gain strategies from securitized mortgages for standardized projects sliced and diced into tranches of supposed risk and reward. Until recently, real estate had always been a long-term asset class, built for the long term, to hold for long-term appreciation while collecting reasonable positive cash flow that was largely sheltered by tax-deductible depreciation.



Mortgage loans were long-term fixed instruments held by local institutions and repaid by developers and investors with slightly inflated dollars, favorable to investors. We seem to have abandoned the longer-term perspectives, building for short-term consumption rather than long-term investment.

While the development community itself has focused on private gain from shorter-term projects, in significant measure the public sector has also abdicated its primary responsibilities to build the common wealth of the community, the schools, colleges, classrooms, universities, clinics, hospitals, roads, bridges, transportation systems, transmission grids, sewer and water systems and the like that were the preoccupation of our forebears. Is this because elected officials are focused on the next campaign contribution and the next election? How is it that our forebears were able to decide to build expansive park systems that would last indefinitely, sewer and water systems that would last a century, roads and bridges that would last more than a half-century and schools, universities, courthouses, post offices and hospitals that are still in use after multiple decades of public service?

The development community has lots of skills, many of which are underemployed or unemployed. It has the skills and knowledge to build what the urban community requires. What have we not been building? Middle and moderate-income houses, affordable apartments, economy hotels, local marketplaces, factories, schools, university classrooms, dormitories, community health clinics, day care centers, elder-care centers, hospice-care housing, food banks, mental health clinics and a wide variety of other needed buildings.

Nor have we built the infrastructure to support all of those urban needs. Where are the new bridges to replace a stock built well over a half-century ago? Where are the new water systems that need not be closed for a drop of unknown fecal matter entering open reservoirs? Where are the sewer systems that convert human waste into energy? Where are new power transmission systems to replace overtaxed systems whose controls can be, and have been, breached by foreign hackers?

Should we build the intercity high-speed rail systems that could eliminate the kinds of intercity gridlock the clogs both a half-century old freeway system and a short-haul air system through overcrowded airports, themselves run by an air traffic control system far older than the airplanes it guides? Should we build more tracks for both freight and commuter trains between high-density cores that could shorten transit times more than either freeways or light-rail systems? Should we impose congestion pricing systems on both roads and parking facilities?



Should we develop the mixed-use schools that use public and private funds to build community centers that function more than 180 school days a year, (a plant that lies idle for more than half of an entire year vs. Japan, for example, with 243 days), that have pools and tennis courts and libraries and meeting halls and laboratories and shops that are busy year-round?

A workshop our students undertook last summer under BOMA's sponsorship proposed just such a mixed-use facility for the 11-acre Lincoln High School campus. Can the Portland school district leverage its ownership of the Lincoln High School site into a mixed-use model of a 21st Century year-round magnet school integrated into a living/learning community with workforce housing and services adjacent to the heart of downtown Portland?



Should we build more courtrooms so that that dockets are not so overbooked that cases takes weeks instead of years? How can we fund the classrooms that our colleges need to educate the workforce for the 21st Century? What kinds of vocational schools can we build that can train a workforce to retrofit public and private buildings to save energy? Surely, the development community, both private and public, has the skills to provide these.

How can the public community focus its scarce resources on building schools, clinics, housing the homeless, improving parks, building transit, making roads smarter with smart navigation systems, integrated parking management systems and the like instead of on soccer and baseball stadiums, entertainment centers, convention centers, shopping strategies? How can cities spend more time and money on economic hunting instead of economic gardening, nurturing growing local small entrepreneurs attracted to the Portland and the Northwest by its quality of life rather than on tax sweeteners? How can the public turn from short-term consumption to long-term investment?



Have we the skills and determination to create an Infrastructure Bank to finance needed public improvements? Can we form public benefit development corporations, like those to develop Roosevelt and Treasure Islands, and public-private partnerships to build and redevelop a 1,400-acre urban island like Hayden Island, (described by one of our graduates in this issue) more than 60 percent of which is already owned by the public, into a model of sustainable urban waterfront development?



Can we leverage majority public ownership of the 40-acre Rose Quarter to develop an intensive mixed-use district integrated with the city? Can we use PDC acquisition of the 13-acre main Post Office site as leverage to ground lease intensive mixed-use development at the terminus of the

Park Blocks and the nexus between Old Town, the Pearl District and the Rose Quarter, as another BOMA development workshop proposed a year and a half ago?

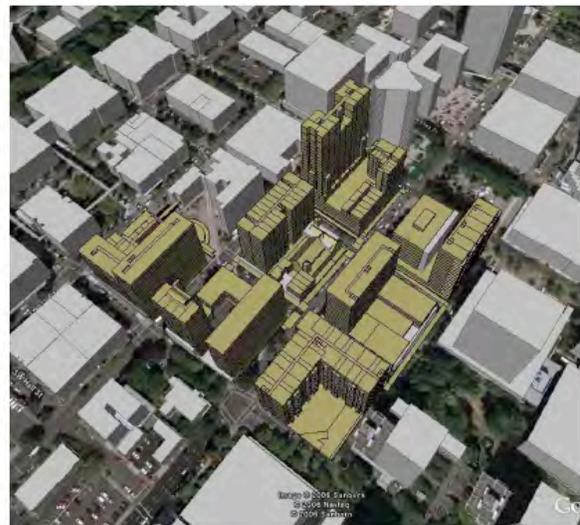
Can PSU leverage its ownership of the 4-acre University Place Hotel site [former Red Lion] into a model sustainable education living/learning center between PSU and OHSU that houses students and visiting professors in a think tank that does leading edge research into techniques and



methods of sustainable technology for cities and health care institutions?

What resources can be brought to the table to the table to make these kinds of projects happen? The public sector is land rich and cash poor. Portland State is the largest landowner downtown owning 49 acres, more than 45 city blocks, 4.5 million square feet of buildings

and over 4,000 parking spaces. Its student body and staff constitute a market of over 30,000 people. Its capital budget includes over \$300 million of capital investment by 2012. It is one of the largest workforce developers in the state. Clearly it has the resources and location to bring to the table to engage in fruitful public-private partnerships to build what the community needs.



The City of Portland, the Port of Portland, the Portland Public Schools district and the Housing Authority of Portland own thousands of acres and millions of square feet of parks, schools, airports, rail stations, office buildings, industrial parks, housing complexes, recreational facilities and parking structures. The development community, both private and public, surely has the creative skills to formulate public-private partnerships to begin to make that land and those spaces serve multiple uses.

That might entail creative uses of ground leases, air rights, public anchor tenancies, master leasing and a wide variety of other mechanisms.

Can the development community be the leader in urging the public sector to reset its priorities so that the development community itself, both private and public, can build all these needed public and private places that its citizens so much need to live lives of meaning, with the resources to thrive in their jobs, their homes, their schools, their offices, shops, factories, hospitals, clinics, theaters, meeting halls and civic buildings? Can the development community help the public shift from short-term consumption to long-term investment?

The development community not only needs the work, it also has the skills to build, if only it can focus on development needs of the community, rather than on just what the financial sector will finance. The public sector needs to help get the development community back to work building the common wealth. Both the public and private sectors can profit from this course of action.



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:

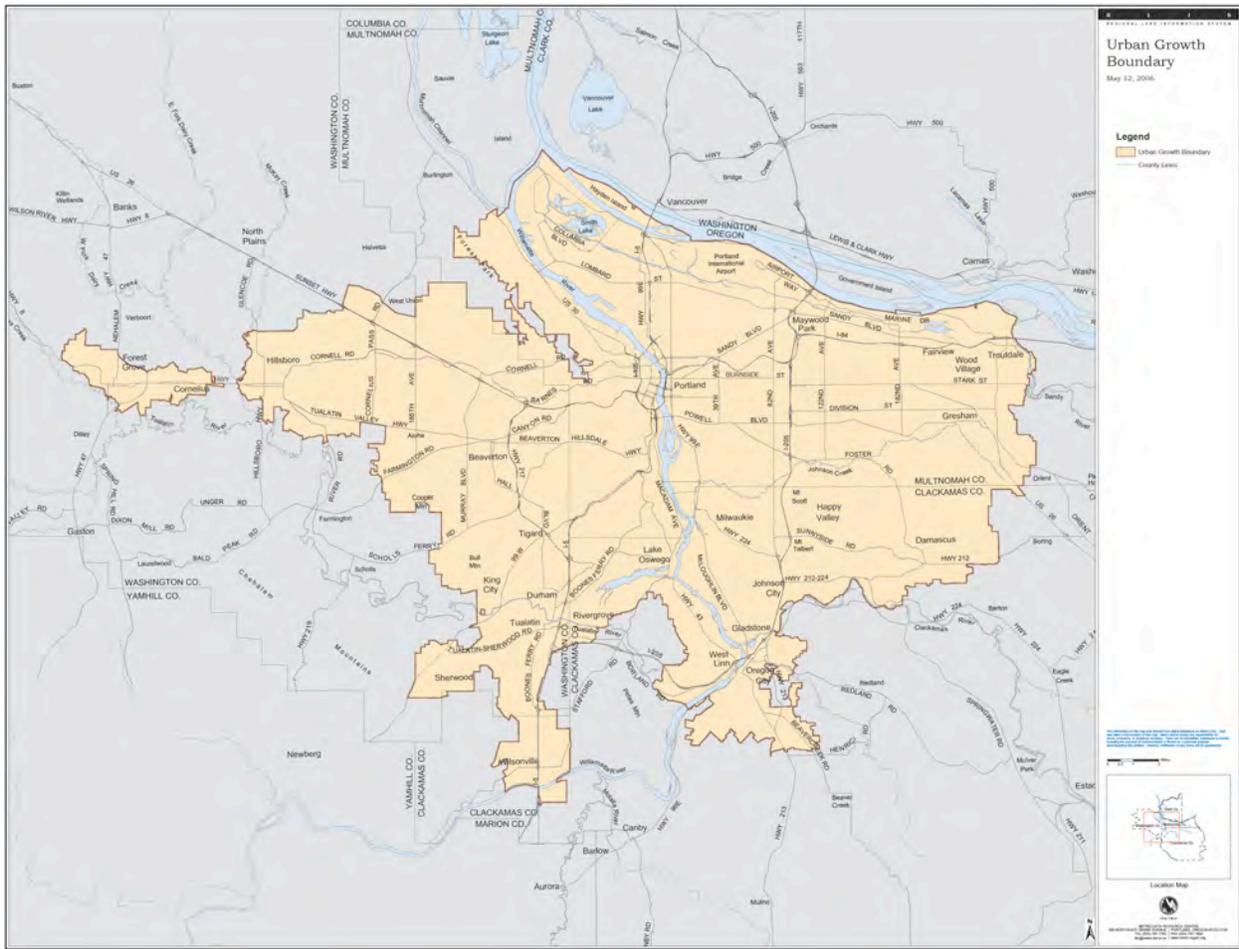
- CB Richard Ellis
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- Scanlan Kemper Bard
- Sperry Van Ness Commercial Advisors
- State of Oregon
- TMT Development
- Willamette Valley MLS



Public Policy & Portland's Real Estate Market

Professor Gerard Mildner, Director, PSU Center for Real Estate

[Editor's note: This article is adapted from Dr. Mildner's speech before the Institute of Real Estate Management on December 3, 2009 at the Oregon Convention Center. These remarks belong to Dr. Mildner and do not necessarily reflect the views of Portland State University or the PSU Center for Real Estate.]



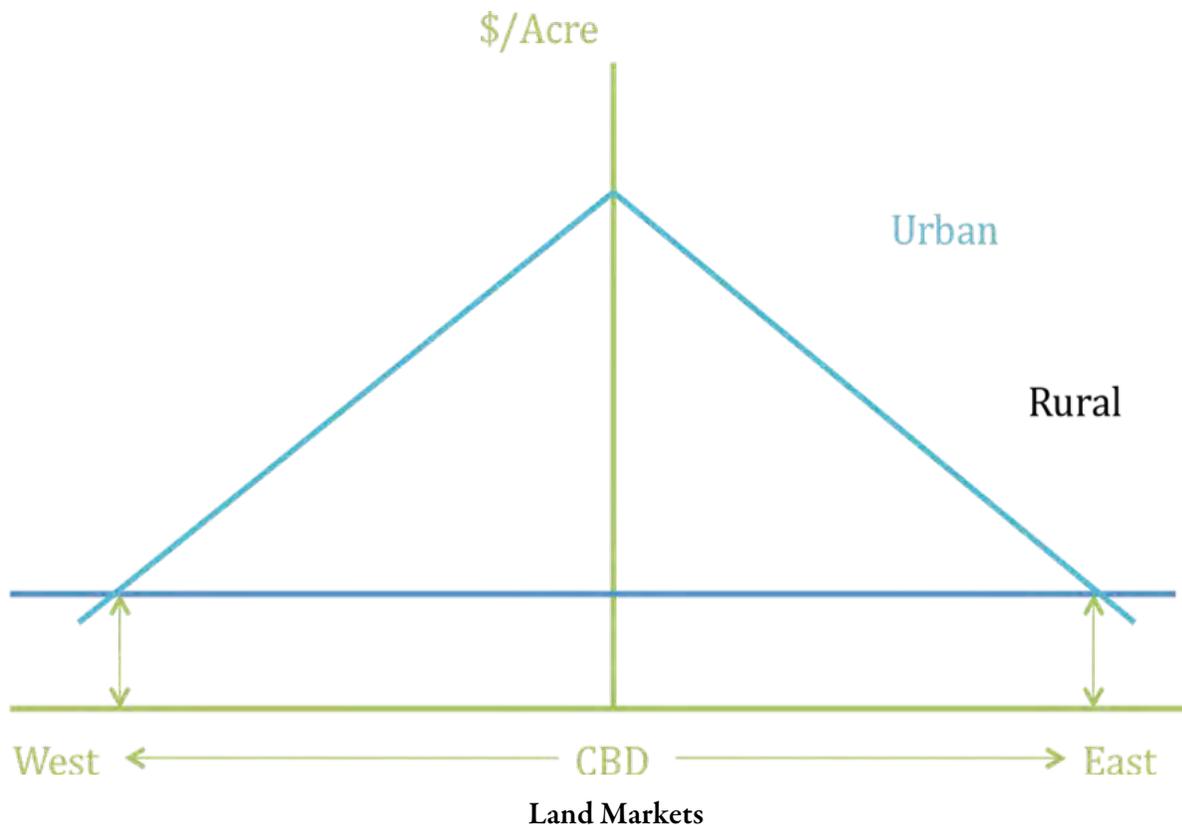
As many of you know, I recently moved my academic position this summer from the PSU School of Urban Studies and Planning to the PSU School of Business Administration, so I would like to offer my reflections as an economist who has been teaching a generation of urban planners and discuss how urban planning relates to the real estate market.

Given the state of the economy, the central feature of the Oregon planning system – the urban growth boundary – may seem beside the point or irrelevant. Housing prices have fallen in the past two years, and vacancy rates for commercial space are high. Land prices and lot prices have collapsed. Yet these

conditions will change. The economy is expected to recover in 2010 and the question is will Portland keep pace with the nation as a whole? What will our future be like?

Also, I know that many of you work for firms and clients who probably *benefit* from the development restrictions of the UGB. Recently, one of my friends told me he hoped that city planners would block one of his competitor's projects, helping his own project to succeed.

We need to challenge this kind of zero-sum thinking. Most of you make your living by leasing, selling, developing, managing, designing or financing property space. For the sake of your career, it is the *volume of activity* and the *size* of the market that matters, *not the price*. It is the urban growth boundary that will influence how wide and how vibrant that market will be. And as Adam Smith taught us, out of the narrow commercial interest of your individual activity, the broader and nobler goal of the prosperity of the region will result.



Let's me take you back to Economics 101. Land prices tend to decline from a peak at the center of a metropolitan area, until they meet the underlying value of agricultural land.

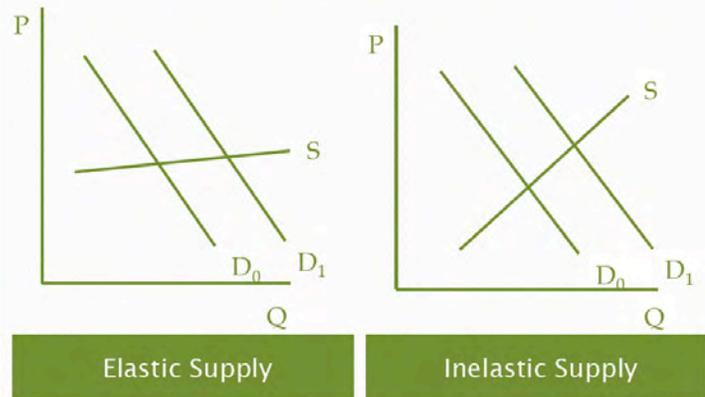
At the margin, urban and agricultural land prices will equalize as farmers and developers compete for land. Through the interaction of real estate markets, land is allocated to its highest and best use. The demand for urban land grows in two ways. One, as incomes and employment grow and people demand more land. Two, as transportation costs fall, inaccessible areas become accessible.

And as the demand for property in a region grows, the increase in demand translates into some combination of more space and high prices, depending upon the elasticity of supply.

Regions of *elastic supply*, such as Dallas, Chicago, Phoenix or Atlanta, can experience very rapid population growth and yet see relatively little price impact.

Regions of *inelastic supply*, such as San Francisco, Los Angeles, Boston, or Washington, D.C., will experience more rapid price increases for the same amount of population growth. Eventually, an inelastic region will grow more slowly, as companies and individuals decide that amenities of living in the region and the network economies of employing workers in the region are insufficient to justify the high housing, labor, and property costs.

Housing Price Effects of Growth



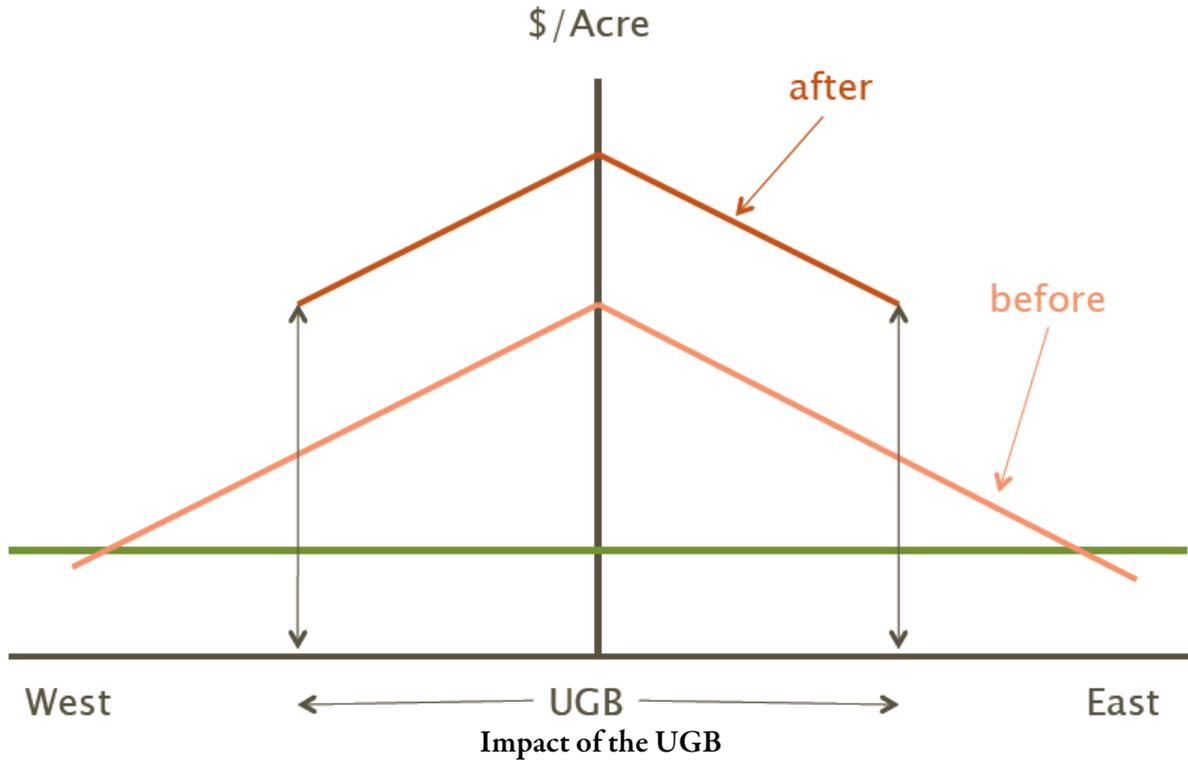
Cities can develop inelastic property markets for a couple of reasons. One is exclusionary zoning, where high-density uses are kept out. Most homeowners are conservative in wanting to insure its value against unwanted land uses, and often this leads towns to put prohibitions against apartments and high-density construction.

However, in *most places* in the country, developers are able to search out unincorporated areas or welcoming jurisdictions that will accept these higher density projects that satisfy that niche of the market.

For *entire regions* to develop inelastic property markets, there needs to be some collusion among the various towns and jurisdictions. For Massachusetts, that comes from the home rule of New England towns and the absence of any unincorporated land. For California, it comes from the NIMBY-ism of small towns and statewide anti-growth legislation like the California Coastal Act. In Oregon, it comes from statewide land use planning. Every location within the state of Oregon has a zoning designation and some restriction on its development. That may bring some benefit, but it also comes at some cost.

Implementing a growth boundary for urban development constrains population growth, causing land and property prices inside the boundary to rise higher than otherwise. That growth may continue for a long while, until the high price of property chokes off new development. Hence, there may be delays and a disconnection between the policy action and its unintended consequence.

Between 1994 and 2005, we estimate that land prices in the region grew by 18.0% per year. Under those conditions, the wise investor bought land and kept it off the market. That inelasticity of supply shifts the burden of the regulation to consumer.



And as development was steered inwards, home prices in low-income neighborhoods of Portland rose by 10% per year, more than twice the rate of suburban jurisdictions, creating substantial burdens for the low-income renters in those communities. As a general rule, low-income households rely upon the stock of aging housing to find something affordable. But if we aren't building sufficient new properties, the rich outbid the poor for the older housing stock and affordability suffers.

Current estimates are that land prices at the metropolitan fringe are ten times higher inside the growth boundary as compared to outside the growth boundary. While this system creates some benefits for wildlife protection and the production of wonderful things like strawberries, Christmas trees, and hazelnuts, it is call this outcome a gross misallocation

Area	1982	1990	2007	1982 - 1990	1990 - 2007
N. Portland	42.9	41.3	245.0	-4%	593%
SE Portland	53.2	59.2	245.8	11%	415%
NE Portland	56.8	64.2	289.0	13%	450%
Hillsboro/Forest Grove	69.5	87.0	265.5	25%	305%
Gresham/Troutdale	70.3	88.9	254.8	26%	287%
Beaverton/Aloha	75.3	105.5	238.3	40%	226%
Oregon City/Mollala	58.5	89.2	260.0	52%	291%
Milwaukie/Gladstone	68.9	94.0	264.5	36%	281%
Tigard/Wilsonville	86.2	125.6	334.9	46%	267%
NW Portland	99.1	144.2	400.0	46%	277%
W. Portland	97.1	143.4	406.7	48%	284%
Lake Oswego/West Linn	119.1	183.6	480.0	54%	261%
Area Average	74.7	102.2	307.0	33%	328%
Area Median	69.9	91.6	265.0	38%	285%

Portland Housing Prices by Submarket

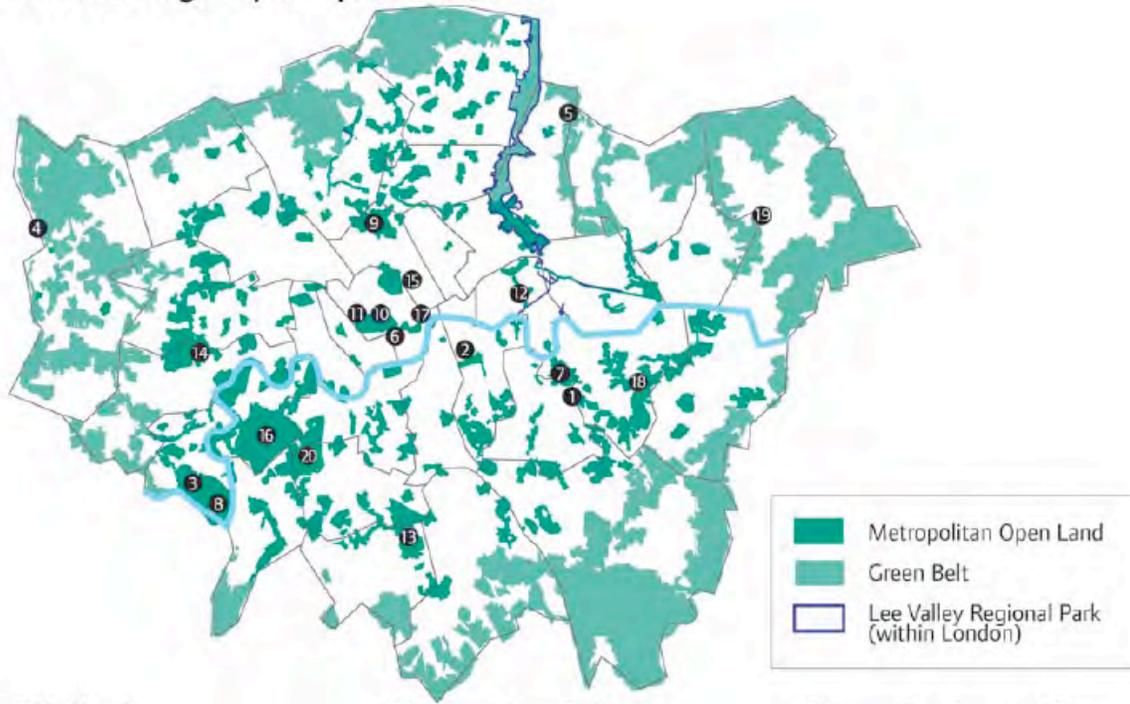
grass seed, hard not to of resources.

And unlike the market, there is no feedback loop in the land use planning system to correct this

misallocation of resources.

What are the long-term implications of Oregon's system? After all, Oregon has only 37 years¹ of experience with urban growth boundaries and we cannot conduct a controlled experiment of a Portland without a UGB. Fortunately, however, we have a city with a 60-year experience with an urban growth boundary and it is London, England.

London's strategic open space network



Now, London is a beautiful city, and for Britons, London is New York, Washington, D.C., and Los Angeles all rolled into one place. Or as Samuel Johnson once said, “When a man is tired of London, he is tired of life, for there is in London all that life can afford.”

Yet London suffers from a highly regulated land market that is almost inflexible to market demands. After World War II, the newly elected Labour government nationalized land development rights by implementing the Town and Country Planning Act of 1947 to steer development from southern England to northern England. Under the Act, unfortunately, planning permission by local authorities was required for all land development.

The system has proven to be highly effective in preventing new property development, particularly in the region around London. Under England's system of local government with very low local property taxes, local authorities have little incentive to permit new development. Land prices on the urban-rural

¹ Senate Bill 100 was passed May 29, 1973 and the Land Conservation & Development Commission first met in October, 1973.

fringe in London are estimated to be 200 times higher when land has development permission compared to not having development permission. Given those differentials, local authorities are able to extract significant concessions from property owners and developers for receiving permission, whether that means parks, open space, new school facilities, new roads, or other public amenities.

These restrictions have led to significant housing price increases. According to the United Kingdom Government's Barker Commission, housing prices in Britain have risen in real terms by 2.5% per year over the last 30 years, while prices in the rest of Europe have risen 1.1% per year. Housing production has been stagnant despite the enormous rise in housing prices, or, in the language of the Barker Report, housing supply is completely inelastic. In London, modest suburban houses sell for well over one million pounds each, equivalent to \$1.6 million, and the high cost of property influences everything from the price of clothing to the price of a pint of beer in a pub.

What can we do to change the city's fate? The lesson from London is that once central authorities monopolize development permission, affordability suffers. As a result, we need to think clearly about the purposes of Oregon's land use planning system and develop better ways of achieving its intended purposes.

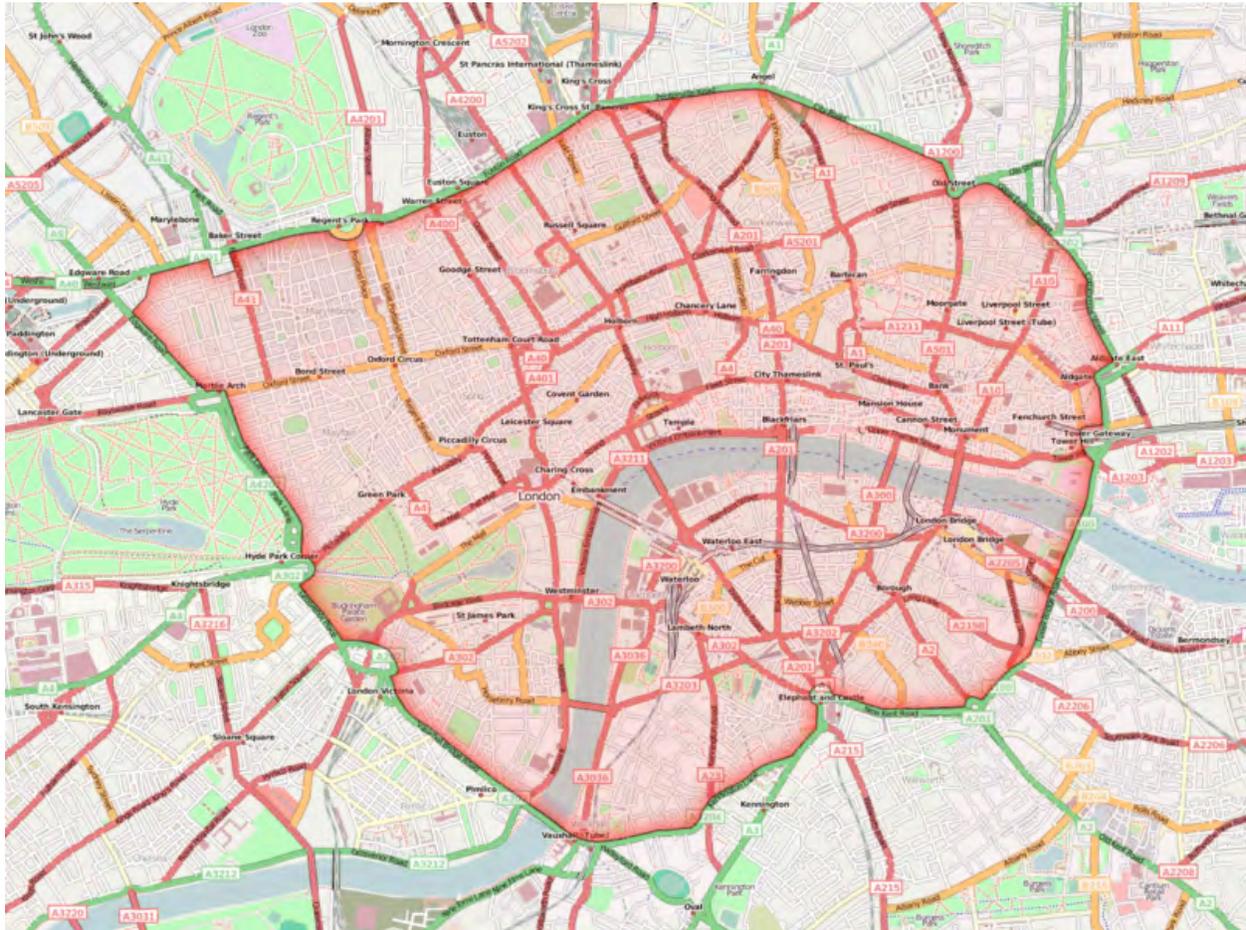
The first objective is to find new ways to protect unique natural areas and agricultural areas, such as the Columbia Gorge or the Willamette Valley's wine producing region, without constricting human settlement. I contend that we should draw lines around those unique natural areas to protect them, rather than draw lines around urban areas to constrain human settlement. We should establish corridors for new urban growth that allow the population to grow in the Willamette Valley without significant impacts on housing prices.

Second, we need to return land use planning back to county government. It is quite clear from the last 20 years that communities within the Portland region have different visions of how they should develop. The City of Portland promotes a vision of high-density living. At the same time, the City of Hillsboro is eager to see new industrial and commercial development along the Sunset Corridor, and many people prefer the suburban lifestyle. We should let both strategies move forward. Research from the University of Pennsylvania suggests that prosperous suburbs and prosperous central cities go hand in hand, rather than function as a zero sum game. So, rather than continue with a regional monopolization of zoning power, we should return that power back to local authorities.

Third, we need to tackle our transportation congestion problem more effectively. Our current transportation planning system treats real estate development as a transportation problem, views traffic congestion as an engineering problem, and assumes that the only answer to our transportation woes is more federal construction projects and switching to mass transit. To pick one egregious example, to address the congestion on Interstate-5, the DOTs in Oregon and Washington have proposed a \$4.2 billion engineering project, which includes a \$1 billion bridge, \$2 billion for various interchanges, \$1 billion for light rail, and won't be completed until any earlier than 2018.

This last issue demonstrates one of the hidden costs of our urban containment system. By choosing to constrict development within fixed boundaries, we have chosen to load our existing highway network

with higher traffic levels, concentrating our traffic on highways that can only be expanded at very high cost. And unfortunately, mass transit is a very poor substitute, both in terms of travel time and cost of delivery. Most transit trips in the region take two or three times longer than an automobile trip, and the marginal cost of producing one additional light rail journey is approximately \$15 per ride. This is another gross misallocation of resources. When our most precious resource is human time, we need the convenience of automobiles.



London's Congestion Pricing Network

However, one of the few things I like about the I-5 Bridge proposal is its recognition that tolling is necessary for our transportation future. Many cities around the world utilize tolling – London, Stockholm, Sweden, Singapore, Santiago, Chile, and Houston, Texas, among others. Santiago, for example, used capital markets and electronic tolling to upgrade its entire highway system in five years. London implemented its congestion charging system within three years. By pricing existing facilities, we allocate the existing infrastructure to its highest valued use, much as real estate markets allocated commercial space to its highest and best use.

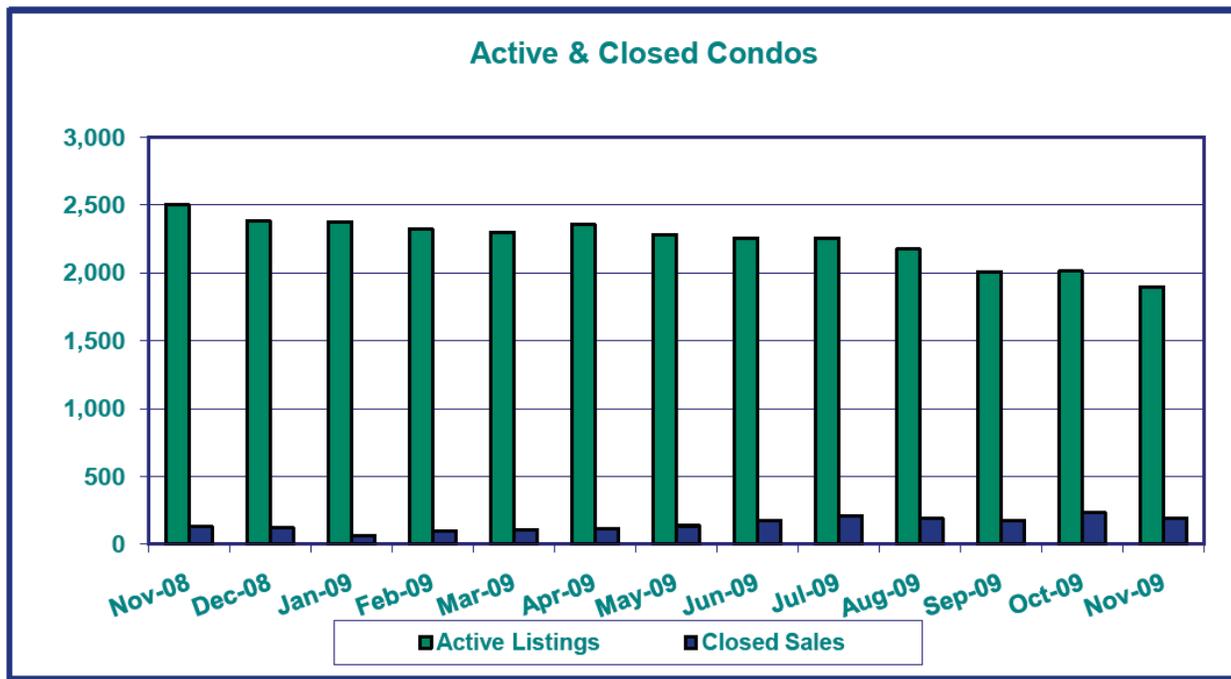
Now these are tough times to be in the real estate industry. The current recession has its origins in the real estate bubble of the last decade and it will take some time for the industry to get back on its feet. The recession has affected all sectors of the industry – commercial, residential, and industrial,

condominium, multi-family and single-family. However, we should not apologize for working in the real estate industry or seeing our purposes as disconnected from larger public purposes, such as providing affordable housing or protecting the environment or promoting employment.

The real estate industry in Portland needs to continue to be a player and participant in local, regional, and statewide decision-making. We need to advocate for a growing and competitive real estate industry. We need a vision to counter the view that we will all be living in small housing units, working in smaller offices, taking longer commutes, and paying more of our incomes for housing. Within the Center for Real Estate, we have taken a leadership role to insure that the future generation of real estate leaders has a solid training. But the industry has a larger purpose in insuring that our region remains a vital place to live and do business.

Condominium Financing: FHA Rule Change Controversy

Clifford Hockley, President, Bluestone & Hockley Real Estate Services



Source: RMLS

Condominium developers built more condominiums than the market could absorb from 2006 - 2009. They built from scratch, developing small and large projects from duplexes to hundreds of units, and they bought apartments, renovated and replatted them so they could be sold as condominiums. While the going was good, they sold thousands of them. Then the real estate bubble burst, the financial sector froze beginning the Great Recession and the developers, investors and their bankers were stuck with a huge inventory of empty condominiums, which they need to unload.

Due to the high number of condominiums in the marketplace and the low interest rates, this should be an optimal time to buy a condominium. But this year Fannie Mae, (Federal National Mortgage Association (FNMA)), Freddie Mac (Federal Home Loan Mortgage Corporation (FHLMC)) and the FHA, Federal Housing Administration (FHA), have decided to tighten up their standards and reduce their risks and exposure to the condominium market.

Fannie Mae and Freddie Mac are typically the organizations that supply a secondary market to banks. Banks and others originate mortgages and then turn around and sell their mortgage loans to

one of these markets. They typically require 25% down payments if you want to buy a condominium.

An FHA loan is a federal assistance mortgage loan insured by the FHA. Federally qualified lenders may issue the loan. ¹ FHA does not make loans directly. Rather, it insures loans made by private lenders. Each lender sets its own rates and terms, FHA allows first time homebuyers to put down as little as 3% and receive up to 6% towards closing costs.

According to the Mortgage Bankers Association, foreclosures on prime mortgages and home loans insured by the FHA rose to 30-year highs in the third quarter of 2009, driven by the biggest job losses since the Great Depression. One out of every six FHA mortgages was late by at least one payment and 3.32% were in foreclosure, the highest for both since at least 1979. The estimated value of FHA reserves had dropped to \$3.6 billion, or about 0.5% of the \$685 billion in loans the FHA has insured. As a result, the FHA has taken steps to reduce its exposure to defaults, particularly in the weak condominium market.

On the 2nd of November 2009, FHA drafted new rules² for condominium financing, explained below. They experienced a significant backlash from the development and condominium ownership community as the rules would have made it very difficult to finance the sale and resale of condominiums.

In response to the political and business pressures, the FHA decision makers agreed to a temporary reprieve. They issued an updated Mortgagee Letter Number 2009-46A³ to open up a temporary window from December 7, 2009 through December 31, 2010. This letter was designed to help existing condominium owners cope with the economy and have a funding source available to sell condominiums.

A summary of the rules and their changes is as follows:

New Rules versus Temporary Rules

- 1) Due to noise concerns FHA insurance will be unavailable for properties that are:
 - a. 1,000 feet from a highway, freeway or heavily traveled road;
 - b. 3,000 feet from a railroad;
 - c. one mile from an airport; or
 - d. five miles from a military airport.

¹ <http://www.fhainfo.com/condos.htm>

² Mortgagee Letter 2009-19

³ <http://docs.google.com/viewer?a=v&q=cache:FceBAPzurksJ:www.hud.gov/offices/adm/hudclips/letters/mortgagee/files/09-46aml.pdf+Mortgagee+Letter+Number+200946A&hl=en&gl=us&sig=AHIEtbSYz1cEUe3wbgk9K5WxPF1rrFk93w>

- 2) FHA financing will not be available to properties located within 2,000 feet of any facility handling or storing explosive or fire prone materials, such as:
 - a) Gas station;
 - b) Fireworks sales or manufacturing operation;
 - c) Facility that stores or uses flammable or explosive chemicals.
- 3) FHA loans are not available if a property is located within 3,000 feet of a:
 - a) Dump,
 - b) Landfill, or
 - c) Superfund site (such as the Willamette River in Portland, Oregon)
- 4) Not more than 25% of the property's total floor area can be used from commercial purposes.
- 5) No more than 10% of the units can be owned by one investor.
- 6) No more than 30% of the units may be encumbered with FHA insurance.
- 7) No more than 15% of the total units can be more than 30 days past due on their association fees.
- 8) For newly constructed units, at least 50% of the total units must be sold prior to any endorsement of any mortgage.
- 9) At least 50% of the units must be sold to owners who will be occupying their units.
- 10) Projects in designated wetlands and flood zones will not qualify.
- 11) Properties listed on the National Register of Historic Places will be difficult to finance.
- 12) Projects consisting of four or more units will not be allowed to have more than 30% of the total units encumbered with FHA insurance.
- 13) A current reserve study must be performed to assure that adequate funds are available for funding capital expenses and maintenance. A reserve study can be no more than 12 months old.
- 14) These rules also include the requirement for an affirmative action housing plan, for new construction and conversions over five units. This plan requires that the racial, socioeconomic and ethnic composition of the condominium residents closely mirror that of the neighboring areas.

The above rules have been amended by temporary rules as outlined in the Mortgagee letter:⁴

1. FHA concentration may be increased from 50% to 100% if the project is:
 - a. 100% complete and construction has been completed for at least one year.
 - b. 100% of the units have been sold and no entity owns more than 10% of the units in the project.
 - c. The property budget provides for the funding of replacement reserves for capital expenditures and deferred maintenance in an account representing at least 10% of the budget.
 - d. Control of the homeowners association has been transferred to the owners; and
 - e. The owner-occupancy (vs. rentals) is at least 50%.

Vacant or tenant-occupied real estate owned (REO), including properties that are bank owned, may be excluded from the calculation of the required owner- occupancy percentage, both from the numerator and the denominator.

2. New construction and conversions are not eligible for these exceptions.
3. The presale requirement in new construction is reduced to 30%, compared with 70% for loans from conventional lenders.

FHA Rule Change Impact:

The Short run

For the next year, this keeps open the flow of loan guarantees available to buyers and sellers of condominiums, keeping this part of the economy moving and enabling partially completed projects to sell out and fill up.

The Long run

Buyers: In 2011, once the amended rules expire, the number of buyers without much cash to make a down payment will shrink considerably the number of properties that will be available for purchase. On the other hand as long as buyers have cash enough to pay at least 20% down payment, these rules will probably not affect them.

Condominium Owners: A condominium owner who wants to sell will be faced with a shrinking pool of buyers. If the owner's property is located on a major arterial road or in a downtown area, close to a river or a lake, FHA financing will likely not be available.

⁴ Details can be found at: <http://www.hud.gov/offices/adm/hudclips/letters/mortgagee/files/09-46aml.pdf>;
<http://www.hud.gov/offices/adm/hudclips/letters/mortgagee/files/09-46bml.pdf>.

Mortgagee Letter 2009-46A provides temporary guidance for FHA's condo policy, while Mortgagee Letter 2009-46B replaces Mortgagee Letter 2009-19.

Condominium Associations: Boards of Directors will be faced with the task of meeting these requirements if they can to preserve their position with FHA (as an FHA approved property) and get financing in place for at least 30% of their owners.

For the time being, we will see some form of status quo, with the exception of the lack of FHA financing for the development and construction of new condominiums. In the long run, buyers may be less able or unable to purchase condominiums. Once the real estate market stabilizes and home prices start to increase, many homes will be priced out of reach for first-time homebuyers, and condominiums will continue to be hard to finance. At this point, the FHA might review their rules again since the market will have stabilized and their risks reduced, but it will likely take three years or more before this may happen.

Apartment owners and multifamily developers will benefit from these rule changes since more first-time home buyers will not be able to afford buying homes, cannot get financing for condominiums and will be forced to stay renters until they can raise enough money for the significant down payments they will need to buy a home.

For 2010, the condominium market may not be significantly affected by the rule changes. It remains to be seen how the FHA will respond in the long run.⁵



Source: RMLS

⁵ Please note the letter changes are short term and tweaks to the FHA policies. Most policies drafted earlier are being kept in place. For the most current information please go to the FHA website.

Hayden Island: Strategic Resource for Sustainable Urban Future?

Shadrach Pilip-Florea

Certificate of Real Estate Development Graduate Student Alumnus



Hayden Island is the northern gateway to Oregon and sits at the nexus of the two largest cities of our region. Much of the discussion regarding the potential I-5 Columbia River Crossing has been dominated by its size, number of lanes, and whether to toll. But, as the region fiercely debates the environmental impact and potential sprawl that a large new bridge might precipitate, it is the development potential of a strategic island larger than downtown Portland that hangs in the balance.

The approximately 1,400-acre island lies strategically at the symbolic heart of the region between the confluence of the Columbia and Willamette Rivers and the international airport. It is traversed by the major freeway and rail corridors between Canada and Mexico and borders the only shipping channel from Idaho to the Pacific. It is home to almost every imaginable use—industrial, office, retail, hotel, residential and recreational. If developed properly, new connections to the city's only island community could make it a national model of first-rate sustainable urban redevelopment. The maritime setting with its 11 miles of waterfront and stunning views of Mt. Hood could reinforce Hayden Island as a highly desirable place to live, work, and play that reduces commuting trips to downtown Portland. It could serve as a model to those residents and developers who have been historically resistant to mixed-use, transit-oriented development (TOD). If done poorly, our region risks further dividing and isolating it, permanently strangling its development potential and decimating its resources.

Hayden Island has the right ingredients for development, centrally located vacant and underdeveloped land. It has a long history as a crossroads of critical connections, and is proximate to downtowns on both sides of the river. The owners of the depressed Jantzen Beach retail center have considered redevelopment, potentially into a mixed-use Main Street transit-oriented development (TOD) centered on a new light rail station. Oregon's lack of a sales tax reinforces a favorable retail environment attracting Washington residents. The island's compact setting offers many needed amenities within a short distance, and many residents today live without cars. If connections and subsequent development are wisely planned along a central spine, Hayden Island could emulate New York's similarly shaped Roosevelt Island, a community in the East River largely without automobiles.

Hayden Island is a 5.25-mile long, linear island that is actually made of two islands, Hayden Island and Tomahawk Island, which were merged by a narrow strip of dredging fill. Over half of the island (831 acres) on the west is undeveloped and currently held in reserve for a possible Port of Portland expansion. The eastern half is home to 2,200 residents and 238 businesses, employing nearly 3,000 employees¹. The retail shops draw people from all over the region and the 5,000 boats moored on Hayden Island attract owners from both states.



In October 2006 amid rumors of a potential Walmart, then Councilor, now Mayor, Sam Adams and the Portland City Council instituted a development moratorium on the Island. Unique in the city known for its famed planning, the island had never had a neighborhood plan. In fact, Hayden Island did not even become a part of the city until 1986 when it was annexed to provide police and fire services. Through a series of public meetings and workshops over the last four years, the [Hayden Island Neighborhood Network](#) (HINooN) partnered with the Columbia River Crossing organization and the city in developing a new plan for the eastern half of the island. A [final plan](#) was prepared by the City of Portland's [Bureau of Planning and Sustainability](#) and was approved by the city council this past summer².

Until recently, residents have proven very supportive of development plans and anxious for better connections to the region. The new bridge was marketed to island residents as an opportunity to reconnect its halves, long divided by I-5. The Neighborhood Preferred Alternative plan, among those presented to it, called for a high bridge that would fly over the island. This promised to open up some land for limited development underneath. Most significantly, a new Tomahawk Main Street was to connect the main eastern artery, Tomahawk Island Drive, with both the new light rail station and the future Jantzen Beach Main Street development.



¹ City of Portland, *East Hayden Island Neighborhood Plan*

² Portland Tribune 2009, [Hayden Island Nice to Meet you](#)

However, the latest construction plans presented by [Columbia River Crossing](#) (CRC), the organization formed and controlled by the two states' transportation departments to shepherd the project, has thrown the neighborhood into disarray. The revisions, along with others on the north side of the river, purport to shave an estimated \$400 to \$650 million from the original \$4.1 billion price tag. They call for dropping the original proposed elevated flyover in favor of a cheaper construction that reuses the existing North Portland Harbor Bridge and berms the freeway above grade. The new freeway would be wider and displace 37 businesses, including the Safeway, the community's only grocery store and pharmacy. Tomahawk Main Street nominally survived the revisions, but now would tunnel under I-5 and will require permanent pumping to prevent flooding³.

Hayden Island Neighborhood Association president and Portland City Council candidate, Ed Garren, spoke for many during the December 4, 2009 project sponsors' meeting proclaiming, "Our Island is getting shafted." He discussed the years he had worked with both the CRC and the City in developing a new neighborhood plan, concluding, "This is a classic bait and switch....They are trying to shove this, literally, down the middle of our lives." In addition to angry Hayden Island residents, the contentious meeting was filled with livability activists protesting the large bridge as a harbinger of more auto-congested sprawl.

Metro President David Bragdon compared the treatment of Hayden Island with the overall goals and dated thinking behind the Columbia River Crossing, saying of the proposed refinement: "I think the flaws in the refinement are the same underlying flaws in the project. In the case of Hayden Island, we've said repeatedly that we want to make a better community. And that objective was sacrificed very quickly."⁴

As the impact to Hayden Island has finally come more into focus, Bragdon's observation recalls its history. Hayden Island's future has traditionally been an afterthought to the area's regional bodies. For example, despite the projected massive investment in infrastructure and accompanied zoning that encourages up to two thousand new residential units and more than a million square feet of commercial use, Bragdon's own [Metro](#) agency does not target Hayden Island to be a town center, nor would it likely receive additional support similar to other regional transit centers to help make it so. In fact, should the Port of Portland's planning prevail, the relatively pristine 831-acre western half would likely become another vast parking lot for automobiles off-loaded from auto transport ships. A potential new terminal for the Port, despite historic trends favoring larger market coastal ports, would continue to compete for its diminishing share of international maritime trade by targeting automobile landings.



³ December 4, 2009 Columbia River Crossing Project Sponsors Meeting [Revision packet](#); Original reporting.

⁴ Metro 2009, [Regional and Town Centers](#)

With any new bridge or light rail, the island's central infrastructure will need to be rebuilt. This presents an unusual opportunity to design a livable and walkable urban core centered on a light rail station, while encouraging higher value redevelopment of the neighboring properties. The recently approved East Hayden Island neighborhood plan aims for this possibility, but it provides no incentives for realizing that objective. It allows for the Jantzen Beach subarea bordering light rail to remain an auto-oriented regional retail center. It grants protected zoning for the neighboring low-density mobile home parks and current auto storage lots, which is hardly an effective, highest and best use of valuable waterfront land centrally located between the region's two largest cities.

The centerpiece of the planned new infrastructure is a light rail station meant to be visible from the freeway and welcome visitors to both Oregon and Portland⁵. A symbol of the region's forward thinking, it could easily be an underutilized station surrounded by big-box stores and vast parking lots. Rather than an iconic example of a mixed-use waterfront TOD, Hayden Island's station would be an ironic monument beside a 10-12 lane freeway on an island whose largest land use will be automobile storage. For a region that defines itself in the forefront of sustainable urban land use, this is fundamentally flawed, dated thinking.

A Thumbnail Development History

First recorded as Menzies Island in 1792 by British Lt. Broughton, Hayden Island has held a series of names. Lewis and Clark labeled it Painted Image Island for an impressively carved canoe they encountered while camping there. The Hudson Bay Company called it Vancouver Island, then Shaw's Island after a fort colonel, and finally it was renamed for Guy Hayden, an early mayor of Vancouver who owned a farm on the island.



In 1908, the double-tracked railroad swing bridge (now the BNSF) that neatly bisects the island was built. This replaced the Northern Pacific Ferry that had transported entire trains across the Columbia. The electric powered bridge is the oldest single pin swing bridge in Washington and in 1982 was placed on the National Register of Historic places. The development of this crucial link insured that all north-south rail traffic in the Pacific would pass through Portland. However, its swing span is too narrow for modern barges and is located too far north of the high span of the I-5 Bridge, requiring 600-foot long barges to execute complex reverse S-curve movements in only 4,000 feet. It is that problem that causes I-5 Bridge lifts in high wind and water conditions, although they do not need or use it at most other times. The Port of Portland has identified the need for its replacement within the next decade (at an estimated cost \$56 million in 2006)⁶.

⁵ City of Portland 2008, [Hayden Island Concept Plan](#)

⁶ Global Insight 2006, [Portland and Vancouver International and Domestic Trade Capacity](#) (for Port of Portland, Metro, and Port of Vancouver); page 10

The island was used for farming and grazing until 1917 when the first interstate bridge for automobile traffic opened, which is now its east-span, northbound bridge. The photograph below shows that the east span was originally a flat bridge, later raised on different-height columns on top of the piers in 1957 when the west span was built. The east span replaced the overcrowded Pacific Power and Light ferry and opened the island to development. To pay for construction, there was a nickel per crossing toll until 1929. The second matching three-lane bridge was built in 1958, and tolls of 20 to 60 cents were reinstated until 1966, when construction costs were fully recouped⁷.



In the roaring twenties, Oregon sportswear leader, Jantzen Knitting Mills, teamed with Hayden Island Amusement Company to build the 112-acre Jantzen Beach Amusement Park as a promotion for Jantzen swimming suits. Trumpeted as the Coney Island of the West, it had roller coasters, ballrooms, a C.W. Parker merry-go-round, and swimming pools. Today the pools' pumping facilities are still in use, having been converted to pump drinking water to Hayden Island.

Thanks to dikes erected on the Columbia, the park survived the flood of 1946 that destroyed the neighboring, burgeoning city of Vanport (today's Delta Park), and for decades the park was a popular weekend destination with over 30 million visitors over its 42 years. However, by the sixties, a series of accidents befell the park and with the reinstated freeway tolls and changing recreation fashions, it had fallen into disfavor⁸.

In 1970, the park closed its doors and, except for the historic carousel, the buildings were all demolished and the site was redeveloped into Jantzen Beach Center mall. A traditional enclosed mall, it was anchored with a K-Mart on one end and a Sears on the other. Although never very fashionable, the mall did fairly well due to its favorable location. Ever since Washington State passed the Revenue Act of 1935, it has had a sales tax, while Oregon voters have defeated a sales tax nine times. A short distance across the bridge from Vancouver, Hayden Island has benefitted enormously from this tax discrepancy. Every year tens of thousands of Washingtonians cross the bridge to shop tax-free.

During the booming post-war years, boaters flocked to develop the island, and moorages sprouted along the shores of the calm channel of North Portland Harbor. With its easy access to both the Columbia and I-5, the island is a desirable location for boaters. The island is particularly popular with sail-boaters with the wide expanse of the Columbia just to the east, home to weekly regattas. The protected moorage, including covered moorage at Columbia River Yacht Club, is in high demand assisted by the 8.2% Washington sales



⁷ Columbia River Crossing 2009, [About the Bridge](#)

⁸ PDXHistory.com, [Jantzen Beach](#)

or use tax applicable to boats. The summer population swells with yachters which helps support local restaurants and neighborhood shops, allowing more development than the Island's population alone would allow.

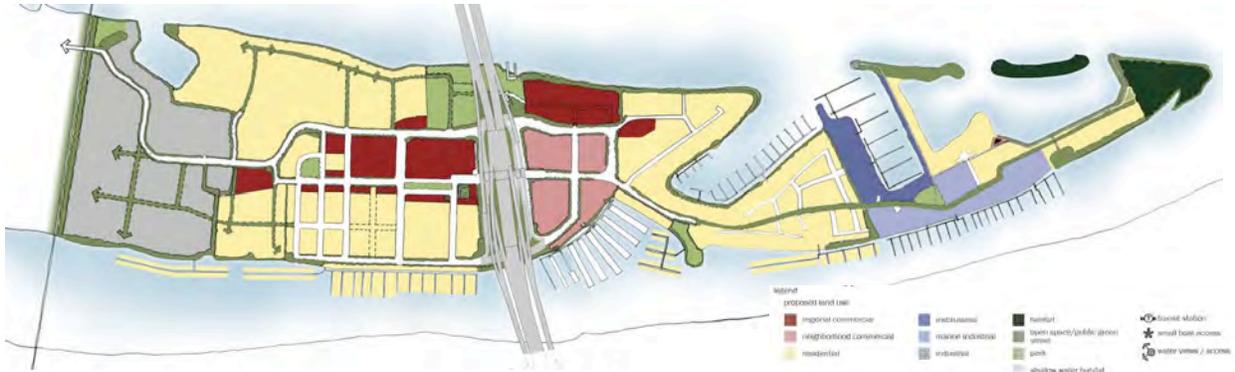
Housing on the island developed sporadically with the first mobile home parks taking advantage of the cheap land in the fifties. Low-rise condominiums and apartment complexes developed in the sixties. Floating homes also became popular as a counter-cultural lifestyle choice. In the last decade the island was somewhat late to the regional residential build-out and only two new projects were started. The luxury condominium complexes, Salpare Bay and Waterside, were begun to take advantage of the waterfront setting. The 84-unit [Waterside](#) with new moorage was completed in 2009 and units are selling slowly in the currently oversaturated market. The seven building, 204-unit Salpare Bay currently sits unfinished in foreclosure with multiple liens and lawsuits⁹. However, its accompanying moorage was completed and is now half leased. Today the island is home to 1,581 residential units.

Hayden Island Today and the New Neighborhood Plan



Much of the eastern half (east of the BNSF bridge) of Hayden Island is developed with retail, office, hotel, residential, and a variety of industrial uses. The business park to the west of Jantzen Beach is home to several small industries such as Huggy Bear, a cabinet manufacturer, and, as befits its maritime location, multiple marine businesses, such as Schooner Creek, a builder of sailboats and small yachts. The vast paved expanse directly adjacent to the BNSF railroad is home to the Manheim Portland Automobile Auction.

⁹ Portland Business Journal 2009, [Troubled Project in Court](#)



East Hayden Island Conceptual Neighborhood Plan

The new neighborhood plan protects many existing uses while pointing to some transformations for the island. The plan preserves most of the existing residential stock including its single-family, multifamily, floating and mobile housing. It also calls for protecting the industrial uses in the west. A new park with views of the Columbia and neighboring Vancouver was to have been built on the north under the earlier flyover bridge plan. Today, the island has only one park on the eastern tip of the island. A light rail station with a public plaza would be built immediately west of I-5. The station is intended to serve as the symbolic center of the island and be visible from the freeway.

Residential development on Hayden Island is complicated by its location in the Portland Airport flight path. Therefore, it falls under federal government guidelines for noise ordinances that state and local municipalities administer. The guidelines call for no residential development above 75 Ldn (day-night equivalent noise levels) and recommend dampening measures above 65 Ldn. Portland was one of the first cities to write a comprehensive noise ordinance into its zoning code in 1975. Ldn contours were mapped in a 1990 survey and most of Hayden Island falls in the 65 Ldn, with the northern swath (including the mobile home park, current Red Lion hotel and some moorages) falling into the more restricted 68 Ldn area. The current Portland zoning code bans new residential development at and above the 68 Ldn noise contour, and calls for certified noise insulation be installed on all residential projects in the airport noise overlay¹⁰.

Ostensibly to protect existing affordable housing, the new plan rezoned the mobile park to the north from General Commercial to R2 (that allows one unit per 2,000 square feet, a use that is inconsistent with its location in the Ldn68 noise contour, which may render significant future residential development options moot). Recognizing this possibility, the Hayden Island plan includes changes to the zoning code that allow the transfer of residential development rights from louder zones to quieter zones. The undeveloped western half falls under the 65 Ldn and 62 Ldn contours¹¹.

Jantzen Beach and a New Central Core:

Most dramatically, the east island neighborhood plan calls for a new green, pedestrian and bike friendly street grid to be built in the place of the existing Jantzen Beach SuperCenter. The new central Tomahawk Main Street is to connect the new center with residents on the western side of I-5. Concurrent with the new physical infrastructure, the plan implements new district zoning and

¹⁰ Portland Zoning Code, Chapter 33.470 Portland International Airport Noise Impact Zone

¹¹ Portland Zoning Code, Chapter 33.532 Hayden Island Plan district

development standards that encourage the development of transit-oriented mixed-use projects with up to 2,000 new residential units¹¹.

Jantzen Beach is the name of the I-5 exit ramp and the Jantzen Beach Super Center is the commercial retail development that, to most of us, defines Hayden Island. The shopping mall and big box outlets sprawl over 80 acres immediately west of the freeway. The commercial area has over 875,000 square feet of leasable retail space with 3,100 parking spaces. The new neighborhood plan allows for the site to be redeveloped into a Main Street retail center, more akin to so-called lifestyle centers like Durham's [Bridgeport Village](#), or Hillsboro's [Streets of Tanasbourne](#).

Due to the transitory nature of smaller retail malls, by the 1990s the Jantzen Beach shopping center was no longer fashionable. In 1996, MBK Northwest of Portland invested \$50 million to convert Jantzen Beach from a traditional mall into a big-box power center. It demolished the western leg of the mall to create the parking lot and surrounding tilt up big-box stores. The eastern half of the mall was refurbished with a food court and a restored Parker carousel¹². Today a two-story Target anchors the north end of the largely empty mall. Further west is the power center with a Home Depot, Barnes & Noble, and other midsize retailers, sharing space with the empty shells of Linens'n Things, CompUSA, Circuit City, and other retailers that did not survive the recent economic downturn. However, Hayden Island continues to draw a significant number of customers from both states to its remaining power center tenants. It is the closest regional retail center to serve rapidly gentrifying North Portland.

In fall of 2009, the Michigan State Pension Fund, the owners of Jantzen Beach SuperCenter, retained East coast retail developers [Edens & Avant](#) to take over management from developer [Madison Marquette](#). Edens & Avant currently manages over 140 centers, primarily grocery neighborhood centers but also a smattering of auto-oriented, box-anchored shopping centers-similar to the existing Jantzen Beach center. Madison Marquette had a history of successfully redeveloping depressed properties into mixed-use regional retail centers, and projects such as [Bay Street](#) in Emeryville, California that turned an isolated brownfield into a dense main street urban village with high-end retailers with residents above that offered a potential template for Jantzen Beach¹².

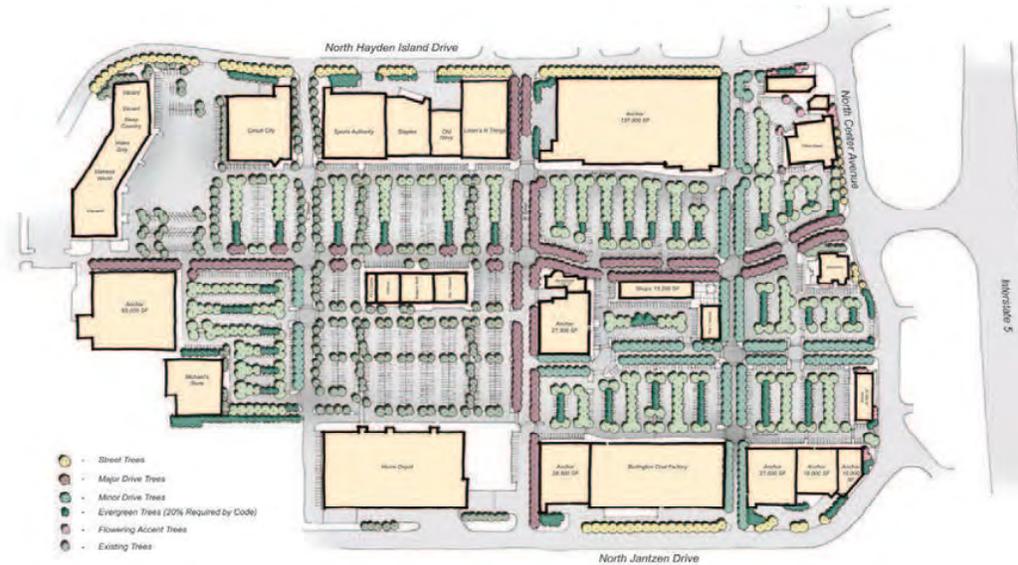
In the last few years, Edens & Avant have expanded to include mixed-use projects. Most significantly it has just begun a redevelopment of the 31-acre [Mosaic district](#) in Merrifield VA, near Washington DC. The Mosaic district is a LEED for neighborhoods development pilot project of 1.89 million square feet, with retail and office space, a movie theatre and 1,000 new residential units built along a new street grid. It is planned to be somewhat like Bridgeport Village in offering a more upscale retail environment than existing big-box development, but with the added benefit of being centered on transit with apartments and condos built above¹³.

Like the Mosaic District, the new base zoning of the Jantzen Beach sub-area plan allows for a large redevelopment (up to 2,204,000 square feet with substantial bonuses available for residential uses). In addition, the sub-area plan allows for building heights up to 80 feet next to transit stations and the area within one-quarter mile of the station will be eligible for the city's transit-oriented

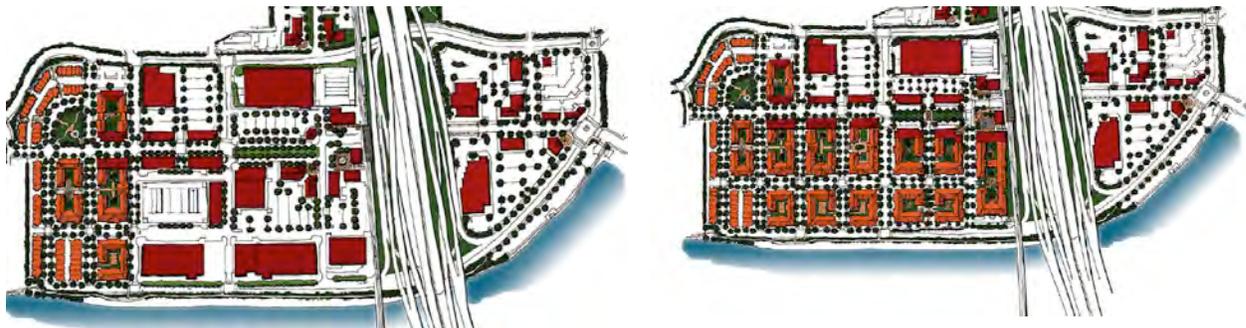
¹² Portland Business Journal 2004, [New Management takes over Jantzen Beach](#)

¹³ Washington D.C. Business Journal, 2008 [Fairfax County tees up first TIF Development](#)

development tax exemption program, allowing up to 10 years in property tax exemption for new residential construction.



In January 2009 Madison Marquette proposed to the Portland planning commission a possible phased redevelopment plan. The first phase would demolish the remaining mall and expand the auto oriented big-box power center. Sub-sequent development would gradually replace the box stores with mixed-use multistoried buildings on a street grid. In crafting the new neighborhood plan the city is allowing more big-box retail space now with the hope that it will eventually develop into a mixed-use TOD commensurate with the huge public investment in the freeway and light rail. It is strange that a city and a region that has poured large amounts of current and future funds into building new TOD centers such as Beaverton Round, Gresham Station, or South Waterfront would let this current development opportunity lapse. The developer may restrict development to retail only. In an [article](#) posted on the Edens & Avant website, CEO Terry Brown stated: "We're only doing projects that are retail-driven, even though a lot of developers had considered mixed-use projects, the credit markets have impacted them. Today, mixed-use isn't as competitive as traditional retail-only centers."¹⁴



Phases I & II

On the east side of I-5, a neighborhood retail center is envisioned to serve the eastern half of the island with local services. Currently this area is home to Safeway, a Hooters restaurant, a gas station,

¹⁴ Global Real Estate Monitor, 2008 [Edens & Avant mix it up](#)

numerous fast-food drive-throughs, a carwash, and several empty retail buildings (including an abandoned Zupans). However the new revisions to the CRC will dramatically widen the freeway's footprint, destroying the existing businesses (e.g. Safeway) that were originally preserved by the neighborhood plan. If the current revisions by CRC are accepted, the city should revisit that plan.

Further East, Columbia Crossings, the island's largest owner of moorages, (not to be confused with the state transportation departments ODOT/WADOT bridge planning effort) is said to be planning two new residential projects. The neighborhood plan calls for allowing height limits up to 80 feet to accommodate its plans for 800 new units in two point towers. Additionally a new moorage is allowed to the east of the existing Sundance Marina, on the Southeast shore.

Typically in urban planning, one quarter mile, approximately a 15-minute walk, is considered the maximum distance that people will choose to walk rather than drive. Hayden Island, with its average half-mile width, points towards a development plan focused on a central spine of a traditional main street, one with dense commercial uses grouped along the center and multi-storied residential uses interspersed both above and behind, leaving the edges more natural for ample waterfront activities, pedestrian and bicycle trails.

With 11 miles of waterfront shore served by transit, Hayden Island represents an unparalleled regional resource for residential recreation. The northern edge would be particularly suited for an extended urban waterfront with vistas of Mt. Hood and Vancouver's redeveloping urban waterfront (the site of the former Boise Cascade industrial complex). Waterfront restaurants similar to Vancouver's Columbia Shores popular McMenamin's and Beaches would enliven the waterfront and relate to development across the river at the Boise Cascade urban waterfront development. The two existing hotels, Jantzen Beach Red Lion and Thunderbird, could be knitted into such an urban waterfront fabric.

Sustainable Urban Islands- Roosevelt Island and Treasure Island

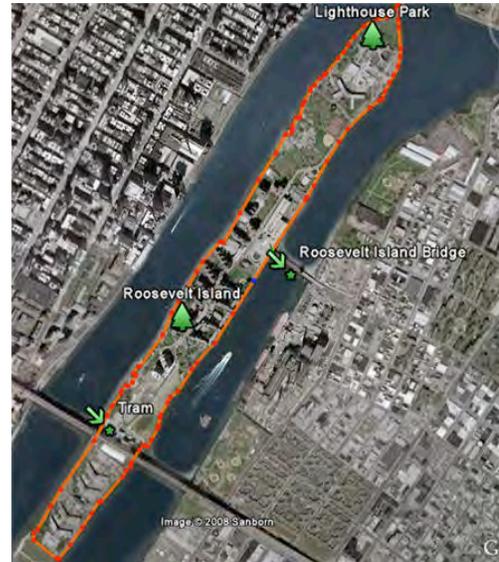
Roosevelt Island is a popular mixed income residential community on a small narrow island of only 147 acres in New York's East River. Two miles long but no wider than 800 feet, the island is home to approximately 12,000 residents. Like Hayden Island, Roosevelt Island is bisected by a heavily traveled bridge, the Queensboro Bridge, N.Y. state route 25, which carries commuters from Manhattan to Queens.



Formerly known as Welfare Island, it was historically the site of asylums, prisons, hospitals, and poorhouses. In 1969, New York State's Urban Development Corporation was granted a 99-year lease in order to redevelop the island. As part of the federal government's New Communities program, the island

was a so-called ‘new town in a town’. The master plan envisioned high density, but humanly scaled, development largely without automobiles. Vehicles are parked in a central garage near the bridge, and minibus shuttles circle the island offering residents a ride for 25 cents¹⁵. At light rail planning meetings, several residents of Hayden Island requested a similar service for the island, picking up at the light rail station and then dropping off at residences or places of employment on the island. Currently, the population is too small to support this; however, future higher value development could allow for the necessary density to provide a similar minibus along a central spine.

In 1976, an aerial tramway was built as an alternative to an expensive new bridge to connect the island to Manhattan. The country’s first urban tram, it carries commuters to a terminal at Second Avenue and East 60th St. At its peak, it rises 250 feet over the river and offers spectacular views of the city. The [Roosevelt Island Operating Corporation](#), a state public-benefit corporation, was formed in 1984 to manage the tram, minibuses, central parking garage, and sports centers. The City and Port of Portland (which owns the western half) could form a joint Hayden Island Development Corporation to formulate and implement a better plan for the island’s integrated development. Roosevelt Island was developed in three phases, each of multiple housing projects that integrated with the existing infrastructure. A similar multiple phase approach for the larger Hayden Island could begin with a public-private partnership for Jantzen Beach.



Roosevelt Island is also the only U.S. residential community that has its trash collected by an Automated Vacuum Collection System (AVAC), an underground pipe system that greatly simplifies trash collection by whisking it away to a central collection site. The new street network on the 80-acre Jantzen Beach redevelopment could also lay the groundwork for an sustainable shared system, probably not an AVAC, but perhaps a central district heating and cooling system similar to what the developer [Gerding/Edlen](#) used for the Brewery Blocks in Portland. Future development could tie into the district system.

San Francisco Bay’s [Treasure Island](#) is another planned redevelopment of an urban waterfront island that potentially offers insights for Hayden Island. The 400-acre man-made island was originally built for the 1939 Golden Gate International Exposition, later to be used as a military base and occasionally as a movie studio. In 1996, the base was decommissioned, and the island turned over to the city for redevelopment. The City formed the Treasure Island Development Authority, which retained Lennar Homes to develop a sustainable mixed income residential housing development. Plans call for 6,000 new units (with 2,000 marked to be affordable), three hotels, a 400-slip marina, a retail promenade, new parks and wetlands.¹⁶

¹⁵ Wolfe, Gerald; 1994; *New York: a guide to the metropolis*, pp340-366

¹⁶ San Francisco chronicle 2009, [Treasure Island Utopia gets a reality check](#)



The most striking feature of the new master plan is the angled street grid designed to minimize wind exposure. Like Roosevelt Island, it is hoped to be as car-free as possible. Every resident will live within a 15-minute walk of a transit hub. Parking will be built, but decoupled from units and to be leased separately. All access to the island will be tolled. The island connects with the tolled Bay Bridge, which links Oakland and the East Bay to San Francisco. Automobile ferries will also be tolled to further discourage driving. Were Hayden Island to develop around a central spine, all new residents would be less than a quarter mile, far less than a 15-minute walk, from that central street. If developed densely enough, a minibus service run by an Island Development Corporation might become feasible.

Treasure Island bills itself the most sustainable redevelopment project in the country. Fully 300 acres will be left open as green spaces, with organic farms, sports fields, parks, and wetlands. To take advantage of the heavy bay winds, a small wind farm that provides distributed power to the island will be built. Wastewater is to be treated and then dispersed into the natural wetlands. All of these features could easily be adapted for Hayden Island as well, particularly on some of the 831 undeveloped acres to the west of the island. However Treasure Island will not have a central transit station, nor the favorable retail location that our Hayden Island enjoys.

The important lesson from both Roosevelt Island and Treasure Island is that to maximize both public and private benefit from a centrally located exceptional waterfront island, a detailed and comprehensive development plan that looks at the island as a whole is a vital precondition, and that a publicly controlled development corporation is crucial to implement the development plan. Neither of these essential elements has been accomplished for Hayden Island despite its more than 60 percent ownership by public entities and/or the proposed investment of multibillions of dollars in infrastructure improvements. How is it that in the state most proud of its determination to intimately link, hand in glove, transportation and land use planning, that this has not even been attempted for Hayden Island despite the expenditure of over \$80 million for planning?

West Hayden Island



A vital transportation connection, the Burlington Northern Santa Fe Railroad bisects the island. The 831 acres comprising the western 60 percent is largely natural habitat with heavy vegetation dominating the landscape. Outside of a few transmission towers, the only development is the Columbia wastewater treatment plant pump house and de-chlorination facility and a dredge dewatering and storage area. In 1983, voters brought the land into the urban growth boundary, and in 1993 the [Port of Portland](#) used its condemnation powers to take the property. It is Portland's last large developable parcel on the 40-foot deep Columbia River shipping channel and alone is twice the size of Ross Island in the Willamette River.

Portland General Electric purchased the property from Western Trucking Company and then owned it for decades. PGE explored developing its own port facility but then in 1990 it put together a proposal to develop the island for residential use. In 1993 The Port of Portland stepped in and blocked the development. Initially, the Port tried to purchase the site and requested the city to annex the property in order to zone it industrial. After PGE refused to sell, the Port resorted to its condemnation power to acquire the site in 1994.

In 1999, the Port submitted a preliminary \$657 million dollar proposal to build a new terminal capable of handling three ships, similar to the Port of Vancouver's automobile landing facilities. The plans called for a new bridge over the North Portland Harbor channel connecting Hayden Island with Marine Drive. The main centerpiece of the proposal was to build grain terminals for

agricultural giant Archer Daniels Midland on the northern side of island. The western tip of the island was to be left undeveloped¹⁷.

Before Port Development



After Port Development

¹⁷ Portland Tribune 2009, [West Hayden Island Port or Habitat](#)

Fearing that the Port intended to pave most of the island for auto facilities, The Audubon Society, along with several environmental groups, launched a fierce fight to block the development of the island. The Audubon Society considers the Island to have a high habitat value with its large contiguous area, which is more effective at protecting species than smaller fragmented spaces typical of urban areas. In their view, the Port's plans would truly be a case of Joni Mitchell's famous line "they paved paradise and put up a parking lot."

In 2000, the Port of Portland abruptly halted the project and cancelled environmental reviews. Archer Daniels Midland opted to build its new facilities downstream at the Port of Kalama. Losing its main tenant, the Port had no reason to continue to battle the environmental groups, particularly as it was also proposing a contentious expansion of Portland International Airport that neighborhood groups opposed. The Audubon Society has offered to buy the site, but the Port has dismissed them. After voters passed the 2006 bond measure to purchase green spaces, Metro also considered the property for preservation, but it has since been removed from the list after the Port refused to sell¹⁸.

Tellingly, around the same time the Port of Portland auctioned off Terminal One. The industrial port facility was sold despite its multimodal connections with the neighboring railroad, Highway 30, and I-405¹⁹. Recognizing the long-term trend of facilities moving downriver and away from the city center, reinvestment in the aged port with a central location did not make sense. The rapid growth rates and recent investment in the lower Columbia ports of Kalama and Longview are indicative of this trend. Unlike Terminal One the Port's action on Hayden Island ignores its central location between the region's two largest cities, and its immediate proximity to the downtown Vancouver's redeveloping waterfront.

Another important consideration is the continuing historic trend of maritime trade migrating to larger coastal Ports. Navigating the Columbia adds an extra day for international ships. On the West Coast the large bay ports of Seattle-Tacoma, Oakland-San Francisco, and particularly the massive Los Angeles-Long Beach continue to take a larger share of international trade. With their huge local markets, better multimodal connections, and ocean proximity, these ports have both economies of scale and offer rapid turn-around, allowing for quicker, cheaper connections that satisfy today's just-in-time and bottom-line oriented global business climate. The departure of several shipping lines from serving Portland evidences the trend. Significantly the Port of Portland is the only major West Coast Port without any long-term leases with international shipping companies²⁰.

Today the Port of Portland has four working terminals, an average size of 256 acres each. Terminal Six, the largest is 455 acres. The Port operates in competition with the [Port of Vancouver](#), which currently advertises 1,106 acres of river frontage available at its' Columbia Gateway. A 2006 Port of Portland trade capacity report projected that the region's maritime trade would increase 67% by 2035. Bulk commodities and automobile storage account for most of the expected growth. The outlook for containers was less certain. The region handles less than 2% of the west coast's containerized shipping, and future post Panamax (i.e. ships larger than today's standard that is

¹⁸ Audubon society of Portland, 2005 [Offer to buy West Hayden Island](#)

¹⁹ Oregonian, 2002, *End of line for Terminal 1*

²⁰ Global Insight 2006, [Portland and Vancouver International and Domestic Trade Capacity](#) (for Port of Portland, Metro, and Port of Vancouver); Outlook of Maritime trade

limited by the size of Panamal Canal) container ships will likely be too large for even a 43' deep Columbia River channel.

The shipping of fully assembled automobiles requires a deep port, good railroad connections, and cheap land. All five Columbia River ports (Portland, Longview, Kalama, St. Helens, and Vancouver) have the necessary infrastructure, and all of them but Portland have large contiguous riverfront parcels that are shovel-ready with land costs that are substantially cheaper than Portland's. As the region aims to add one million people in the next twenty-five years within the confines of the urban growth boundary, is a huge parking lot that provides only a handful of jobs really a prudent use of 831 acres of centrally located waterfront property?

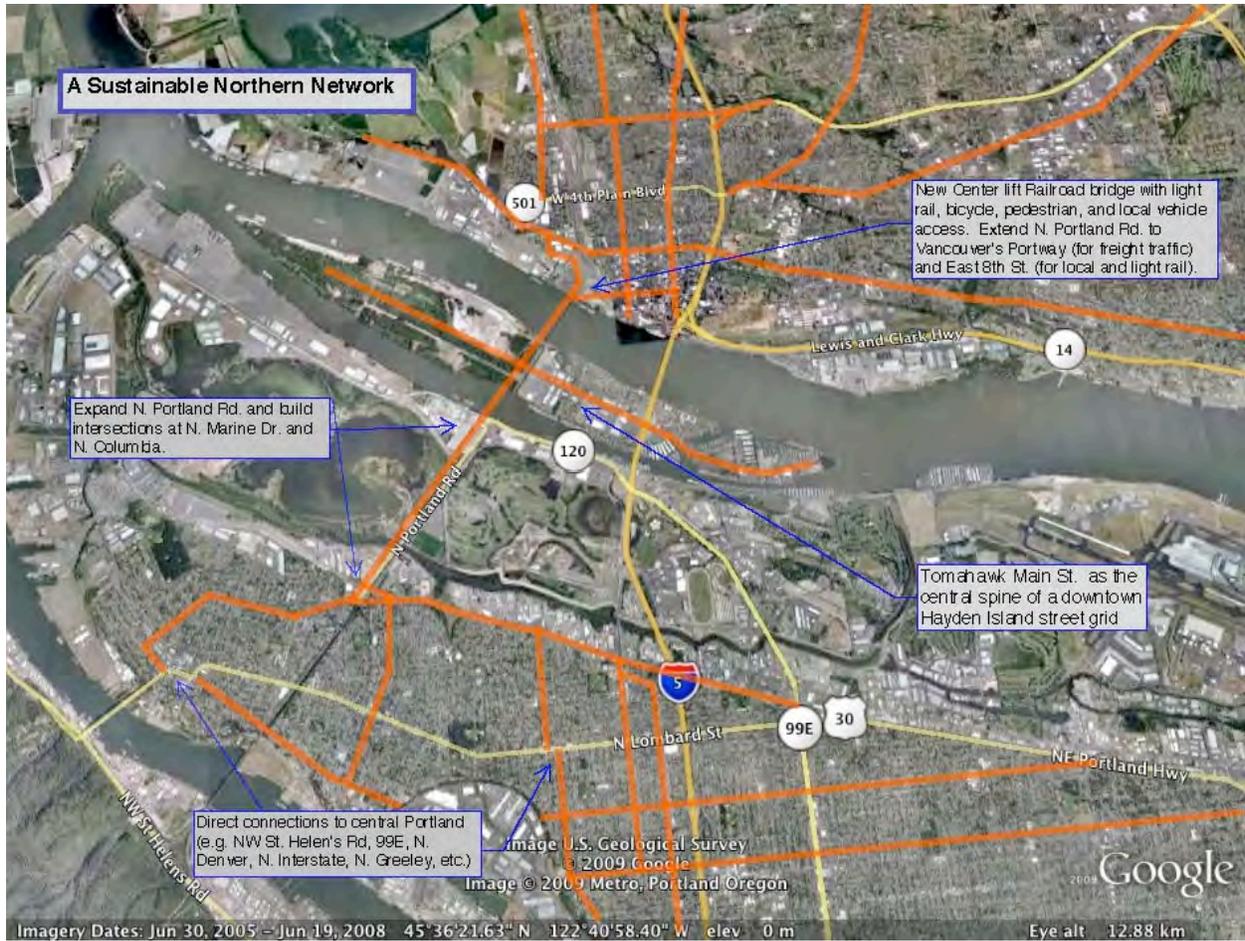
Currently I-5 is the only way on and off the island. As part of the East Hayden Island Plan, the local community called for an arterial bridge onto the island. Only two locations for a bridge were discussed and a location through the approximate center of West Hayden Island was considered preferable. The location would connect with Marine Drive at the eastern edge of Terminal Six.



In the 2nd Quarter 2008 Portland State Real Estate Quarterly & Urban Development Journal²¹, Professor Will Macht presented an alternative plan to the Columbia River Crossing. He argued that instead of an expensive new 12-lane freeway bridge, the DOT's should raise the I-5 bridge 18 feet at its peak to be able to remove the lift span, recover the 38 feet between the two spans to insert two reversible lanes and build an arterial/light rail bridge, as a twin to the BNSF Railroad bridge. The shorter, lower steel bridge, at a 530-foot narrower location, would be far less expensive and would connect the intersection of Marine Drive and North Portland Road with downtown and the Port of Vancouver.



²¹ Macht, Will <http://www.pdx.edu/realestate/news-research-real-estate>



Light rail would have a logical new station near the downtown Vancouver Amtrak & commuter rail station then continue into downtown on West 8th, serving the redeveloped Boise Cascade development and stimulating more mixed-use development in the west end of downtown Vancouver. It would provide the first non-freeway connection between Portland, Hayden Island and Vancouver. The CRC estimates that half of all trips across the I-5 Bridge are in fact local trips,

between north Portland and Vancouver, and a new bridge would open up multiple direct routes between Vancouver and Portland (e.g. Hwy 30, 99E, Interstate, N. Greeley). Freight traffic makes up an additional 7% and the two ports would have an alternative to congested I-5²².

Regardless of the outcome of the Columbia River Crossing debate, the region should consider building this new bridge. Immediately, it would open the center of Hayden Island to appropriate urban development commensurate with its central location, natural amenities, and infrastructure investment. The twin bridge would tie the two street networks together and knit the neighboring but isolated communities of Vancouver, North Portland, and Hayden Island into a more cohesive urban entity. Led by a new town center at Hayden Island, higher density development would be encouraged at the natural centers of downtown Vancouver, St. John's, and Kenton.

Why not North Waterfront?

It is somewhat depressing to compare the massive investment, both in time and financial subsidies, which the region has poured into creating the South Waterfront district, with the seeming indifference it has given to Hayden Island.



In the 38 acres of South Waterfront, PDC and private developers have created a multimodal destination with new streets, new parks, a streetcar, an aerial tram, and soon a new iconic pedestrian and light rail/pedestrian-only bridge over the Willamette, all to mold the small isolated area divided by noisy freeways into a model community of 5,500 residents. While to our north, a 1,400-acre real island, already home to half that many people, with 11 miles of natural waterfront at the confluence of the

Willamette and Columbia Rivers, lies ripe for redevelopment. With appropriate planning its population and services could be the nucleus of an exceptional urban waterfront island growth center.

The CRC revised plan would permanently divide Hayden Island at grade with a mammoth, wide, bermed freeway. Both sides of it are already scarred by suburban sprawl and pockmarked with vast parking lots. Almost none of the uses are currently connected to each other in a walkable manner. The city has conducted a hastily conceived planning process for the eastern half of the island that permits continuation of low-density sprawl and that is not even integrated with a planning process for the western half. The multimillion planning process for the bridge has not even considered in a comprehensive way the integration of a multibillion bridge with potential land use development on the island. And now the Port wants to build shipping terminals to offload cars on the 60 percent of the island it owns that is in mostly natural, heavily treed condition.

²² Columbia River Crossing *Travel Demand Review*, May 2008

Today as the city plans whether to build a \$4 billion, 10-12-lane massive new freeway bridge that will define our region's future identity and permanently divide, rather than connect, our northern neighborhoods, it is worth asking the question again. Are we making a good choice? Throughout the last two decades Clark County has led the region in population growth, with over 400,000 people, and yet downtown Vancouver is still connected to Portland by only a single freeway bridge while 10 bridges cross the Willamette at or near downtown Portland.

There is only a single freeway to access the island. On it, one is not even aware that it is an island. An area larger than downtown Portland, that is strategically located at the symbolic and transportation heart of our entire region, half of which is undeveloped, has enormous potential to be an exceptional model of what an urban waterfront island could be. A place with 11 miles of waterfront on the largest river in the West, adjacent to the second largest downtown in the region and a short distance to the largest, less than 10 minutes to the airport and at the crossroads of the busiest rail and highway corridors lies ripe for redevelopment. More than 60% of it is already publicly owned, and billions of dollars are about to be spent on its infrastructure. Yet no one is even talking about how to pull all these threads together into a place that is truly sustainable, in every way, economically, environmentally, and urbanistically. Where are the planning and development communities when we most need their skills?

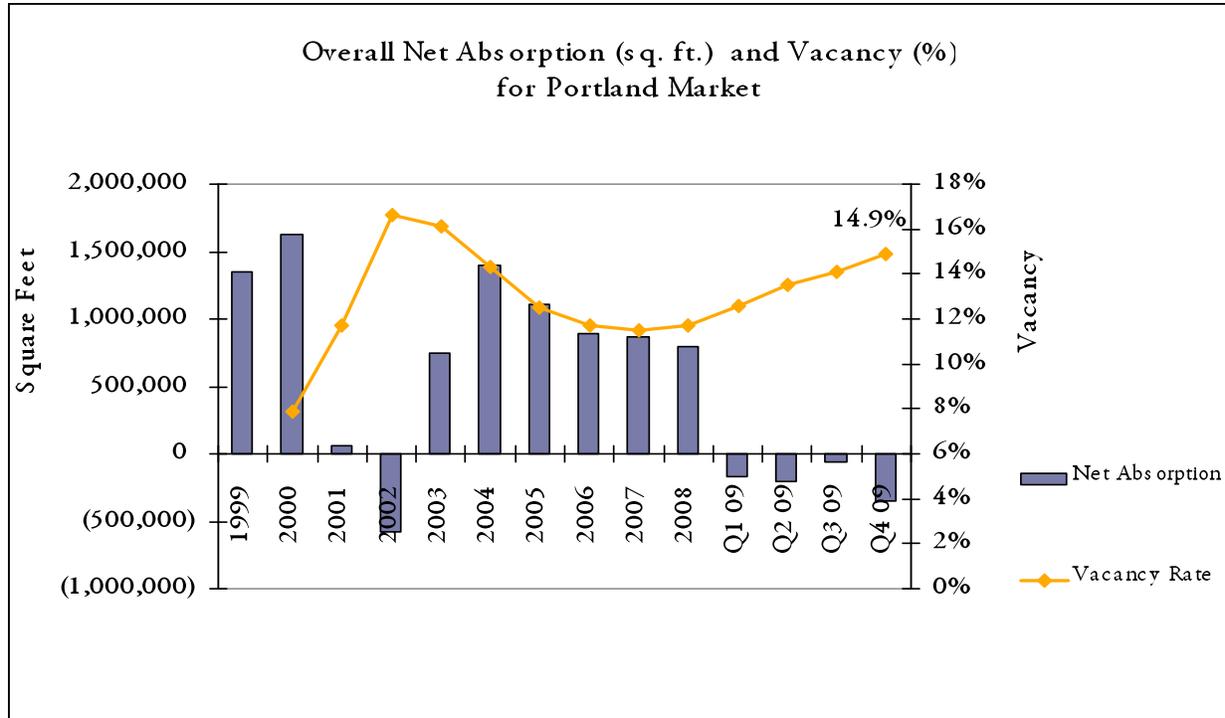


Office Market Analysis

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

Portland Office Market

The office market continued to decline during the fourth quarter to end the year with a median vacancy rate of 16.1% and a negative net absorption of 23,362 square feet during the quarter. Grubb & Ellis believe that because real estate is a lagging indicator, the job losses during the summer months are now being reflected by reduced demand in the metropolitan area office market. The seasonally adjusted unemployment rate for December was 11.0% in Oregon. The Portland metropolitan area's seasonally adjusted unemployment rate was 10.7% in December, showing improvement from the previous two months. An estimated 123,365 residents were unemployed in the metropolitan area, which is 26,727 more than during December, 2008. Monthly job losses have averaged about 2,900 jobs over the last seven months, but have not been as severe as the 6,300 monthly jobs lost during the recession's height in late 2008 and early 2009. In other positive economic news, the University of Oregon's Index of Economic Indicators rose 0.6% in October to a score of 85. This is one signal that the state could be on its way to recovering from the recession.



Source: Grubb & Ellis Office Quarterly Report - Fourth Quarter 2009

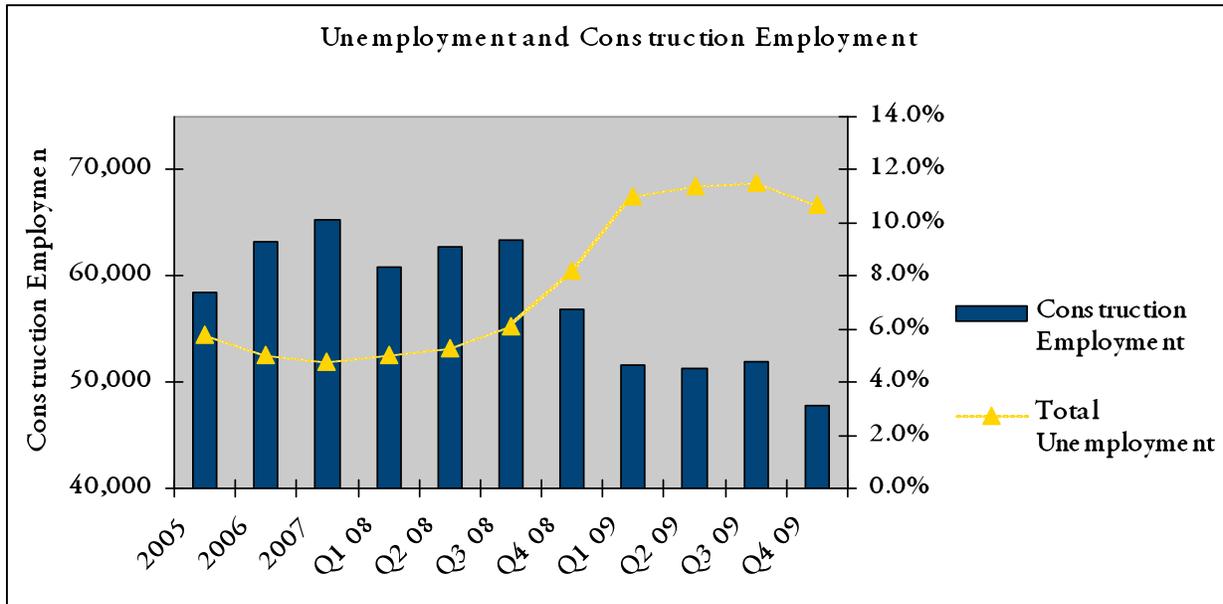
Net absorption has decreased while overall vacancy rates continue to increase

OFFICE Q4-09	CB Richard Ellis	Cushman & Wakefield	Grubb & Ellis	Norris, Beggs & Simpson	Median
Market-Wide Vacancy	15.6%	16.6%	14.9%	17.5%	16.1%
Previous Quarter	15.4%	15.9%	14.1%	17.1%	15.7%
Fourth Quarter 2008	10.5%	12.6%	11.7%	12.9%	12.2%
Fourth Quarter 2007	10.8%	11.7%	11.5%	12.8%	11.6%
CBD and Downtown Vacancy	10.3%	12.1%	10.4%	11.8%	11.1%
Previous Quarter	10.0%	11.7%	9.8%	11.1%	10.6%
Fourth Quarter 2008	6.6%	8.7%	5.1%	9.3%	7.6%
Fourth Quarter 2007	8.0%	9.4%	8.2%	10.1%	8.8%
CBD Class A Vacancy	7.7%	7.8%	7.3%	7.2%	7.5%
Previous Quarter	6.3%	9.0%	6.2%	6.7%	6.5%
Fourth Quarter 2008	3.8%	6.4%	5.1%	5.4%	5.3%
Fourth Quarter 2007	4.9%	4.9%	5.3%	5.5%	5.1%
CBD Class A Asking Rents	27.47	\$25.61	\$25.54	N/A	\$25.61
Previous Quarter	N/A	\$25.79	\$25.86	N/A	\$25.83
Fourth Quarter 2008	\$26.63	\$27.07	\$26.80	N/A	\$26.80
Fourth Quarter 2007	\$24.68	\$25.79	\$25.57	\$24.22	\$25.13
Suburban Vacancy	20.3%	21.0%	18.5%	20.5%	20.4%
Previous Quarter	20.3%	19.9%	17.4%	20.2%	20.1%
Fourth Quarter 2008	14.1%	16.3%	15.2%	16.2%	15.7%
Fourth Quarter 2007	13.4%	13.9%	14.8%	14.5%	14.2%
Suburban Class A Vacancy	N/A	22.8%	21.1%	23.1%	22.8%
Previous Quarter	N/A	22.6%	20.6%	22.6%	22.6%
Fourth Quarter 2008	N/A	16.3%	15.2%	17.0%	16.3%
Fourth Quarter 2007	N/A	14.4%	14.6%	N/A	14.5%
Suburban Class A Asking Rents	N/A	\$23.44	\$23.40	N/A	\$23.42
Previous Quarter	N/A	\$24.04	\$23.84	N/A	\$23.94
Fourth Quarter 2008	N/A	\$24.48	\$23.69	N/A	\$24.09
Fourth Quarter 2007	N/A	\$24.38	\$24.25	N/A	\$24.32

Source: CB Richard Ellis, Cushman & Wakefield, Grubb & Ellis, Norris, Beggs & Simpson Quarterly Reports and Statistical Reports - Fourth Quarter 2009.

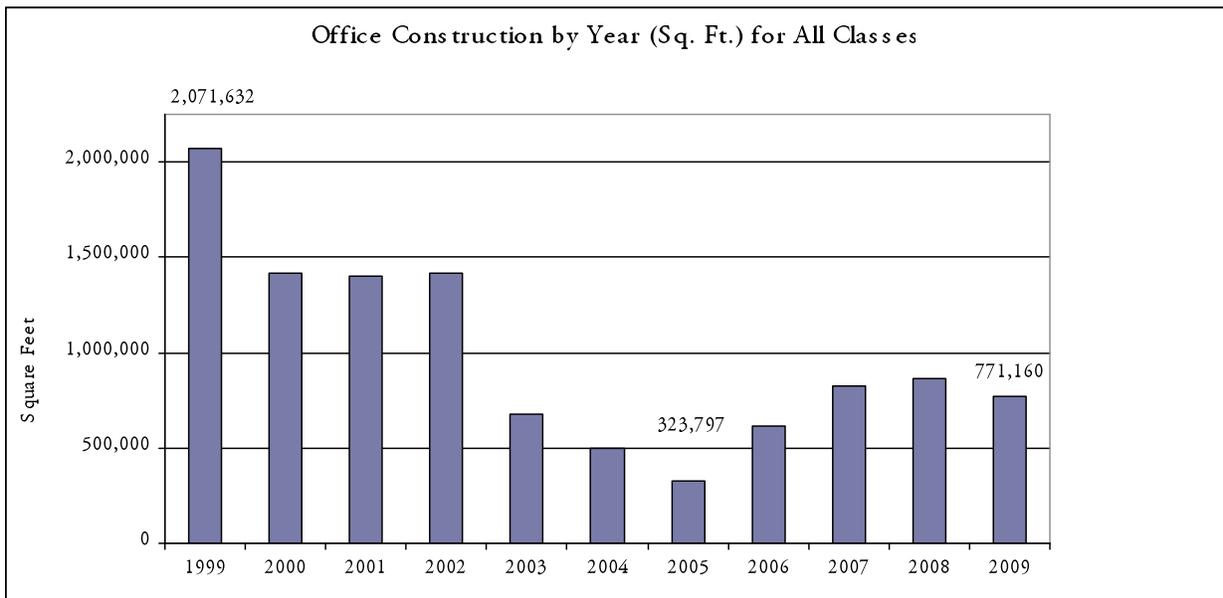
As one sees in this summary chart, the CBD class A vacancy rate of 7.5% remains substantially lower than the overall CBD vacancy rate which is now up to 11.1%. The suburban class A market, on the other hand, continues to have higher vacancy rates than the overall suburban market. Both the CBD

and the suburban submarkets have seen declines in rent during 2009, likely in response to increased vacancy rates in nearly every submarket.



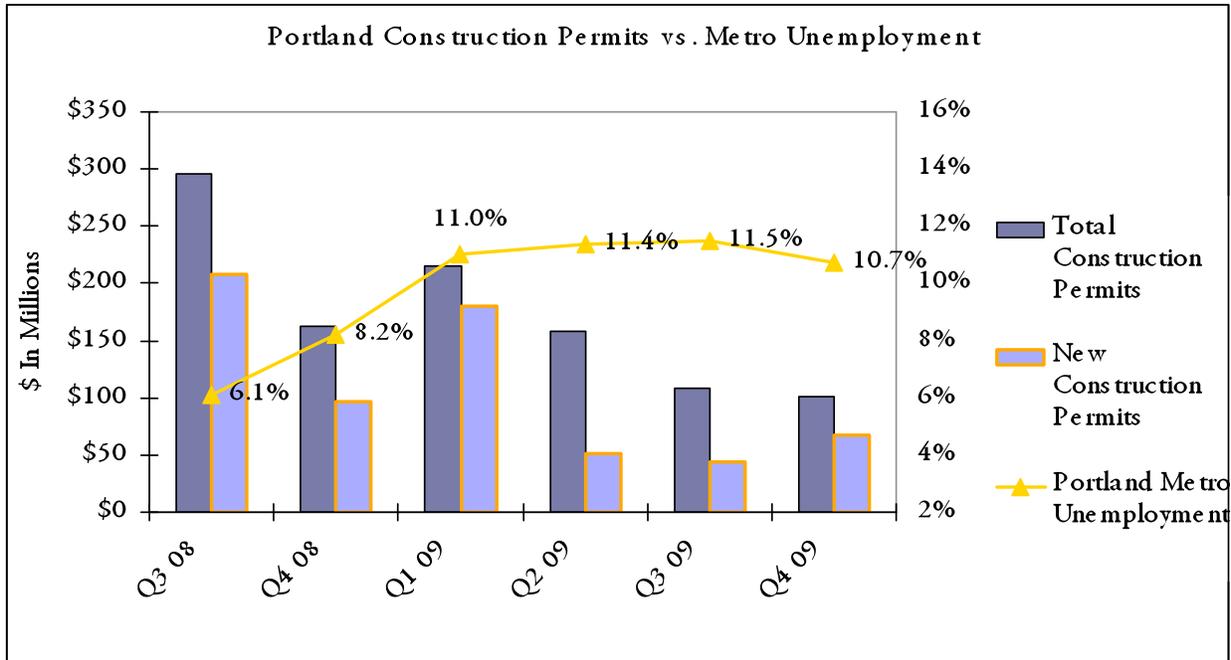
Source: Oregon Employment Department

Metropolitan area unemployment and construction employment fall.



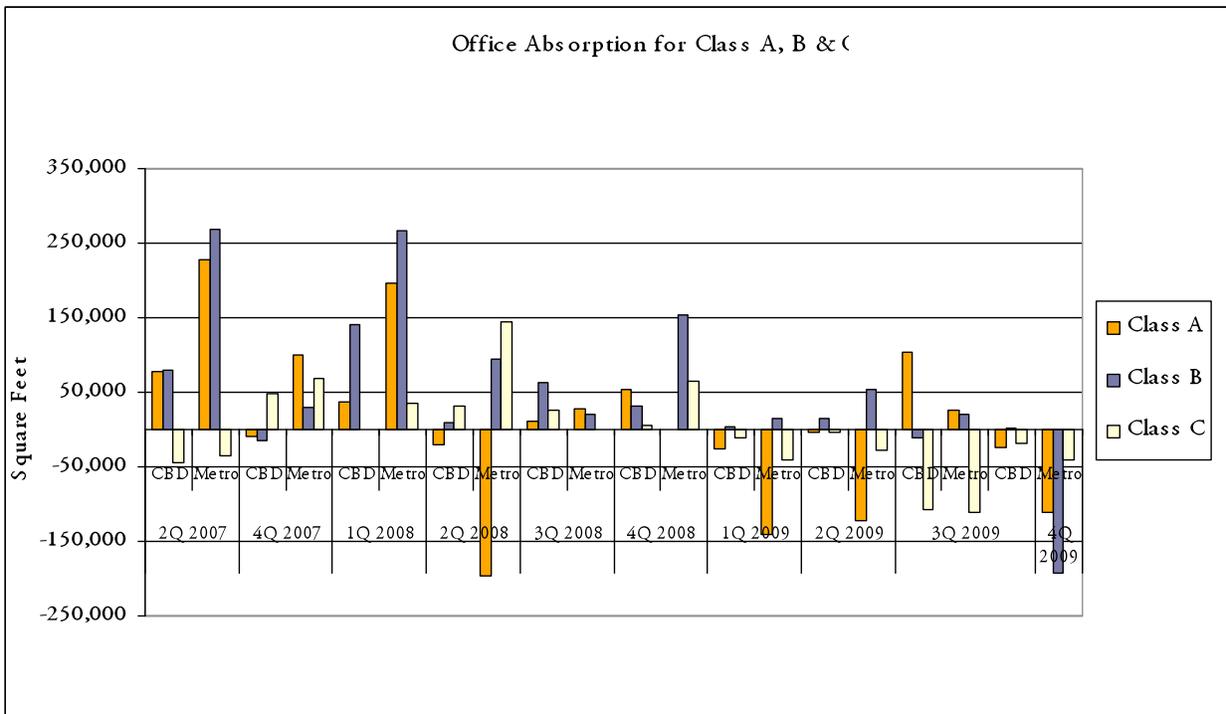
Source: Grubb & Ellis Office Quarterly Report - Fourth Quarter 2009

Reduced office construction in 2009



Source: Portland Bureau of Development Services, Oregon Employment Department

New commercial construction permits increase while total permits remain flat.



Source: Grubb & Ellis Office Quarterly Report - Fourth Quarter 2009

Negative net absorption across building classes except CBD Class B

New commercial construction permits in Portland increased \$23.6 million to \$67.8 million during the 4th quarter of 2009, while total construction permits remained at a relatively flat \$100.6 million. However, both are down from the previous year when permitting was at \$96.2 million and \$163 million respectively.

CBD Trends

CBD class A vacancy finished 2009 with a 7.3% vacancy rate which is an increase from the 6.2% vacancy rate posted during the third quarter, according to Grubb & Ellis. One of the largest commercial real estate transactions in Portland history, and the largest office transaction of 2009, was completed at the end of December when American Pacific International Capital purchased the office portion of KOIN Center. American Pacific International Capital (APIC) is a Portland investment firm, but purchasing 19 floors of the 30-floor building is its first acquisition in this region. The KOIN Center is Portland's ninth largest office building with 415,425 total square feet.

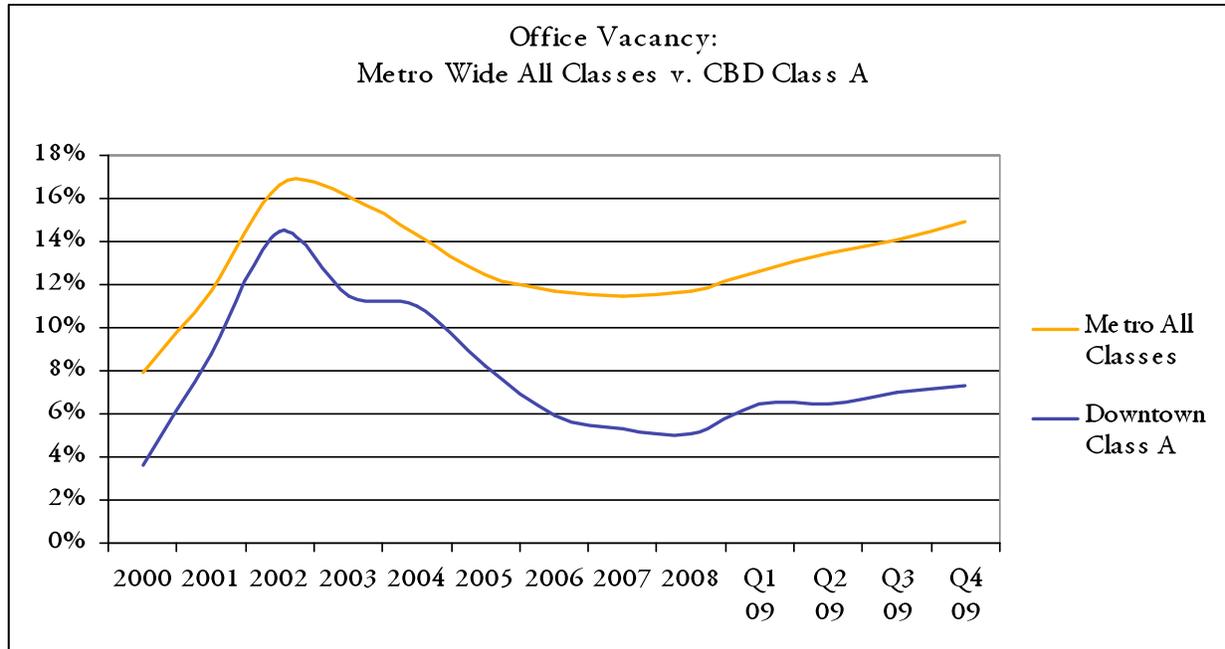


The terms of the deal have not been revealed, but the Oregonian reported that the sale price was between \$50 and \$60 million¹. This is approximately half of the \$107 million that the California Public Employees Pension System (CalPERS) paid for the same property in 2007, and less than the \$70 million loan which encumbered it. After CalPERS defaulted on the loan, the mortgage provider, New York Life Insurance Inc., sued to take control of the building and completed the recent transaction with APIC through a short sale. Based on estimates of current lease revenue, APIC should produce approximately a 9% return on investment.

The KOIN Center office sale gives some indication about comparable building values in an office market with very little activity. An article in the Wall Street Journal² explains the recent plight of the KOIN Center. Calpers and CommonWealth Partners LLC were joint owners of the office portion of the building and decided to walk away from their investment. The troubles were due to insufficient cash flow caused by a higher than expected vacancy rate. The last straw may have come when the law firm Ater Wynne LLP vacated 50,000 SF in the building, relocating to the Lovejoy Building, a mixed-use complex in the Pearl District that also houses a new Safeway and rental apartments. After that significant loss, the building gained two substantial tenants, ECONorthwest and Willis of Oregon, but it was not enough to make up for the loss of Ater Wynne. APIC has offices in Portland's World Trade Center but its business activities have taken place primarily in China. APIC is involved in multiple businesses that range from hotels, condominiums and retail space to palm and soybean oil production.

¹ "Portland investment firm buys KOIN Center", The Oregonian, December 29, 2009

² "Calpers takes another property hit", Wall Street Journal, August 19, 2009.



Source: Grubb & Ellis Office Quarterly Report - Fourth Quarter 2009

Metropolitan area and CBD class A vacancy rates continue to increase.



In another major office transaction, One Main Place, the 20-story office tower located at 101 SW Main Street, is being sold to KBS Realty Advisors. The Portland Business Journal reports that the deal is valued at \$57 million, or \$182 per square foot.³ This is five million dollars more than the previous deal, which fell through last summer, involving an unrelated buyer. KBS is a Newport Beach, CA real estate investment and management firm that acquires income-producing properties on behalf of two private real estate investment trusts and other investors. Since its formation in 1992, KBS has closed approximately \$16.4 billion in real estate deals and become an active investor in the Northwest. One Main Place has 313,133 SF of leasable space and opened in 1982. The building is currently 96.1% leased, which is a substantial change from the near 25% vacancy rate which One Main Place posted in 2007.⁴

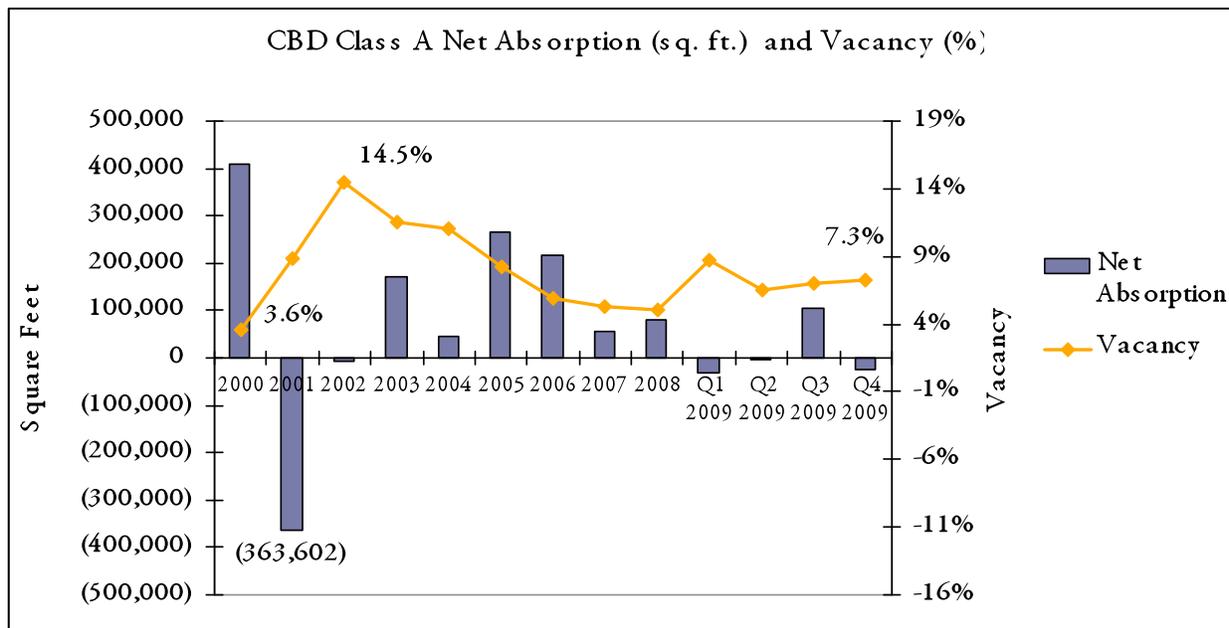
The CBD is struggling through the slowest commercial real estate market in decades as buyers and sellers sit on the sidelines. The Portland Business Journal⁵ reported that, in November 2009, the KOIN Center was the only class A office building for sale downtown, although One Main Place must have been in negotiation.

³ "One Main Place to sell for \$57 million", Portland Business Journal, January 22, 2010

⁴ "One Main Place to sell for \$57 million", Portland Business Journal, January 22, 2010

⁵ "Slow sales slam office market", Portland Business Journal, October 30, 2009

The short list of other commercial real estate offered for sale during the same period included smaller buildings suffering from high vacancy rates. Illustrating this trend is the Police Headquarters Building that is only one-third occupied. The name is deceiving because the building is not the headquarters for the police bureau. The 50,500 square foot property, which was constructed in 1912, is currently listed for \$5.75 million, or approximately \$114 per square foot. The motivated seller has reduced the price four times during the several months it has been on the market and is reported to be willing to carry the loan.



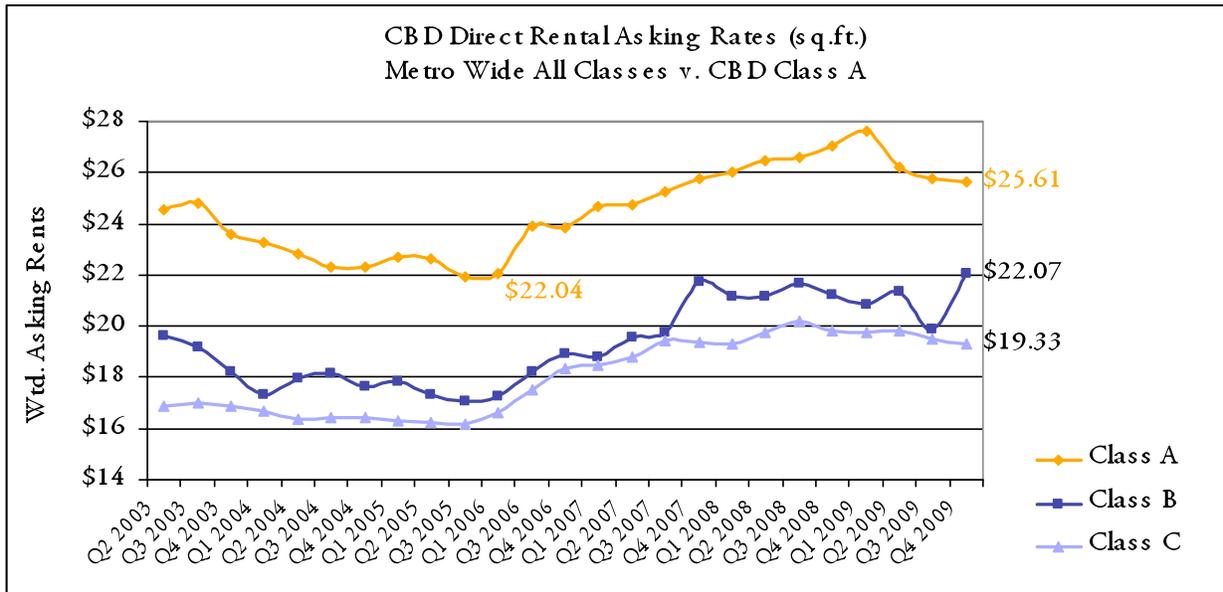
Source: Grubb & Ellis Office Quarterly Report - Fourth Quarter 2009

The federal government should be a major driver for office absorption in 2010 because the U.S. General Services Administration (GSA) needs space for about 1,200 workers during the \$133 million renovation of the Edith Green-Wendell Wyatt Federal Building on SW Third Avenue⁶. The project begins this year and is funded by the American Recovery and Reinvestment Act (ARRA), otherwise referred to as the stimulus act.

The GSA currently occupies about two million square feet of space in the Portland area and is shopping for an additional 300,000 square feet of class A office space, which it needs by the third quarter of 2010, according to Grubb & Ellis.⁷

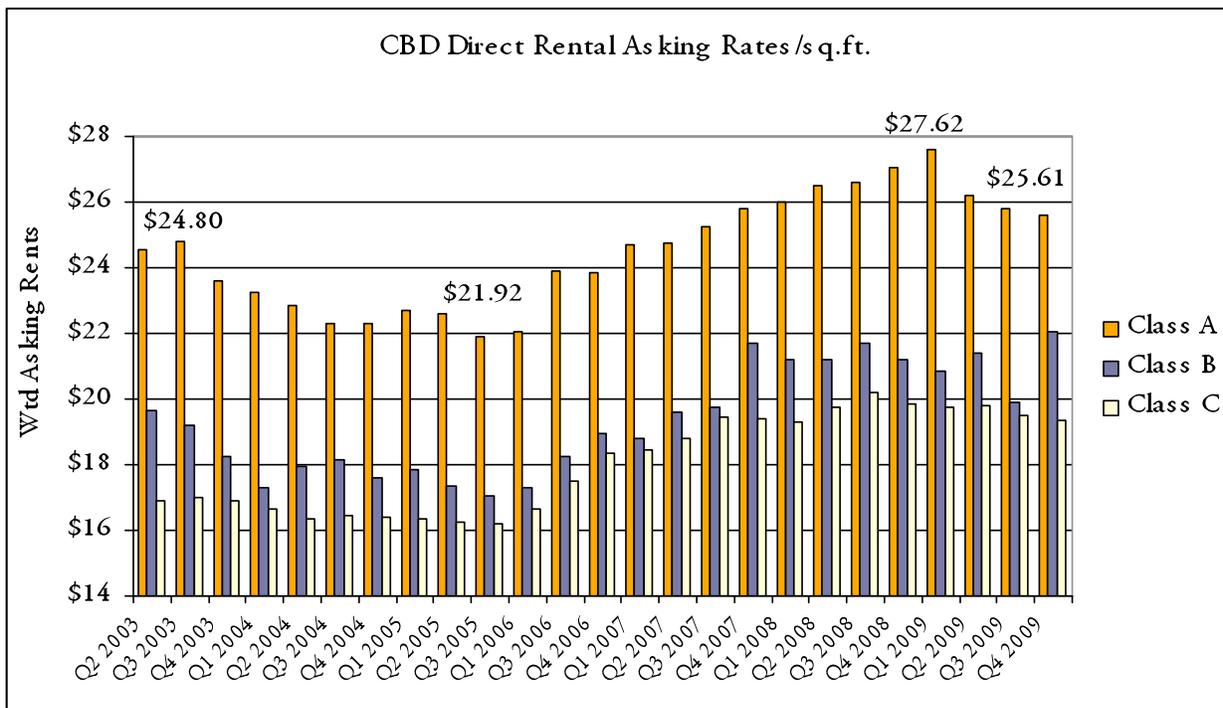
⁶ "Empty office blues", Portland Business Journal, December 4, 2009

⁷ "2010 Forecast Report", Grubb & Ellis, January 4, 2010

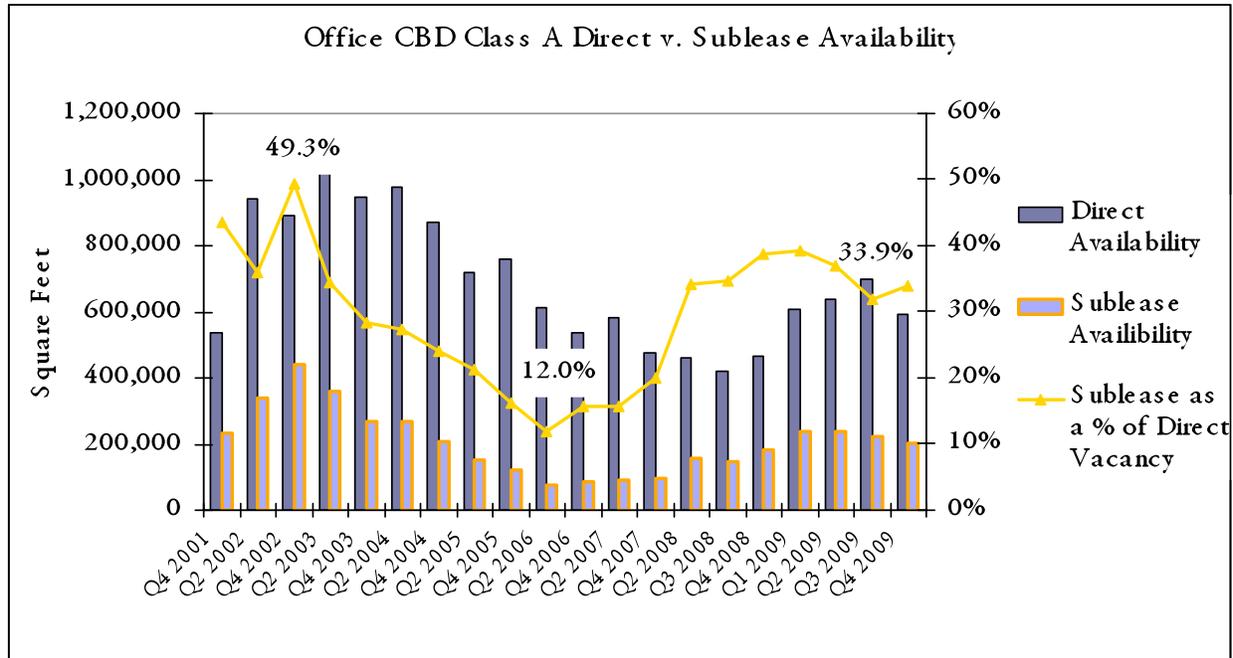


Source: Cushman & Wakefield Overall Office Summary - Fourth Quarter 2009

Class B asking rents jump approximately \$2.00 per square foot.



Source: Cushman & Wakefield Overall Office Summary - Fourth Quarter 2009



Source: Cushman & Wakefield Overall Office Summary - Fourth Quarter 2009

Direct availability declines for the first time in five quarters.

Suburban Trends

Vacancy in the suburbs continues to increase, rising to a median rate of 20.4% as shown in the brokerage report summary. CBRE notes that the suburban submarkets have not seen vacancy rates this high since the end of 2001. Average asking rents are down quarter over quarter as well.

According to Grubb & Ellis, the Tualatin/ Wilsonville submarket still has the highest vacancy rate, but the amount of vacant space is only a third of the amount of vacant space found in the sixth ranked Washington Square/ Kruse Way submarket.

The Cascade Park submarket had the largest increase in vacancy rate, going from 16.9% in the third quarter to 23.4% in the fourth quarter of 2009. The only submarkets which experienced declines in vacancy rates were the Columbia Corridor, Hazel Dell/Salmon Creek, and St. Johns/Central Vancouver which had declines of 0.1%, 0.1% and 0.6% respectively.

Fenton Properties, Inc purchased a portfolio of eight properties at AmberGlen Business Center in December. This REO sale was for \$27 million, or \$48.30 per square foot.⁸

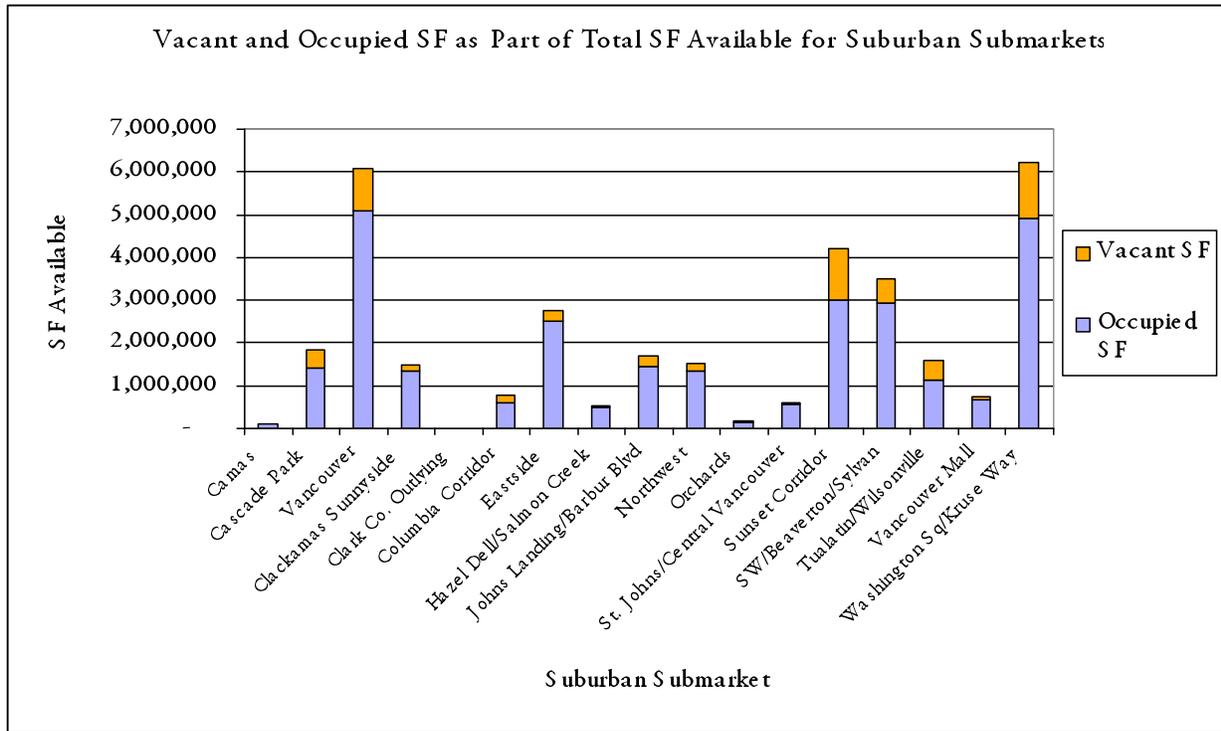
⁸ "Market View", CB Richard Ellis, Fourth Quarter 2009

Suburban Office Markets Ranked By Highest Percentage of Vacancy		
Submarket	Rank	Vacancy Rate
Tualatin/Wilsonville	1	28.3 %
Sunset Corridor	2	28.0 %
Camas	3	25.0 %
Cascade Park	4	23.4 %
Columbia Corridor	5	23.0 %
Washington Sq/Kruse Way	6	21.1 %
Orchards	7	20.3%
SW/Beaverton/Sylvan	8	16.5 %
Vancouver	9	16.3 %
Johns Landing/Barbur Blvd	10	15.1 %
Clark Co. Outlying	11	14.1%
Northwest	12	10.9 %
Vancouver Mall	13	10.8 %
Clackamas Sunnyside	14	10.7 %
St. Johns/Central Vancouver	15	10.2 %
Eastside	16	8.6 %
Hazel Dell/Salmon Creek	17	6.1 %

Total Vacancy for Select Suburban Submarkets							
Submarket	Current						
	Market Size (Sq. Ft.)	3Q 08 Vacancy	4Q 08 Vacancy	1Q 09 Vacancy	2Q 09 Vacancy	3Q 09 Vacancy	4Q 09 Vacancy
Washington Square/ Kruse Way	19,235,450	13.5%	14.7%	16.3%	19.6%	20.6%	21.1%
Sunset Corridor	3,509,988	22.3%	22.3%	25.3%	25.6%	27.4%	28.0%
Beaverton	1,600,875	16.9%	15.4%	16.5%	16.8%	15.8%	16.5%
Eastside	522,016	8.2%	8.2%	7.6%	7.4%	7.4%	8.6%
Johns Landing/Barber Blvd.	1,509,931	14.2%	13.1%	13.9%	14.5%	14.8%	15.1%
Tualatin/Wilsonville	759,284	28.7%	27.3%	26.1%	26.9%	27.9%	28.3%

Source: Grubb & Ellis, Co., Office Quarterly Report, Fourth Quarter 2009 Statistics

The overall metropolitan area market continues to have negative net absorption for the third straight quarter, but according to CB Richard Ellis, the suburban submarkets are back in the black with a positive net absorption of 31,223 SF. Nine out of the fifteen suburban office submarkets posted positive absorption figures for the fourth quarter.



Source: Grubb & Ellis Office 4th Quarter Report –2009

Major Lease Transactions Q3 2009

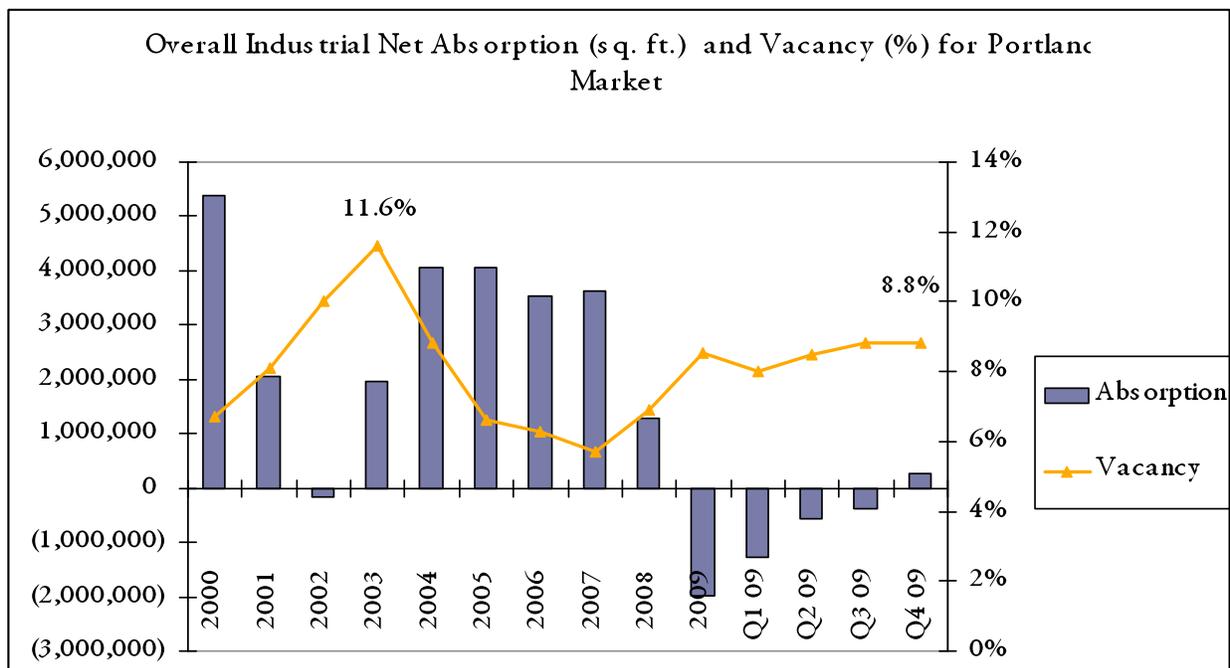
Lessee	Property	Submarket	Size (SF)
Transcore (renewal)	Creekside Four	Central 217	38,065
M&T Real Estate, Inc	4949 Meadows	Lake Oswego	22,482
The Portland Dermatology Clinic	Machine Works	Northwest	19,482
HQ Global Workplaces (renewal)	4800 Meadows	Lake Oswego	19,306
McCormick & Schmicks	Machine Works	Northwest	19,250
Barran Liebman, LLP (renewal)	ODS Tower	Portland	18,324
Bluestone & Hockley	9320 SW Barbur Blvd.	Barbur Blvd.	14,704

Source: CB Richard Ellis, Norris, Beggs & Simpson Office Report - Fourth Quarter 2

Portland Industrial Market

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

In the fourth quarter of 2009, the Portland industrial market experienced positive net absorption for the first time since the second quarter of 2008. However, CB Richard Ellis' data from 2009 shows strong overall negative absorption for the year.¹ In 2009 there were just over 2.7 million square feet of negative net absorption, which is the worst annual performance since CB Richard Ellis has been compiling the data. Last year marked a 58.8% increase over the recession of 2001-2002 when 1.7 million square feet were given back to the market.



Source: Grubb & Ellis Industrial Trends Report- Fourth Quarter

Stable Vacancy Rate and Positive Net Absorption in Fourth Quarter

The market experienced a decrease in overall vacancy falling from 8.11% in the third quarter to 8.04% in the fourth according to CB Richard Ellis. In contrast, Grubb & Ellis reports that the vacancy rate was unchanged at 8.8%². The national vacancy rate rose to end the year at 10.6%. For the fourth consecutive quarter, the rate of vacancy increase declined nationally. The last four quarters have seen vacancy rate increases of 70, 60, 30 and 20 basis points respectively.³ Grubb & Ellis is forecasting that the industrial market should be one of the first, if not the first, commercial property type to bottom out and start toward recovery.

¹ "Market View", CB Richard Ellis, Fourth Quarter 2009

² "Industrial Trends Report", Grubb & Ellis, Fourth Quarter 2009

³ "U.S. Industrial Market First Look", Grubb & Ellis, January 22, 2009

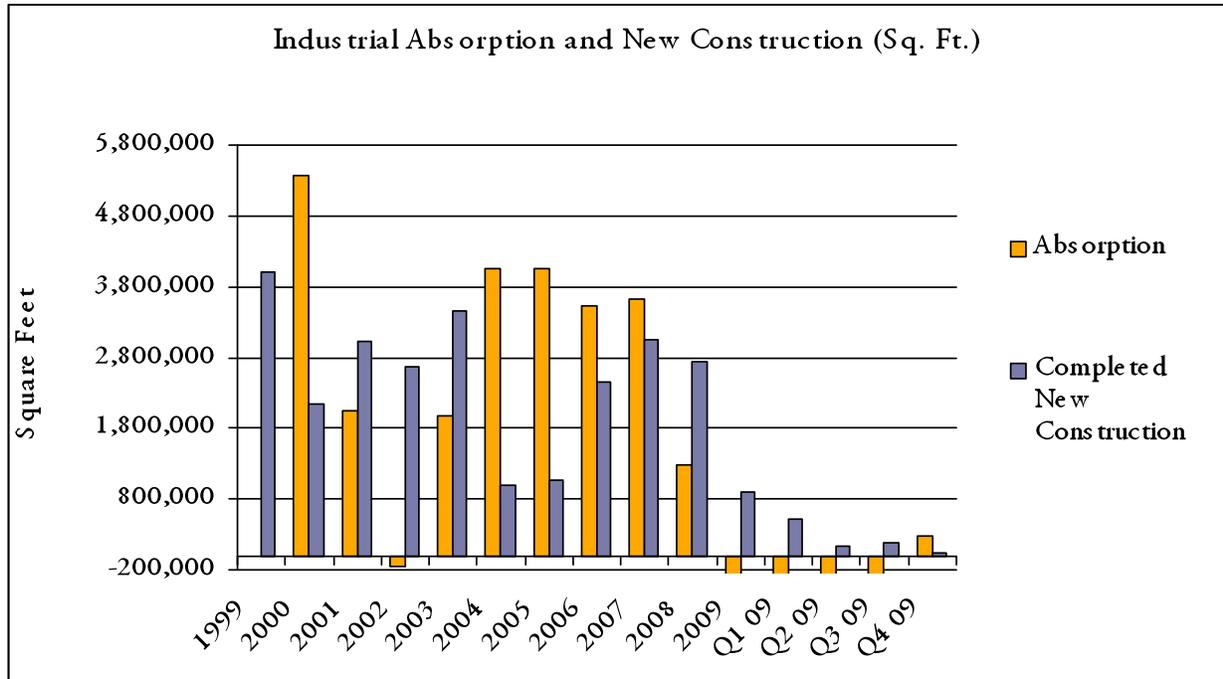
CB Richard Ellis reports that business parks continue to improve with a second straight quarter of declining vacancy rates coming in at 13.27%. Although the business park vacancy rate is still above average, it has made substantial improvement from the near 16% vacancy rate earlier in 2009.

INDUSTRIAL Q4-09	CB Richard Ellis	Cushman & Wakefield	Grubb & Ellis	Norris, Beggs & Simpson	Median
Market-wide Vacancy	8.0%	N/A	8.8%	14.9%	8.8%
Previous Quarter	8.1%	8.3%	8.8%	14.9%	8.6%
Fourth Quarter 2008	6.4%	6.2%	6.9%	12.1%	6.6%
Fourth Quarter 2007	5.2%	5.6%	6.7%	N/A	5.6%
Warehouse/Distribution	8.7%	N/A	N/A	N/A	8.7%
Previous Quarter	14.0%	8.8%	8.9%	N/A	8.9%
Fourth Quarter 2008	N/A	6.6%	7.0%	N/A	6.8%
Fourth Quarter 2007	N/A	5.3%	6.8%	N/A	6.1%
R&D/Flex Vacancy	11.6%	N/A	N/A	16.2%	13.9%
Previous Quarter	15.1%	10.0%	8.4%	15.7%	12.5%
Fourth Quarter 2008	N/A	9.4%	6.7%	13.2%	9.4%
Fourth Quarter 2007	N/A	6.3%	6.5%	N/A	6.4%
Asking Monthly Shell Rates	\$0.39	N/A	N/A	N/A	\$0.39
Previous Quarter	\$0.39	N/A	\$0.43	N/A	\$0.41
Fourth Quarter 2008	\$0.39	N/A	\$0.42	N/A	\$0.41
Fourth Quarter 2007	\$0.38	N/A	\$0.43	N/A	\$0.41
Asking Monthly Flex Rates	\$0.75 -\$1.00	N/A	N/A	N/A	\$0.88
Previous Quarter	N/A	N/A	\$0.79	N/A	\$0.79
Fourth Quarter 2008	\$0.85-\$1.05	N/A	\$0.81	N/A	\$0.81
Fourth Quarter 2007	\$0.85-\$1.05	N/A	\$0.82	N/A	\$0.82

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

Industrial construction tapered dramatically in 2009, adding only 615,504 square feet to the Portland market during the year. CB Richard Ellis reports that 80.4% of the speculative development added in 2009 remains vacant today. Only one building was delivered during the fourth quarter of 2009, which added only 46,500 square feet to the industrial inventory.

Currently, two buildings are under construction in the Portland industrial market: a 415,000 SF building for FedEx Ground and a 105,000 SF building for Morgan Distributing. Both are in the Northeast submarket. They are both build-to-suit and will not add large amounts of space that the market would have difficulty absorbing. There is currently no other new construction slated for 2010, which could signal a very slow year for new deliveries to the market.



Source: Grubb & Ellis Industrial Trends Report- Fourth Quarter

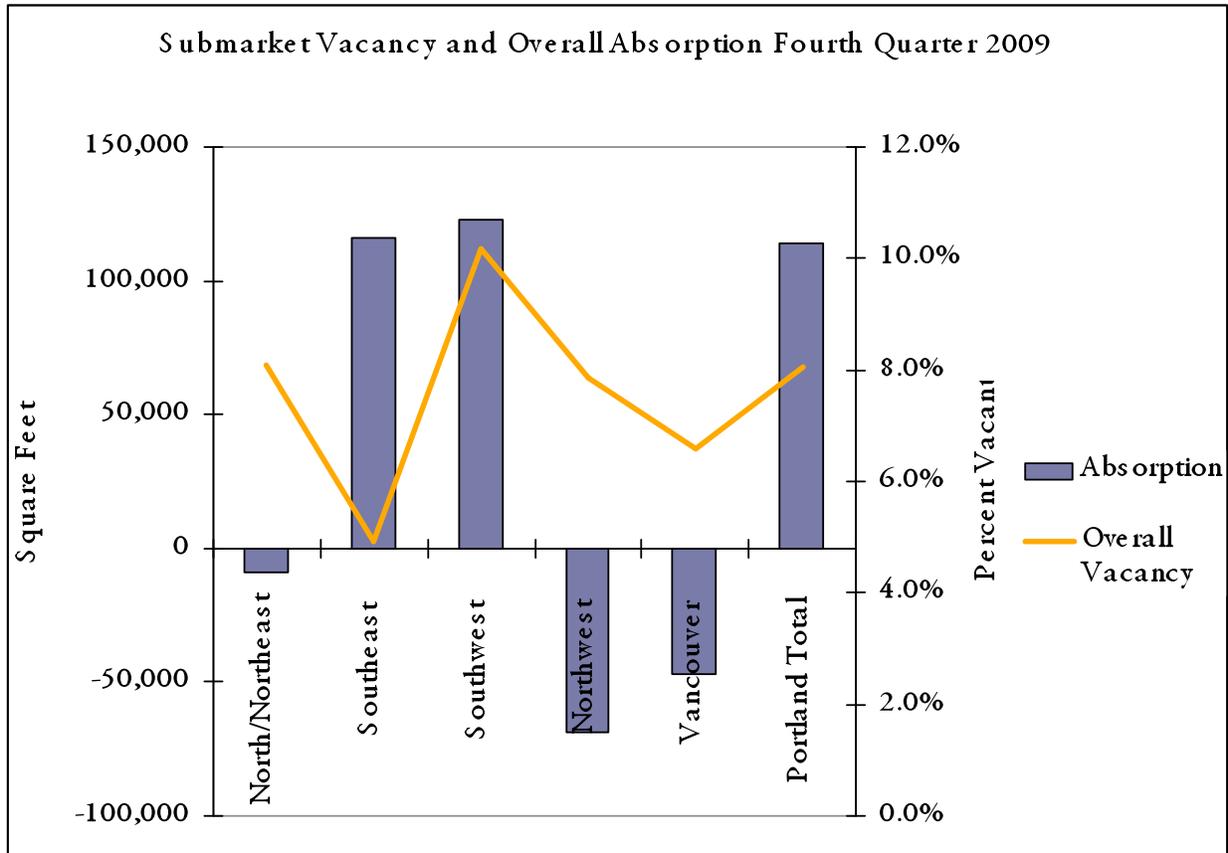
Almost non-existent construction, but positive absorption for first time in six quarters

Major Lease Transactions Q4 09

Industrial

Tenant	Property	(Sq. Ft.)	Submarket
MOR Furniture	Kelley Point Distribution Center	156,000	Portland
Ceva Logistics (renewal)	Alderwood Corporate Center	116,972	Portland
Medline Industries	Nike Distribution Center	109,000	Wilsonville
Bridgetown Natural Foods	Foster/205 Commerce Center	66,531	Portland
Rose City Printing & Packaging	Sandy Blvd Business Park	62,000	Portland
Total		510,503	

Source: CB Richard Ellis Quarterly Industrial Report



Source: CB Richard Ellis Quarterly Industrial Report

SE and SW submarket gains compensate for NW and Vancouver losses.

The Southeast and Southwest submarkets performed positively in the fourth quarter with respect to vacancy and overall net absorption. Over half the positive absorption in the Southeast is attributed to the Bridgetown Natural Foods' 66,531 SF lease at the Foster/205 Commerce Center and ETEC's sale of its Hillsboro plant to Allvia which accounts for 176,800 SF of absorption in the Southwest submarket.⁴ Allvia is a Sunnyvale, CA-based chip manufacturer which is currently acquiring the equipment to start chip production at the plant some time next year. Their plan is to operate both the Sunnyvale and Hillsboro facilities, but to eventually move all of the production volume to Hillsboro.

Carlisle Interconnect Technologies recently announced they will be closing their Vancouver cable manufacturing plant by June. Approximately 150 jobs will either be lost or relocated to one of the company's other three facilities in the United States.

Many industrial companies are feeling the effects of the economy, but others are expanding. Norris, Beggs & Simpson reported that in November SolarWorld completed its 210,000 SF facility that will house assembly lines which finish solar panels. Morgan Distributing purchased 11 acres at Riverside Parkway Corporate Center and is building a new 105,000 SF headquarters and distribution center that should be finished during the spring of 2010.

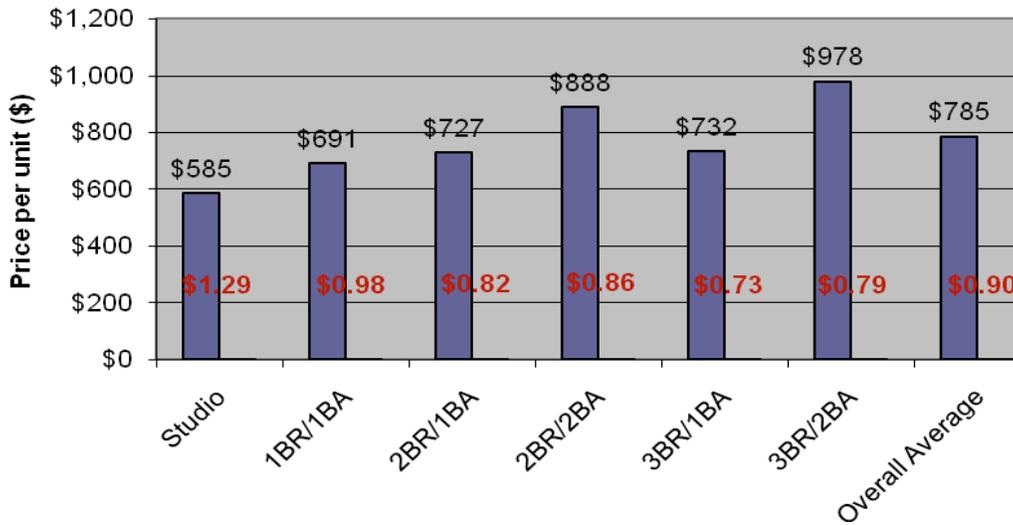
⁴ "Market View", CB Richard Ellis, Fourth Quarter 2009

Multifamily Market Analysis

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

According to Norris, Beggs & Simpson’s Fourth Quarter 2009 Multifamily Report, the overall average multifamily vacancy rate has increased in the fourth quarter to 5.43% from 4.63% in the third quarter, and is up from 4.7% this time last year. The average rents for the quarter are \$691(\$0.98/SF) for a 1BR/1BA, \$727 (\$0.82/SF) for a 2BR/1BA, \$888 (\$0.86) for a 2BR/2BA and \$978 (\$0.79) for a 3BR/2BA. These numbers are up slightly from the previous quarter. Average 2BR/2BA new units rent for \$1,230 per unit, an increase of \$11 over last quarter. Seasoned 2 BR/2BA units rent for an average \$830 per unit, which is an increase of only \$4 over last quarter.

Metro-Wide Average Rents Fourth Quarter 2009

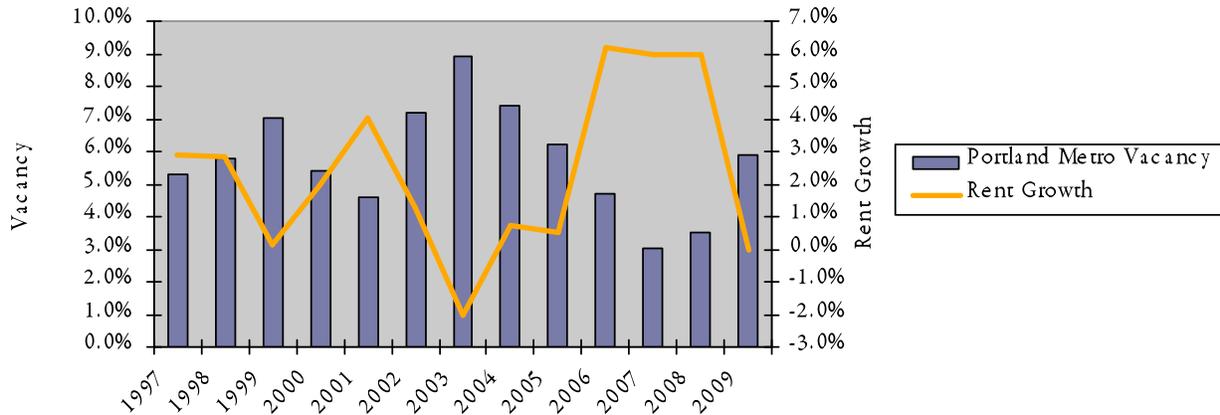


Source: Norris, Beggs & Simpson "Portland Area Multifamily Report Fourth Quarter, 2009"

The poor economy and high unemployment rates continue to result in high multifamily vacancies. Fourth quarter vacancies, according to Norris, Beggs & Simpson’s Multifamily report, range from 4.59% to 6.77% across the Portland market.

Concessions, in the form of free rent and free parking, remain commonplace although rental rates have stabilized somewhat. The primary cause of the high vacancies is the economic downturn’s strong negative effect on renter affordability.

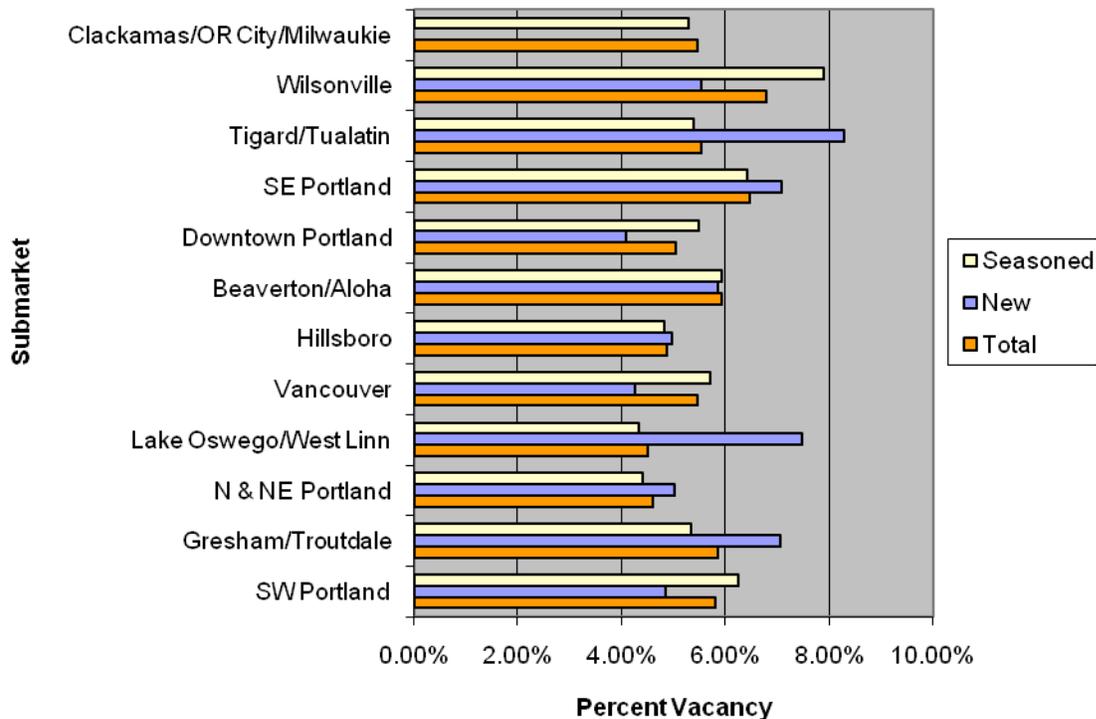
Portland Metro Vacancy and Year on Year Rent Growth



Source: Mark D Barry, The Barry Apartment Report, Winter 2010

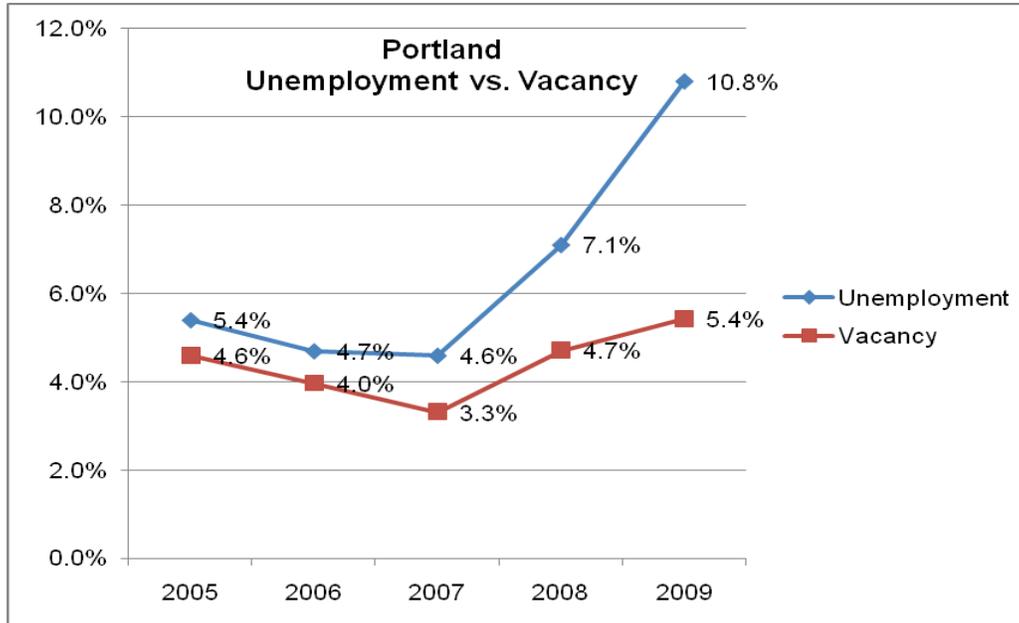
The Wilsonville submarket shows the highest total vacancy rate at 6.77%, while Lake Oswego/West Linn has the lowest submarket vacancy at 4.50%. Tigard/Tualatin has the highest new unit vacancy at 8.28%, while downtown Portland has the lowest new unit vacancy at 4.09%.

Fourth Quarter 2009 Submarket Vacancy



Source: Norris, Beggs & Simpson "Portland Area Multifamily Report Fourth Quarter, 2009

According to Mark Barry in his Winter 2010 *Barry Apartment Report*, the high local unemployment rates are having a strong negative impact on vacancies, as shown in the charts below. The rise in the unemployment rate from 7.1% in 2008 to 10.8% in 2009 suggests that vacancy rates might continue to rise until unemployment levels stabilize and decline.



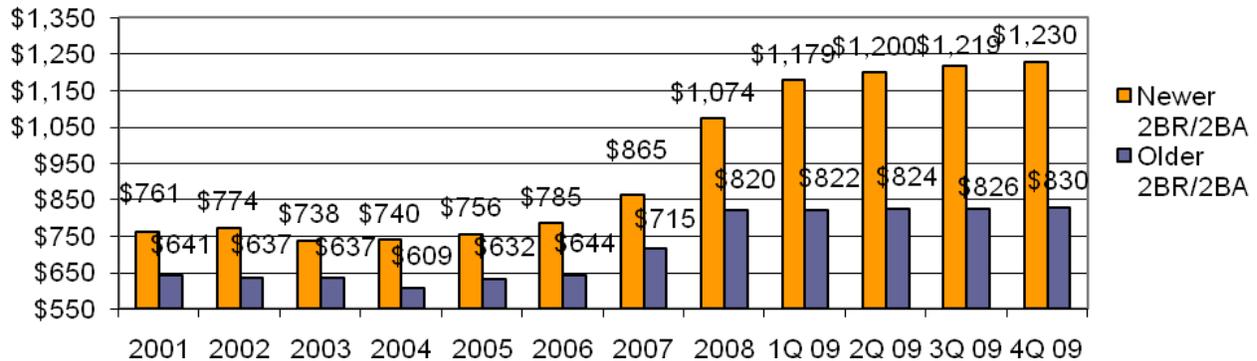
Source: Norris, Beggs & Simpson "Portland Area Multifamily Report 4th Quarter (2009, 2008, 2007, 2006, 2005), U.S. Bureau of Labor Statistics (Nov 2009, 2008, 2007, 2006, 2005)

Vacancies are up not necessarily because residents are moving from Portland, but due to tenants doubling up, moving in with family, or moving into single-family rental homes. According to Mark Barry, condominium conversions are also having an impact on vacancy rates. The glut of conversions from condominiums to rentals has put pressure on the higher end of the rental market and has caused effective rentals to be 15%-30% below pro forma.

To prevent tenants from fleeing, landlords are still resorting to concessions. Two months worth of free rent concessions as well as free parking are commonplace throughout the Portland metro area. Colliers International states in its midyear report that, "some new buildings even guarantee that if a tenant loses his/her job, they can end their lease agreement without penalties, early termination fees or adverse impact on credit." The widespread discounting produces net effective rents, including parking and rent concessions in select buildings throughout the metro area, ranging from 5.6% to 16.8% lower.

One of the driving factors behind the vacancy issue is affordability. According to Colliers International, the middle-income work force that drives demand for multifamily rental housing earns between 50% and 80% of median family income (MFI). The 2009 MFI for a single-person in Portland is \$49,000. Assuming rents are a 30% of gross income, the individual could afford a monthly rent of between \$613 and \$980. Options are very limited within this price range in the Portland area as studios and one-bedrooms are between \$710 and \$740 and higher-range luxury options are in excess of \$1,000.

Average Portland Metro Rents



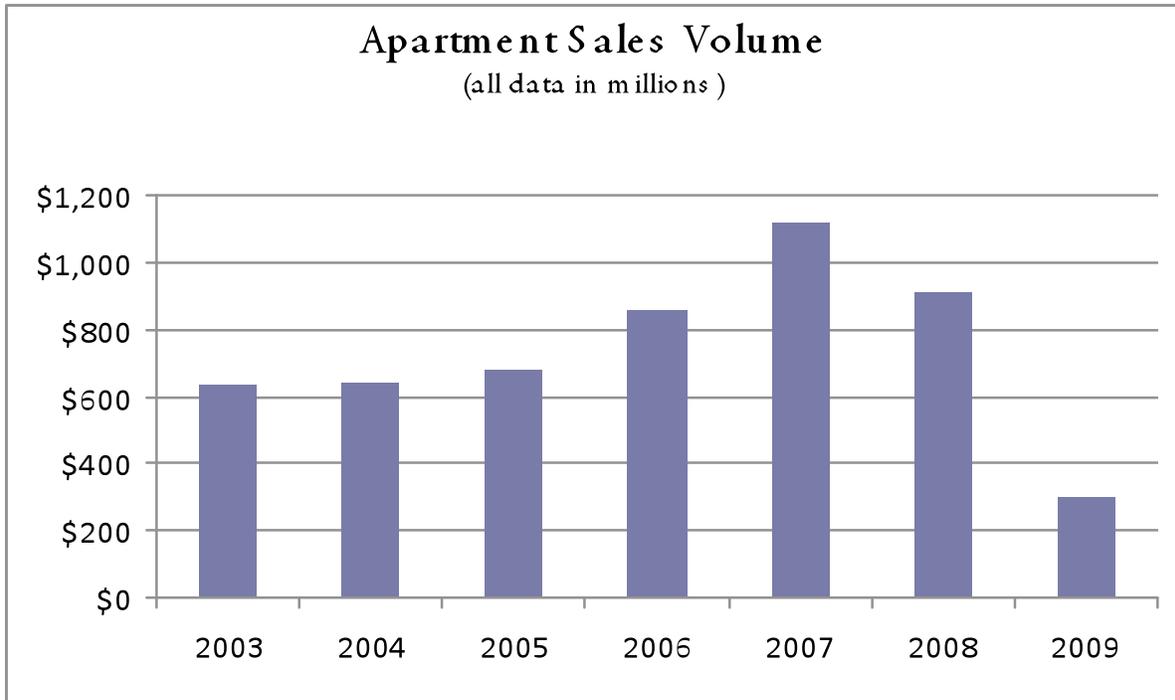
*Source: Norris & Stevens "Portland Metro Area Multifamily Report, Fourth Quarter 2009"

Norris, Beggs & Simpson’s list of major apartment sale transactions for the fourth quarter includes the biggest apartment purchase of 2009 in the Portland metropolitan area. The Cyan was sold by Gerding-Edlen to Dallas based Behringer Harvard for \$65,000,000 (\$184,659/unit). The Cyan, building with 352 units and 6,000 square feet of retail space, is located adjacent to Portland State University and is expecting to receive LEED Gold certification.

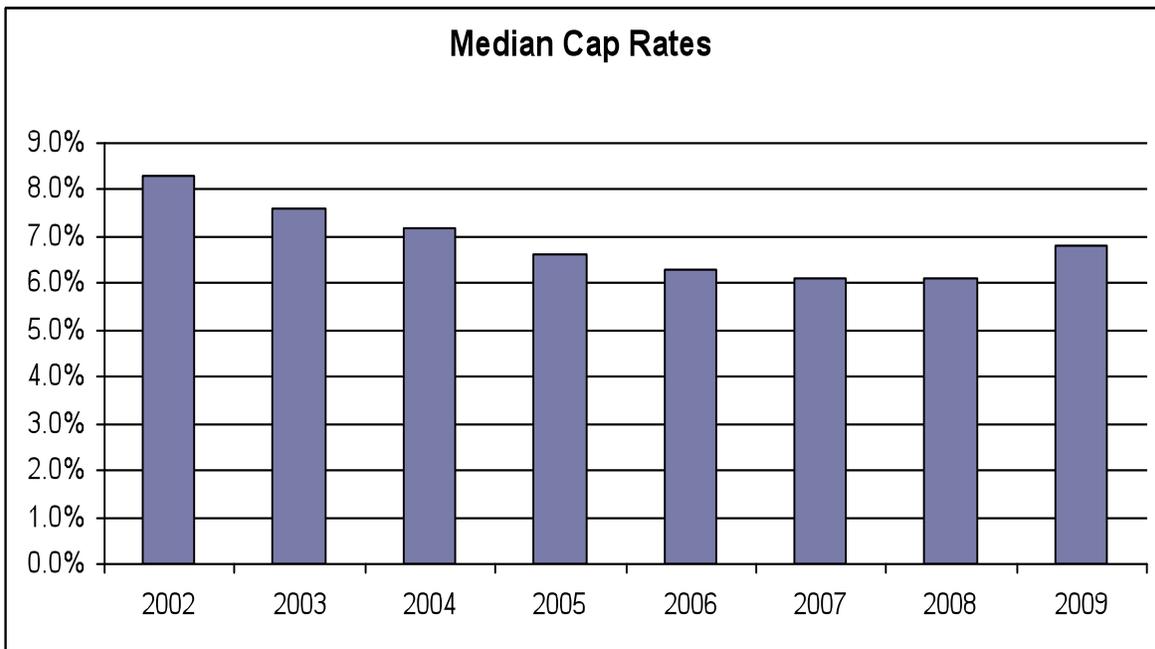
According to Mark Barry, apartment sales volumes are down significantly relative to the past six years. Total sales volume for the Portland metro area in 2009 is estimated to be \$300 million as compared to the decade high of \$1,115 million in 2007. Apartment values have also declined as the median cap rate increased for the first time in the 8 years. Cap rates increased from 6.1% in 2007 and 2008 to 6.8% in 2009. Similarly, multifamily land sales for future development have also dried up. However, as NBS indicates in its report, it expects sales to accelerate once the availability of financing increases.

MAJOR SALE TRANSACTIONS					
Buyer	Building	Price	Units	Price/Unit	Submarket
Behringer Harvard	Cyan/PDX	\$65,000,000	352	\$184,659	Downtown Portland
Foxfam LLC	Discovery Park Apartments	\$15,167,500	210	\$72,226	Vancouver
JB Matteson	London Flats Apartments	\$12,165,000	146	\$83,322	Vancouver
Steeple Chase Apartments	Steeple Chase Apartments	\$4,094,500	111	\$36,887	Vancouver
DEA Properties-Mountains LLC	The Mountains	\$1,895,000	36	\$52,639	Vancouver
William V DeBellis Revocable Living Trust	Multnomah Garden Apartments	\$1,500,000	20	\$75,000	Southwest Portland
DSS Investment Properties LLC	15710-15714 SE Stark St.	\$1,012,500	18	\$56,250	Southeast Portland

*Source: Norris & Stevens "Portland Metro Area Multifamily Report, Fourth Quarter 2009"



Source: Mark D Barry, The Barry Apartment Report, Winter 2010

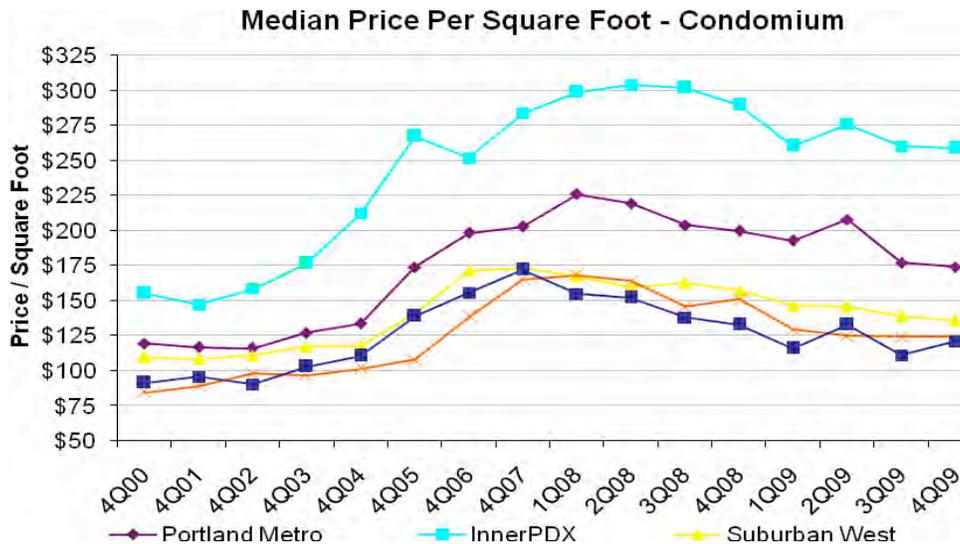
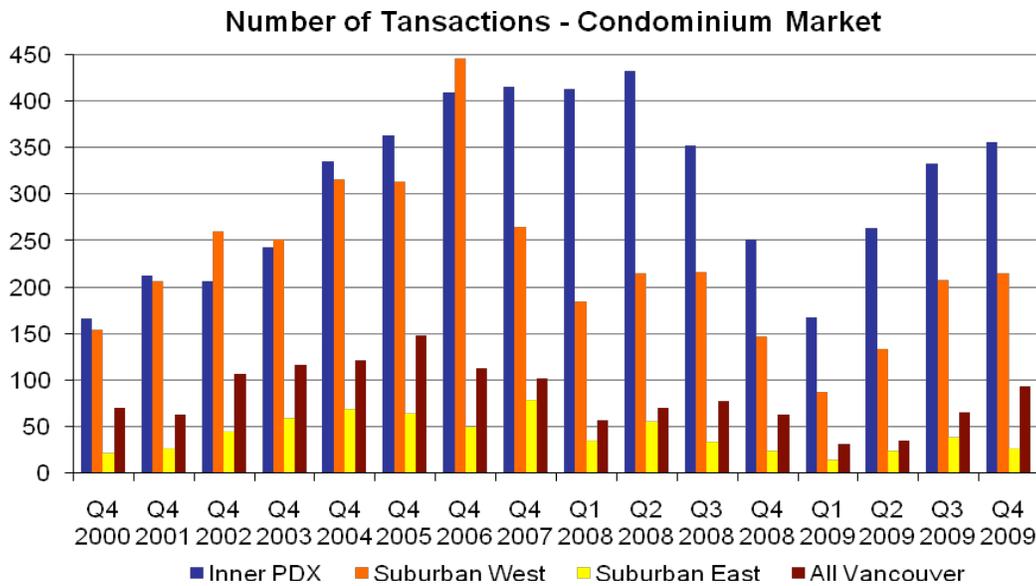


Source: Mark D Barry, The Barry Apartment Report, Winter 2010

Condominium and Attached Market

The number of condominium sales in the Portland metropolitan market is up both quarterly and annually. Across the metropolitan area, the number of sales is up 4.1% for the quarter while the number of Vancouver sales increased 42.4%.

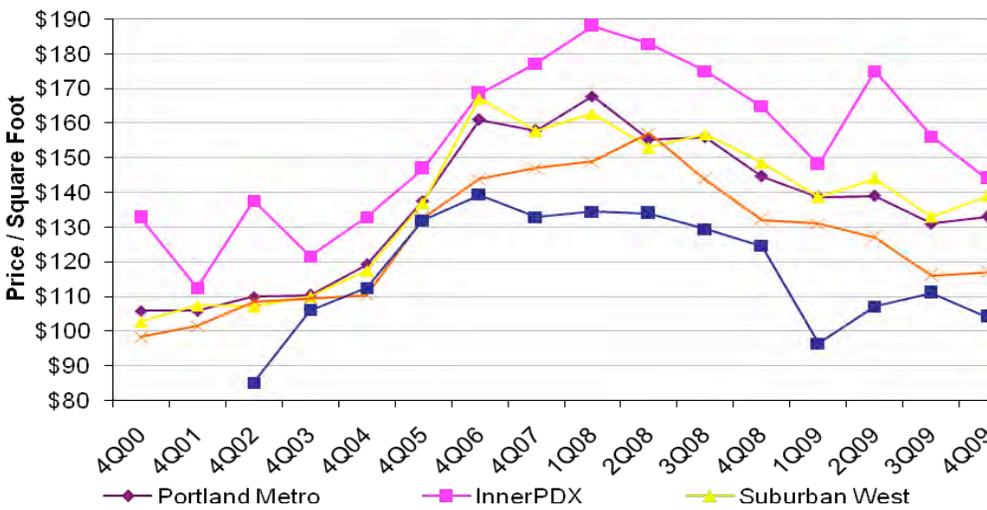
However, the prices at which those sales have occurred are down. The Portland metropolitan area's price per square foot is at \$174, a decrease of 1.7% quarterly and 12.9% annually. The median price per Portland condominium unit is \$184,000, down 2.5% from the third quarter. Vancouver, at a price per square foot of \$121, is up 9.0% for the quarter, but down 8.9% for the year. Vancouver's median price per condominium is up to \$118,150 a decrease of 6.9% for the quarter.



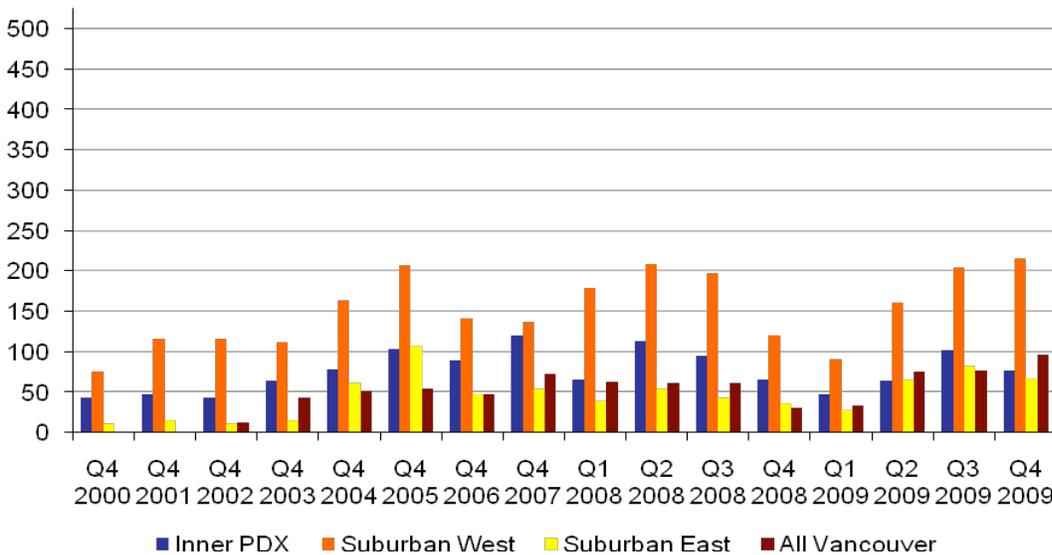
Results for single-family attached housing are down for the quarter, but up annually. The number of attached home sales in the Portland metropolitan area decreased 7.0% from the third quarter to 370. The number of sales of attached homes is up 5.9% annually with a median price of \$192,750.

The Vancouver area saw both quarterly (24.7%) and annual (210%) increases as the number of attached homes sold increased to 96. For Portland, price-per-square-foot numbers (\$133) are up 1.5% from the third quarter but down 8.0% annually. Vancouver, at \$104 per square foot, saw a quarterly decrease of 6.3% and an annual decrease of 16.5%. The median price for attached homes in Vancouver was \$169,000.

Median Price Per Square Foot - Attached



Number of Transactions - Attached Single Family



Housing Market Analysis

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

Median Home Values of Existing Detached Homes

	U.S.	West	Portland Metro Area
	\$		
November 2008 Median Sales Price	179,900	\$ 246,700	\$ 278,500
	\$		
November 2009 Median Sales Price	171,900	\$ 235,000	\$ 249,000
% Change in Median Sales Price	-4.4%	-4.7%	-10.6%
% Change in Number of Sales Nov 2008-2009	42.1%	30.5%	78.5%

Source: National Association of Realtors (November 2009) and RMLS (November 2009)

Once again the housing market statistics reflect a decrease in value from the prior year. Median home prices were down 4.4% annually in November, and 4.7% for the western part of the nation.

According to the National Association of Realtors, the metropolitan areas with the greatest annual depreciation rates are Las Vegas (-34.5%), Phoenix (-22.9%), Chicago (-16.2%), and San Francisco (-12.6%).

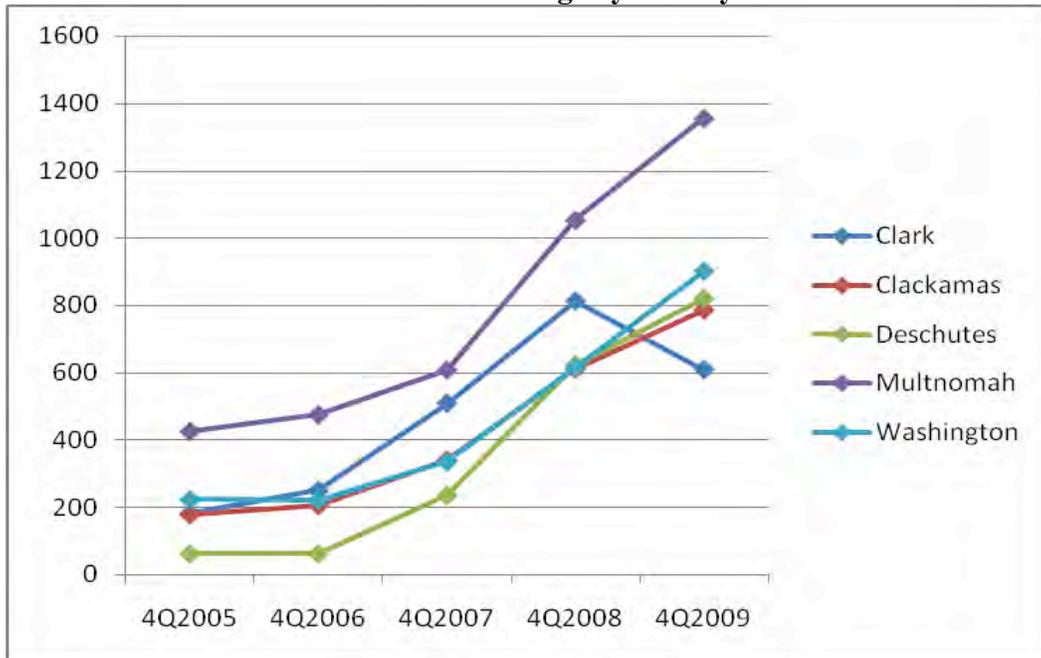
However, prices are still substantially higher than they were before the housing bubble. For Portland, according to the Standard and Poor's Case Schiller Index a home valued at \$100,000 in 2000 stood at \$150,380 at the end of November 2009.

The number of building permits issued was down 29% nationally, with a reduction of 33% in Oregon.

Foreclosures in the Portland metro area, including Clark County are up 20% annually and 120% since 2007.

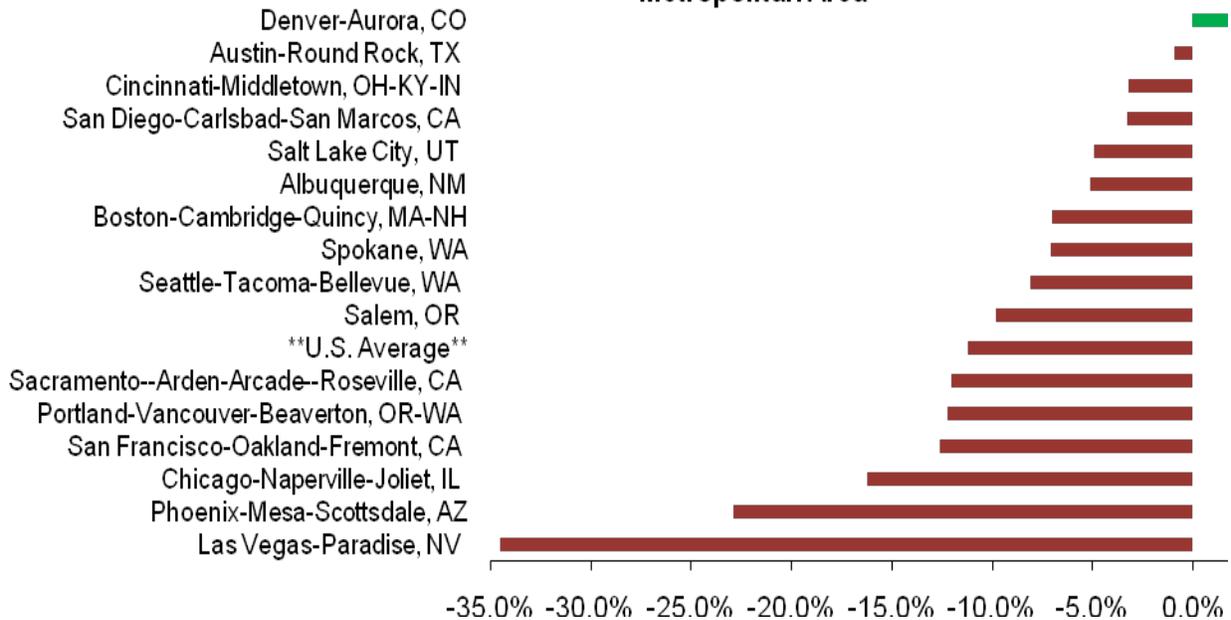
According to these various counties' recorders offices, Washington (46.2%), Deschutes (31.6%), Multnomah (28.7%) and Clackamas (28.6%) counties experienced increasing annual foreclosure rates, while Clark County (-25.1%) experienced a decrease in foreclosure filings from the previous year.

Foreclosure Filings by County



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

Annual Change in Median Sales Prices of Existing Single Family Homes By Metropolitan Area



Source: <http://www.realtor.org/Research.nsf/Pages/MetroPrice>

Building Permits Issued

Year to Date

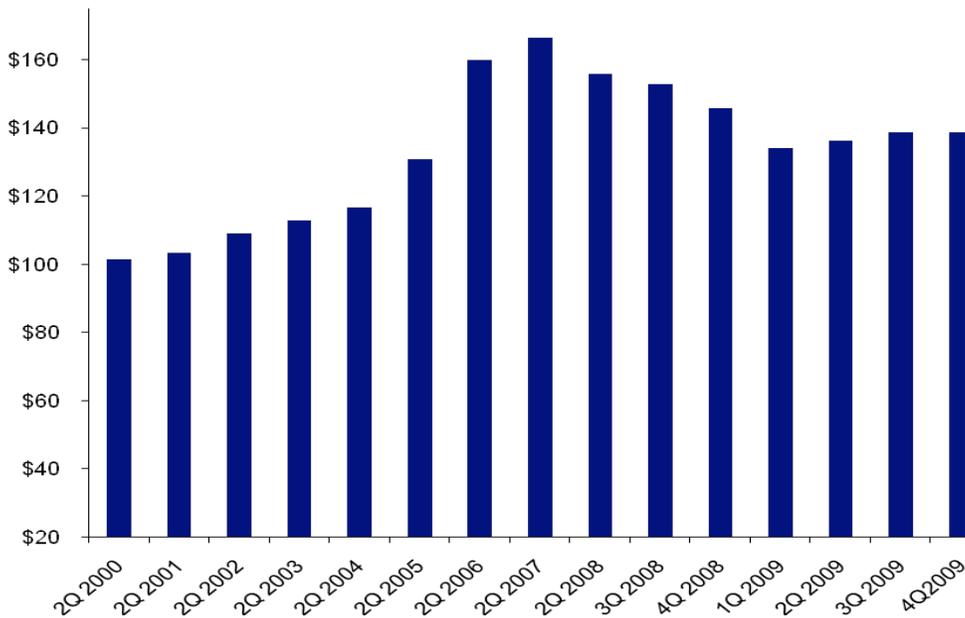
	SINGLE-FAMILY			MULTIFAMILY		
	Nov-09	Nov-08	PCT CHG	Nov-09	Nov-08	PCT CHG
UNITED STATES	400.7	545.7	-27%	123.6	306.8	-60%
OREGON	5.21	7.60	-31%	1.81	4.11	-56%
Bend OR	0.33	0.66	-50%	0.03	0.09	-68%
Corvallis OR	0.04	0.05	-19%	-	-	-
Eugene-Springfield OR	0.41	0.59	-31%	0.15	0.18	-15%
Medford OR	0.31	0.38	-18%	0.01	0.08	-92%
Portland-Vancouver-Beaverton OR-WA	2.73	4.06	-33%	0.86	3.36	-74%
Salem OR	0.36	0.50	-27%	0.11	0.23	-50%

Source: National Association of Home Builders (November 2009)

Portland

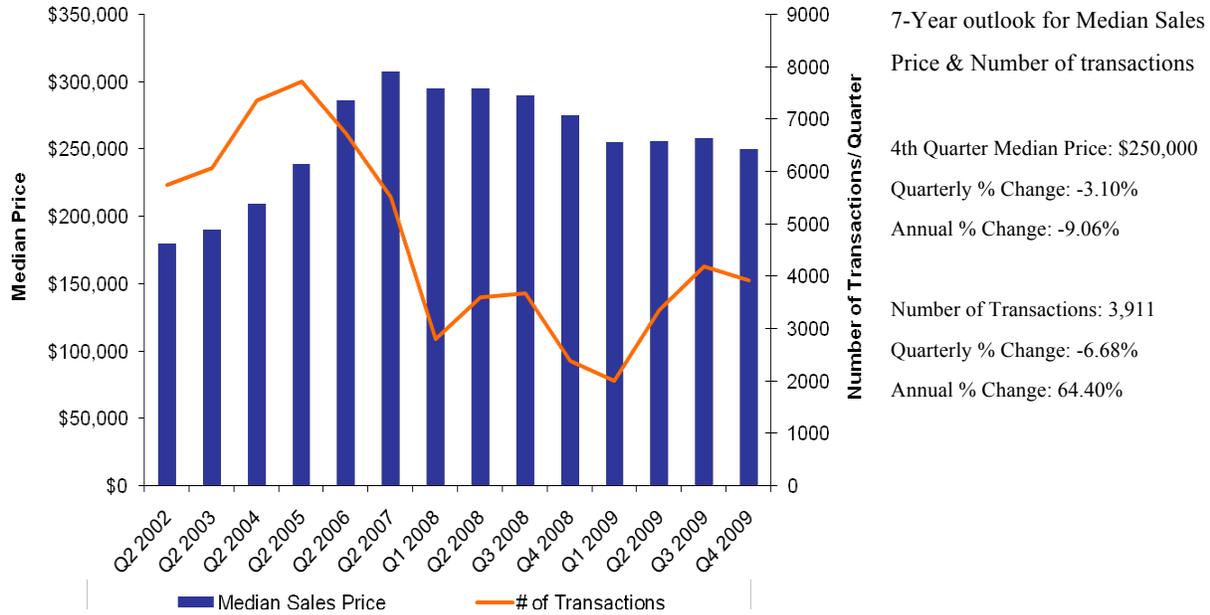
The number of Portland metropolitan area home sales increased by 25% over the third quarter, as buyers closed purchases on 4,191 existing homes. This is an increase of 14% over the previous year. Median prices for the third quarter were at \$258,000, a 1% increase over the previous quarter, but an 11% reduction annually. Prices are still being marked down, with average sales taking place at 91.68% of the original list price, 1.96% less than the previous year. Sellers in the Portland area, on average, have their homes on the market for 72 days before closing, reflecting a one-week increase from 2008. Price per-square-foot values increased slightly again to \$139, a 2% increase from the previous quarter. However, this reflects a 9% decrease annually.

Single Family Price/SqFt - Portland Metro



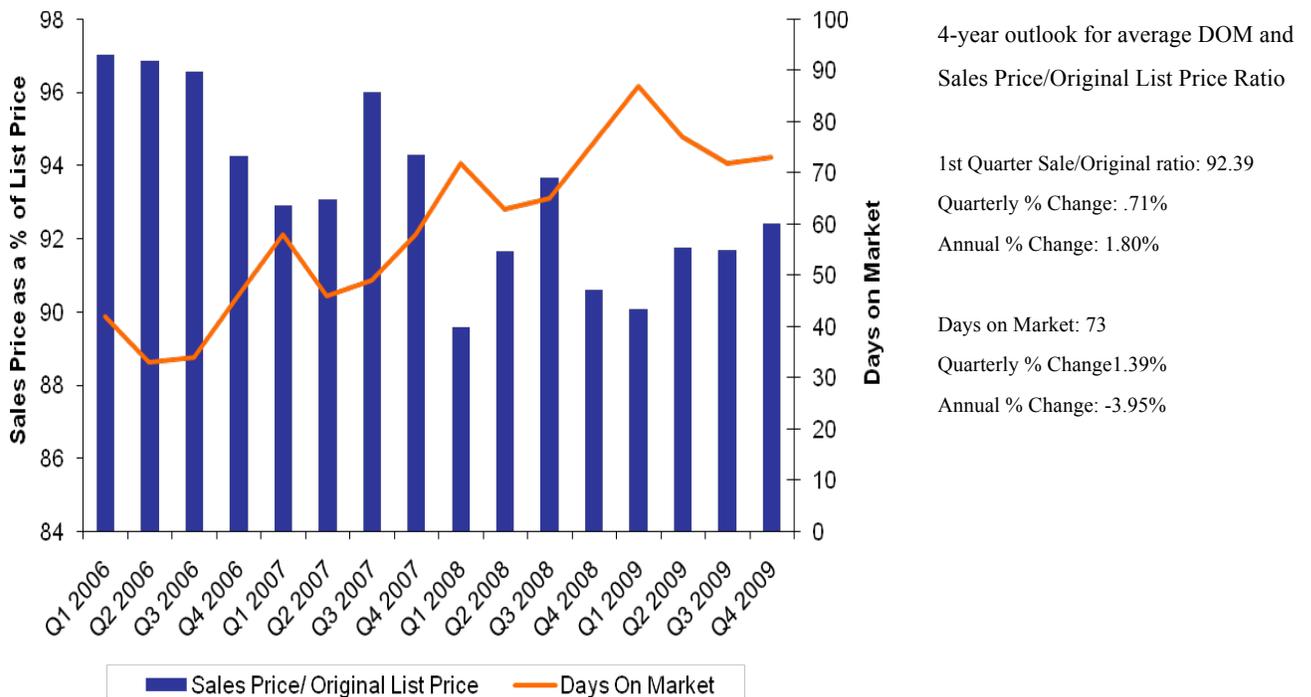
Median Sales Price & Number of Transactions – Existing Detached Homes

Portland Metro (Excluding Clark County)



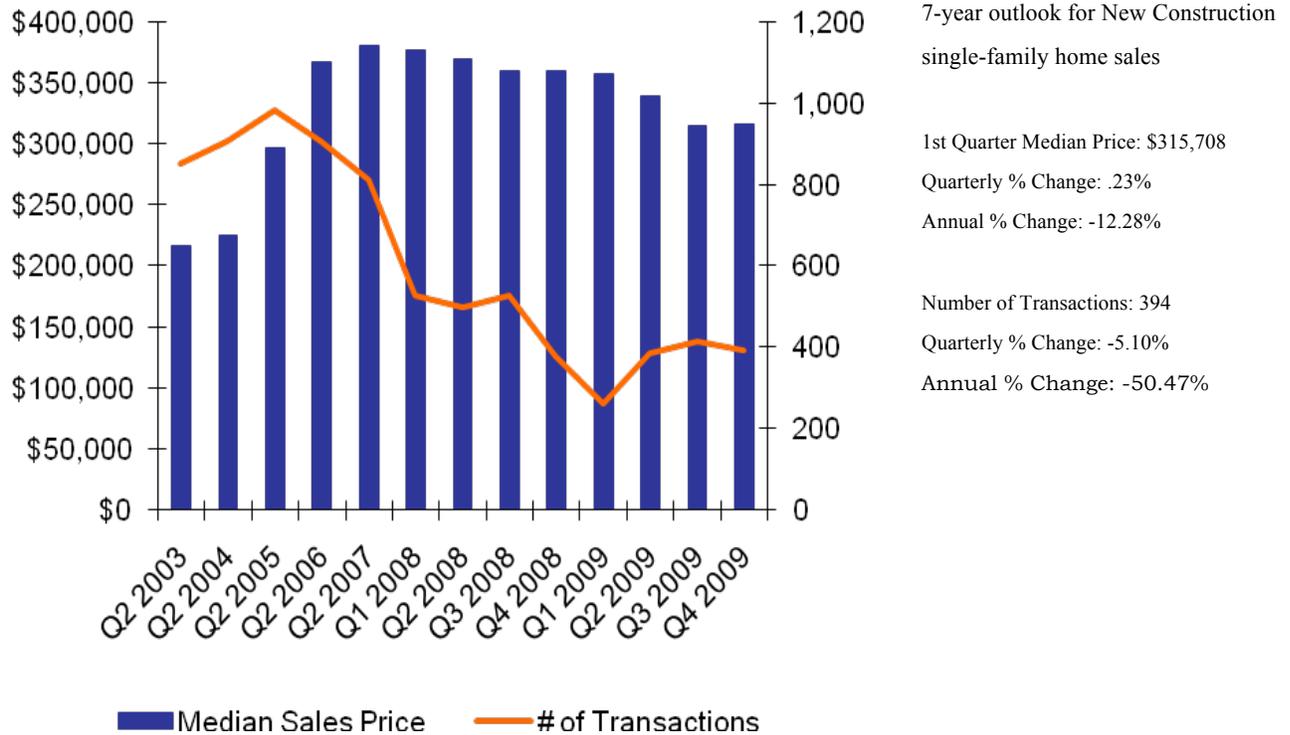
Sale Price/Original List Price & Average Days on Market – Existing Detached Homes

Portland Metro (Excluding Clark County)



Median Sales Price & Number of Transactions – New Detached Homes

Portland Metro (Excluding Clark County)



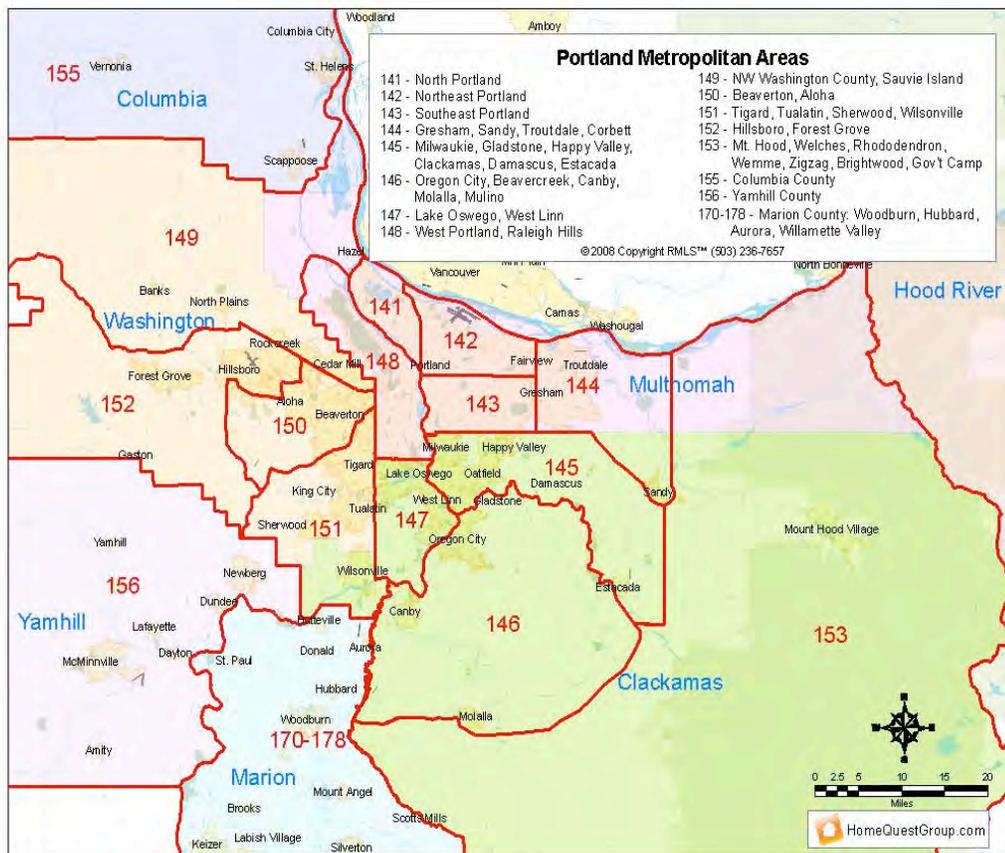
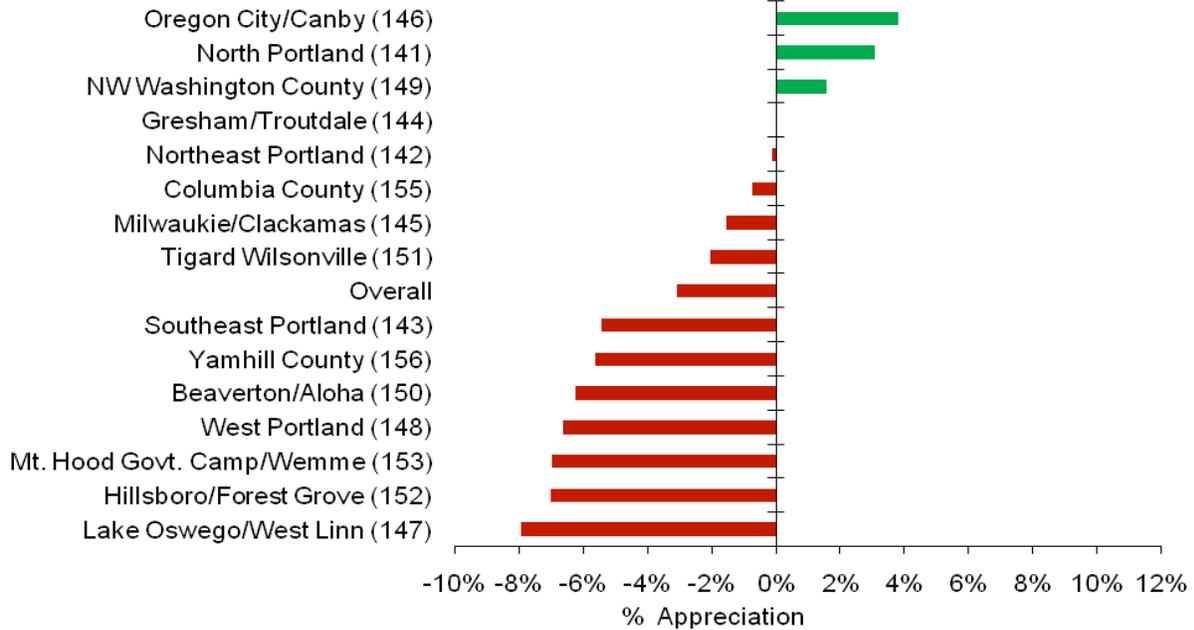
Three of the submarkets listed below experienced quarterly price appreciation. The other submarkets experienced a decline in value. Oregon City/Canby home prices increased the most at 3.82% followed by North Portland at 3.08% and NW Washington Count at 1.58%.

Conversely, the Lake Oswego/West Linn area experienced the highest depreciation rate at (-7.95%), followed by Hillsboro/Forest Grove at (-7.02%).

Annual results are negative for all but one Portland area submarket. North Portland (1.1%) is the only submarket that experienced an increase in value from the previous year.

Conversely, Lake Oswego/West Linn (-19.5%) and Mt. Hood/Government Camp/Wemme (-16.67%) home values depreciated the most since 2008.

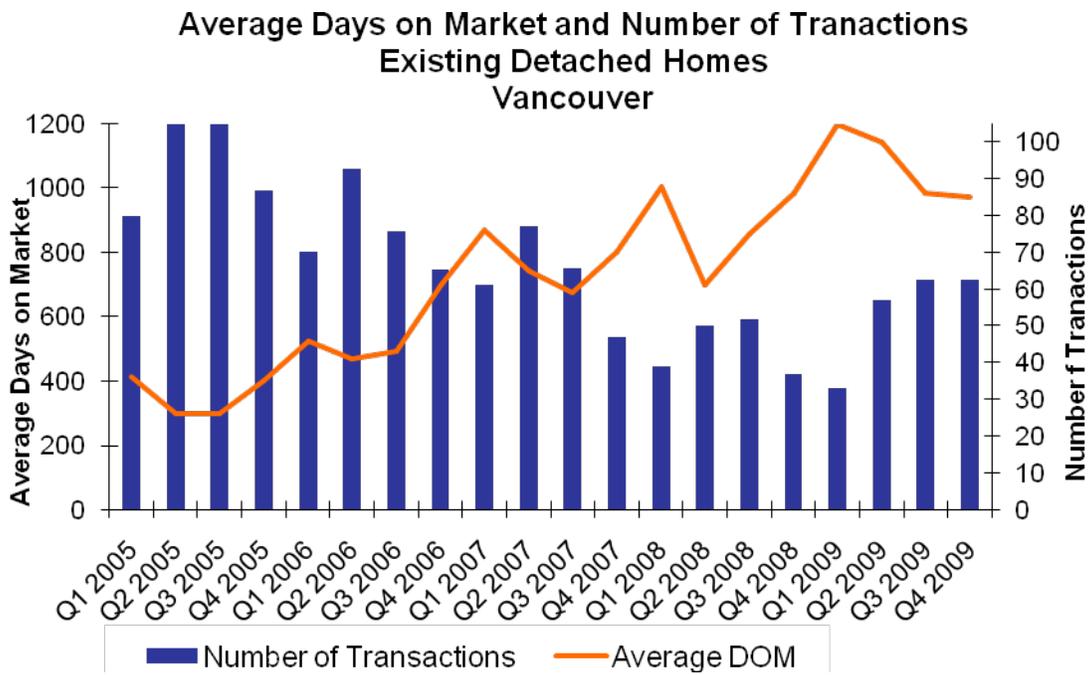
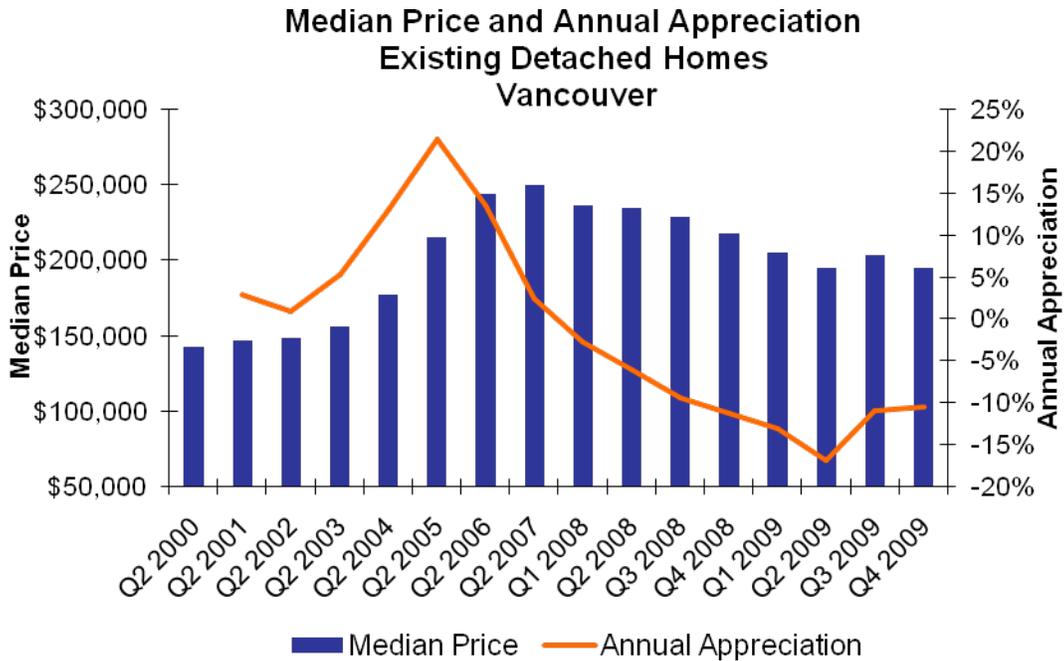
Appreciation Rates of Existing Detached Homes - Portland Sub-Market Q3 2009- Q4 2009



Map Courtesy of the RMLS

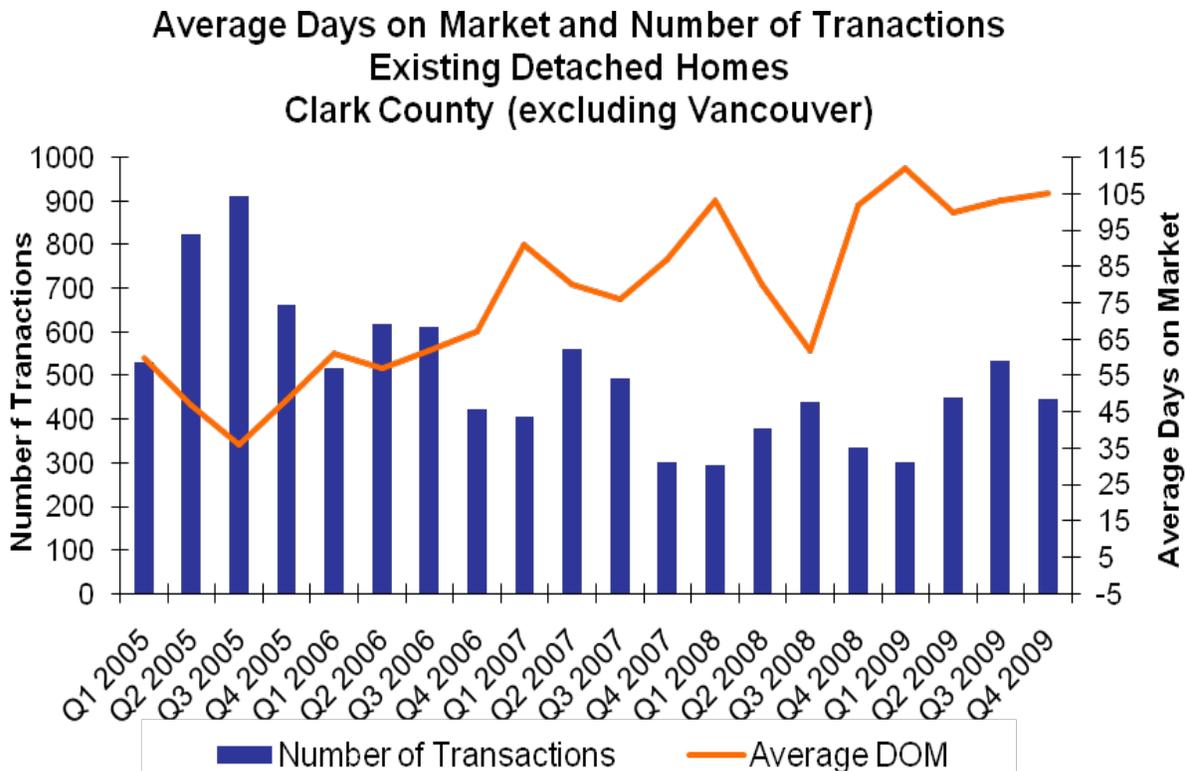
Vancouver

Vancouver’s median home price was \$194,750 resulting in a quarterly decrease (-4.5%) and an annual decrease (-10.5%) in home values. On a positive note, the number of home sales increased to 715, up 0.1% quarterly and 69% annually. The number of days on the market is down to 85, a 1% decrease from 2008.



In the suburbs of Clark County, home prices have dropped to \$238,000, a 1.1% drop from the previous quarter's median price. An annual outlook indicates that home prices are down 0.8% from 2008.

The number of home transactions in the Clark County suburbs is down 16.3% for the quarter but up 33.4% annually. The number of days on the market has increased 2.9% annually and is up to 105.



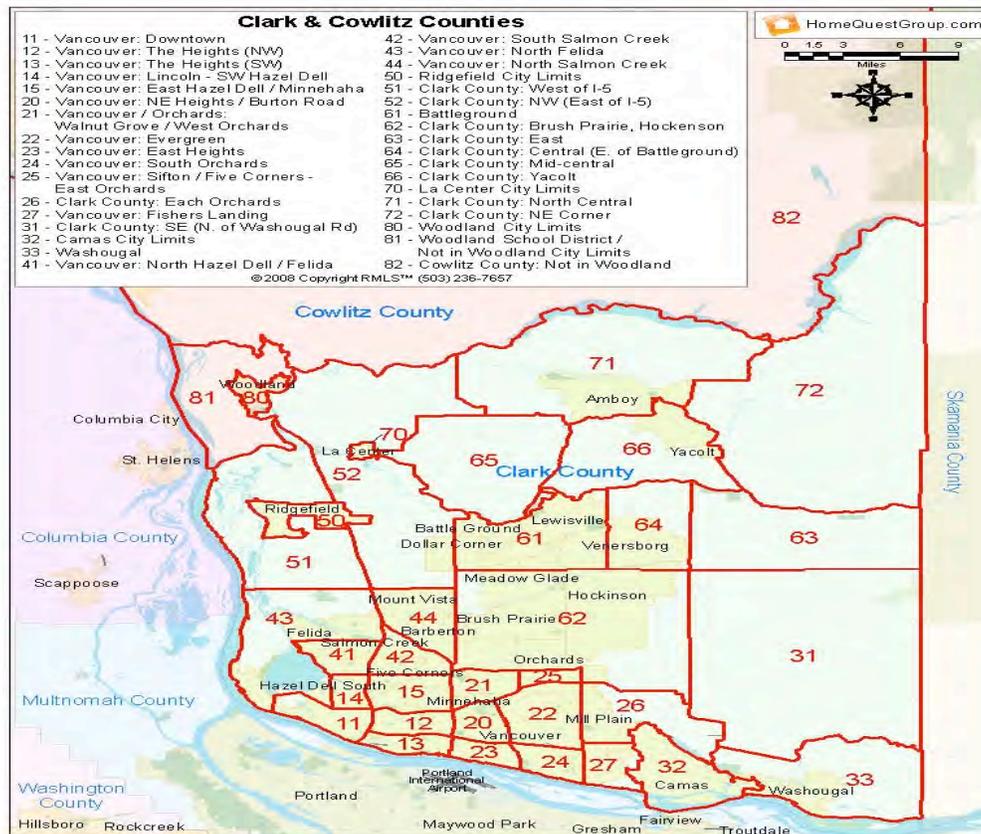
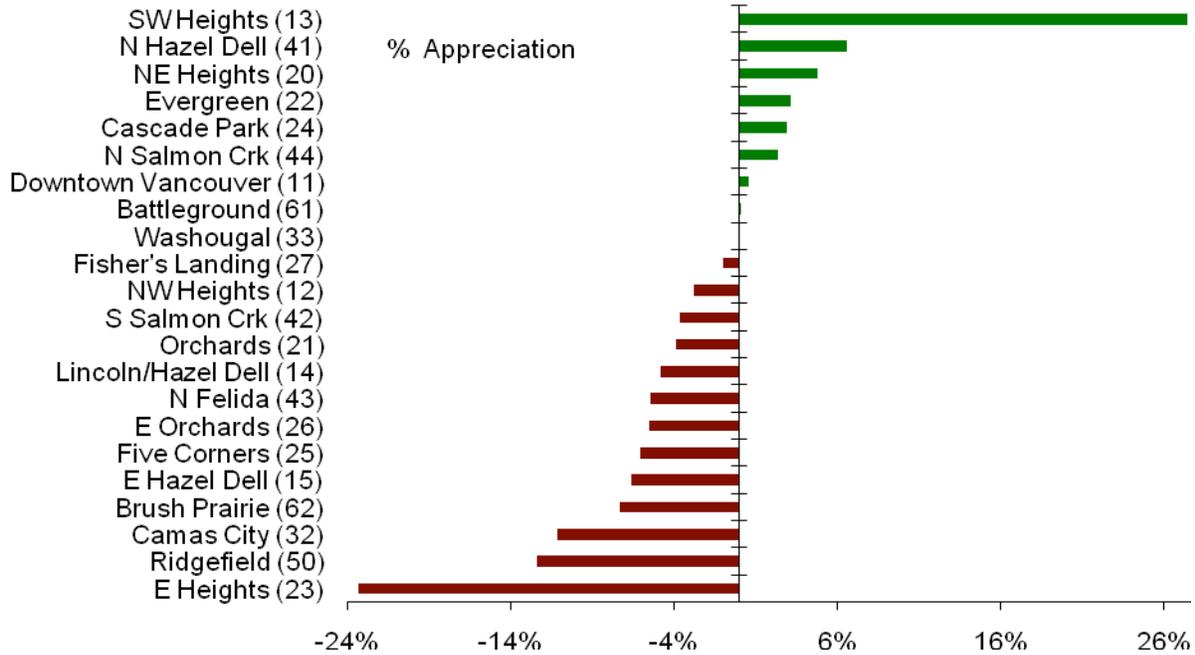
Eight Vancouver/Clark County submarkets experienced price appreciation for the quarter. The Southwest Heights area had the strongest quarter with an appreciation rate of 27.5% followed by North Hazel Dell (6.6%) and Northeast Heights (4.8%).

Conversely, the East Heights area had the highest depreciation rate at (-23.4%) followed by Ridgefield (-12.4%) and Camas City (-11.1%).

Annual changes show that only Southwest Heights (50.6%), Brush Prairie (6.7%) and North Salmon Creek (0.5%) increased in value.

The rest of the submarket depreciated led by Ridgefield (-26.9%) and Northeast Heights (22.6%).

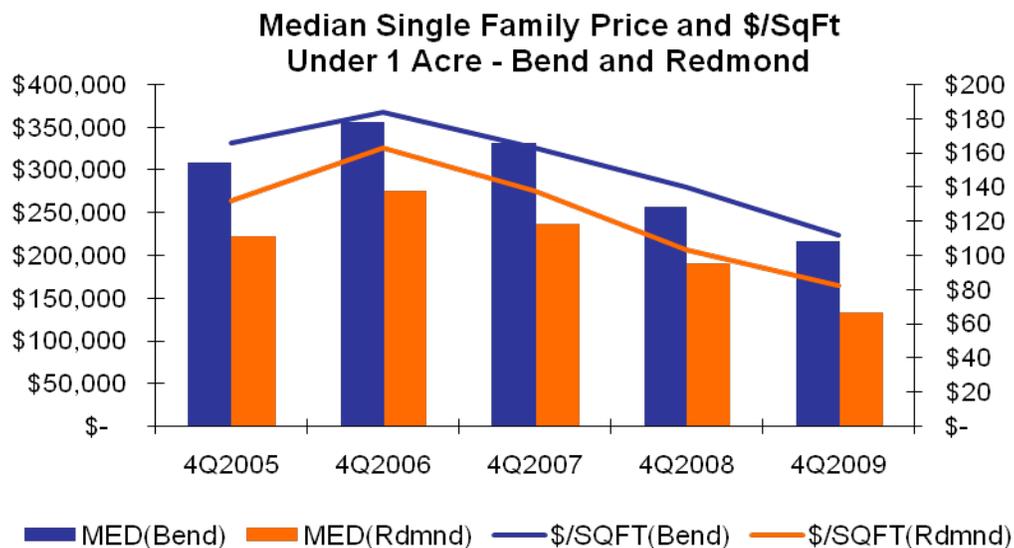
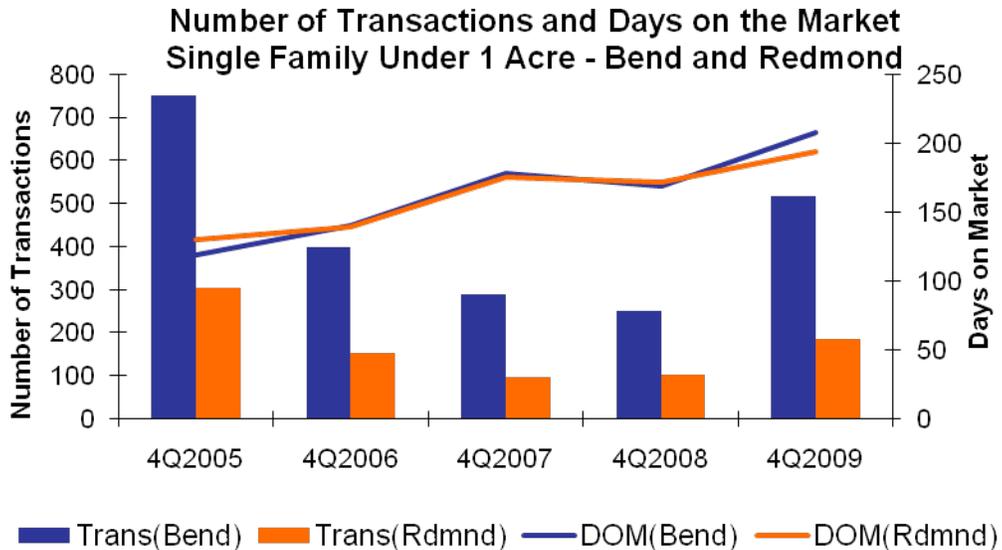
Appreciation Rates of Existing Detached Homes Vancouver and Clark County Sub Market - Q3 2009 - Q4 2009



Map Courtesy of the RMLS

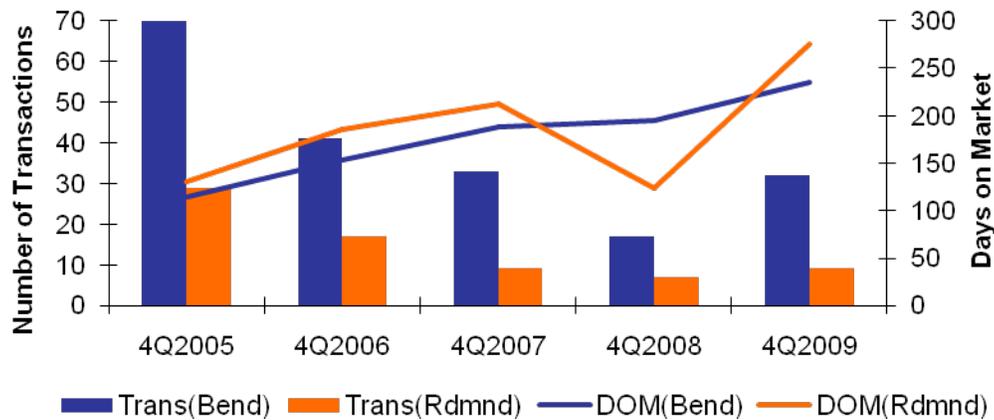
Central Oregon

Both Bend and Redmond experienced significant increases from the previous year with respect to the number of homes sold. Bend home sales are up 105% to 516 while Redmond's increased 80% to 187. The number of days on the market increased to 208 for Bend and 194 for Redmond. The median home prices declined significantly for both Central Oregon submarkets. Bend home prices plummeted (-15.7%) to \$215,750 while Redmond prices slipped (-29.8%) to \$133,000. Price-per-square-foot numbers also declined significantly for Bend and Redmond at \$112 and \$82.

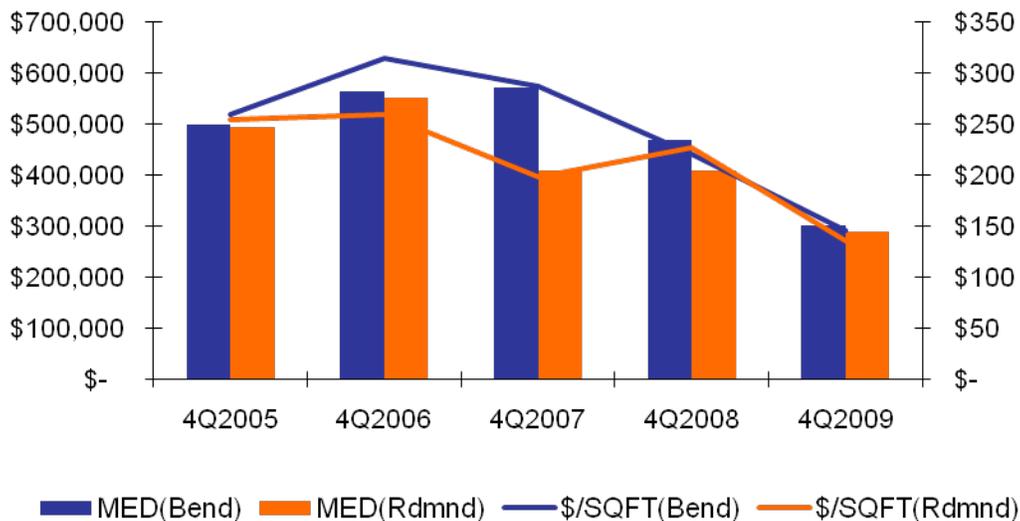


As it is commonly reported in Central Oregon’s reports, the housing stock is separated by lot size, properties under one acre and those between one and five acres. Price per square foot is provided to control for lot size between both categories. Fourth quarter statistics are mostly negative for Central Oregon homes lying on acreage. Bend transactions increased 88.2% from 2008 while Redmond experienced an increase of 28.6%. However, Bend home prices plummeted (-35.9%) to \$300,050 while Redmond prices slipped (-29.5%) to \$289,000. Price per square foot is down to \$146 for Bend and \$136 for Redmond. The number of days on the market increased for both areas as Bend is at 235 and Redmond is at 275.

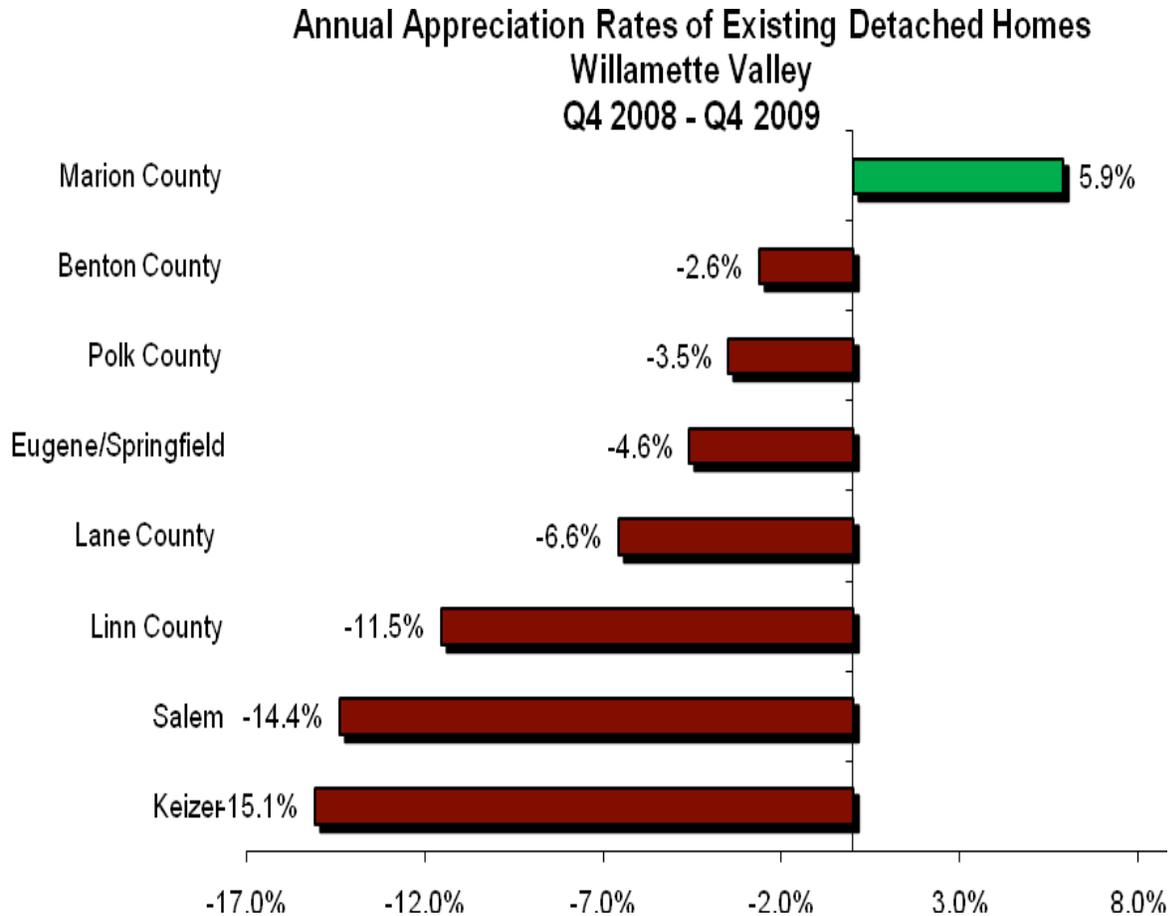
**Number of Transactions and Days on the Market
Single Family 1-5 Acres -Bend and Redmond**



**Median Single Family Price and \$/SqFt
1-5 Acres - Bend and Redmond**



Willamette Valley

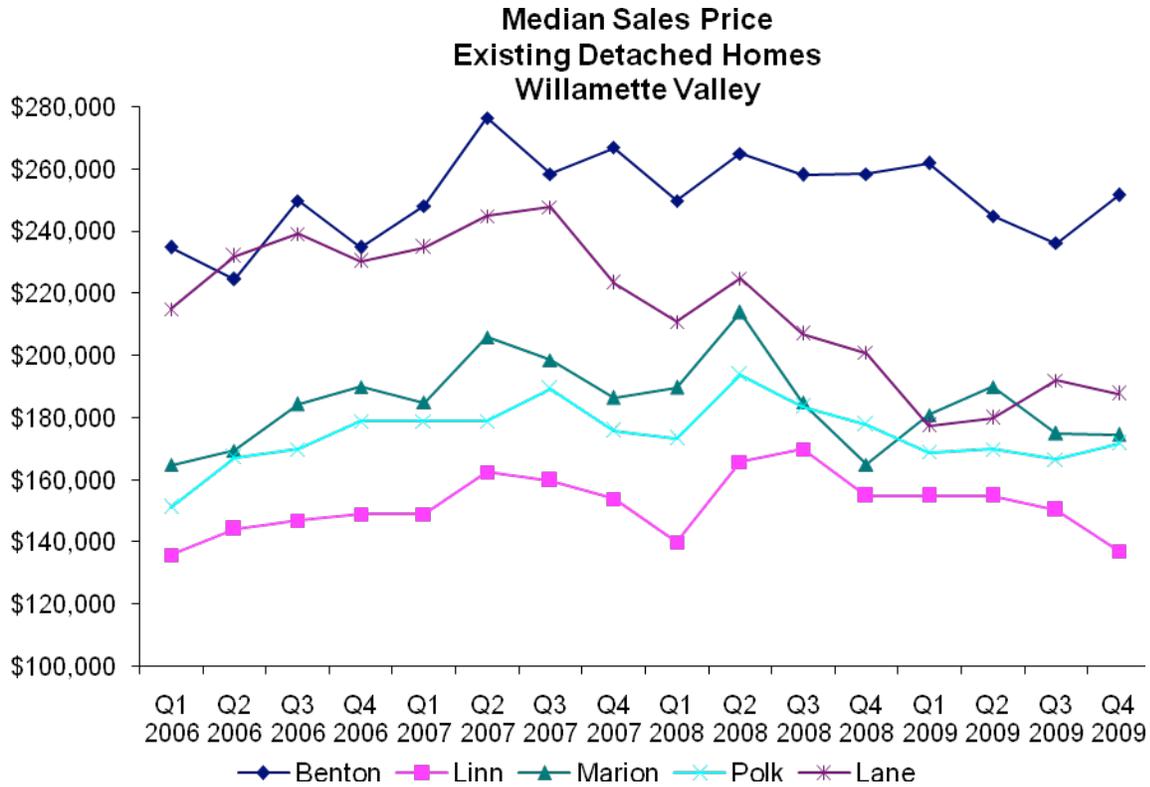


With the exception of Marion County (5.9%), all Willamette Valley submarkets experienced annual depreciation on existing home prices.

Keizer suffered the worst quarter in the valley with declining prices of (-15.1%) followed closely by Salem at (-14.4%).

The number of transactions over the past year increased for all of these areas with Marion County increasing the most (68%).

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

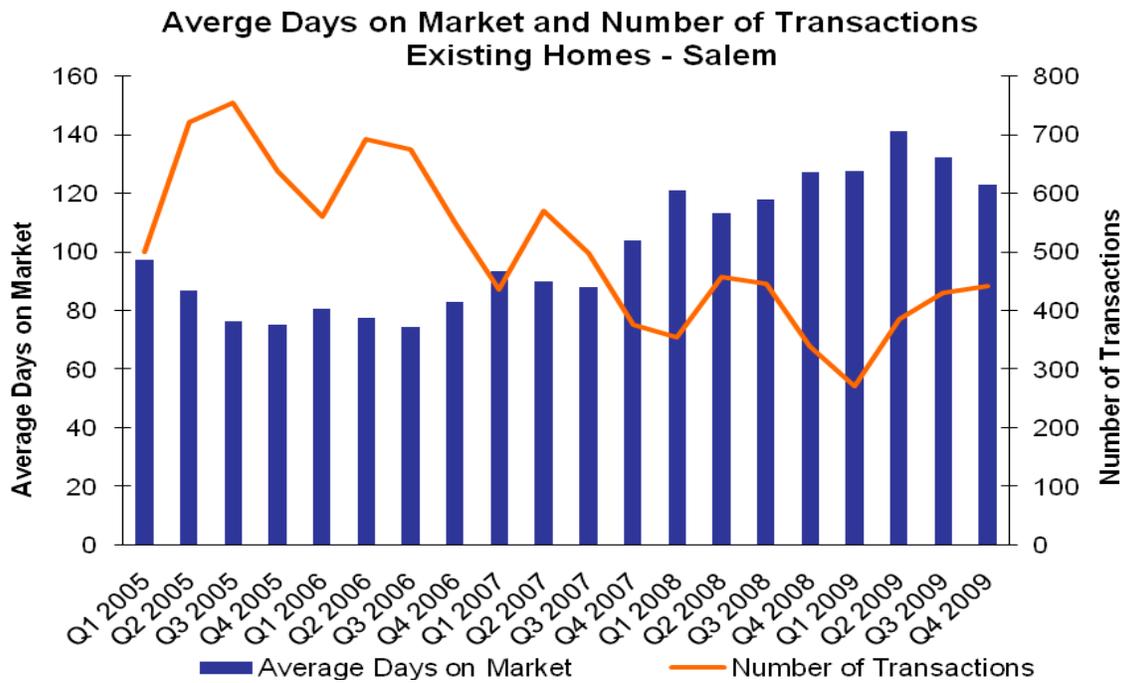
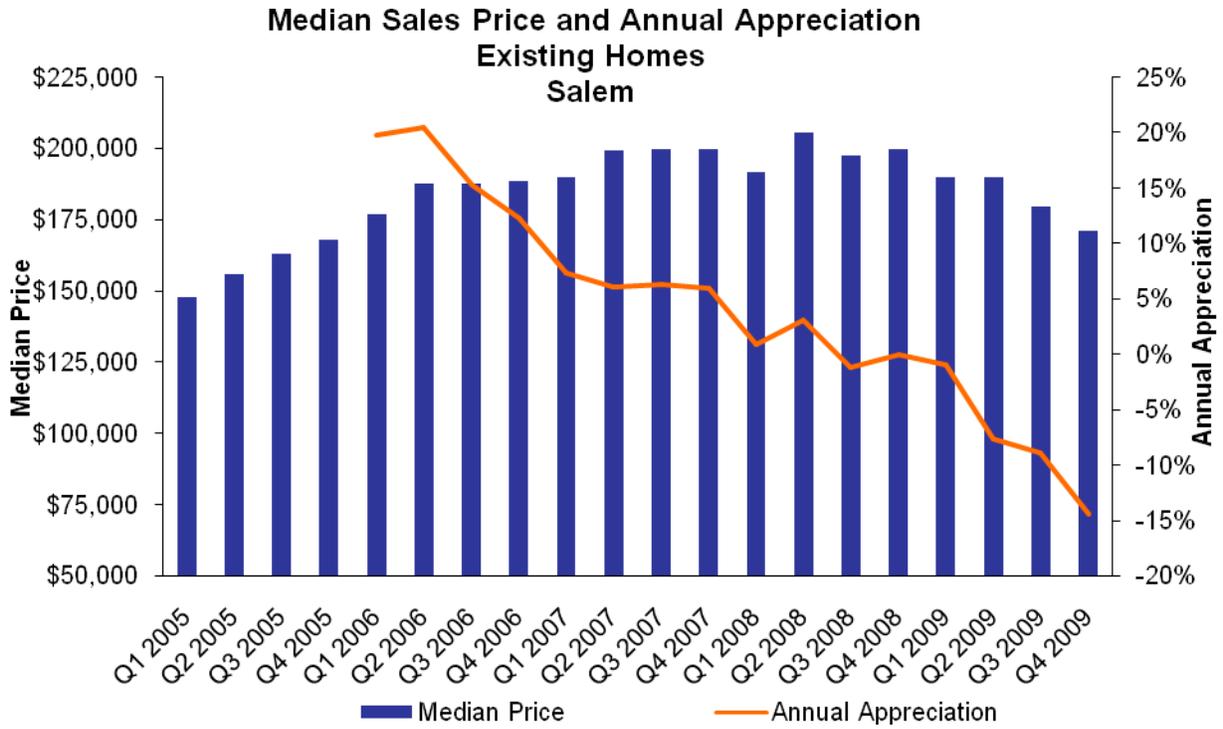


Salem

Salem’s housing market continues to suffer annual depreciation of home prices. However, the number of transactions has increased annually and the number of days on the market has decreased.

Prices declined (-14.4%) from the previous year to \$171,225. Meanwhile, the number of days on the market decreased to 123, approximately four months.

The number of transactions increased (30.4%) from the previous year to 442.



Eugene/Springfield

The Eugene/Springfield area experienced declining home prices relative to the fourth quarter of 2008. However, the number of transactions rose 34.5% annually to 515. The median price was down 4.6% to \$209,900. Sellers currently have their houses on the market for 78 days before closing and are realizing 92.15% of their original listing price on the sale.

