

# Real estate market in need of employment rebound

Tight credit markets could make it difficult to finance projects for several years

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There will be plenty of work and possibly little payoff in 2010 as Portland's commercial real estate sector wrestles with high unemployment, lending issues and a crippling lack of consumer confidence.

"It's not rocket science to say things are not going to come back until lending opens up and they turn the faucet back on," said Jill Laney, a Portland real estate attorney.

The Oregon chapter of the Institute of Real Estate Management offered a glimpse of what's to come for commercial real estate at its annual breakfast, held Dec. 3.

Whether it is office space, apartments or industrial warehouses, commercial real estate will continue on its lackluster path until Oregon tames its unemployment problem — 211,000 Oregonians out of work and counting.

Clyde Holland, chairman and CEO of Holland Partner Group, which operates a portfolio of rental properties, is the optimist in the IREM crowd. Oregon, together with Washington, Idaho, Colorado and Texas will lead the nation in job formation starting in the second quarter of 2010, he predicted.

The new jobs will create new renters, which will boost demand for apartments.

Developers, meanwhile, will wait three to four years before beginning projects.

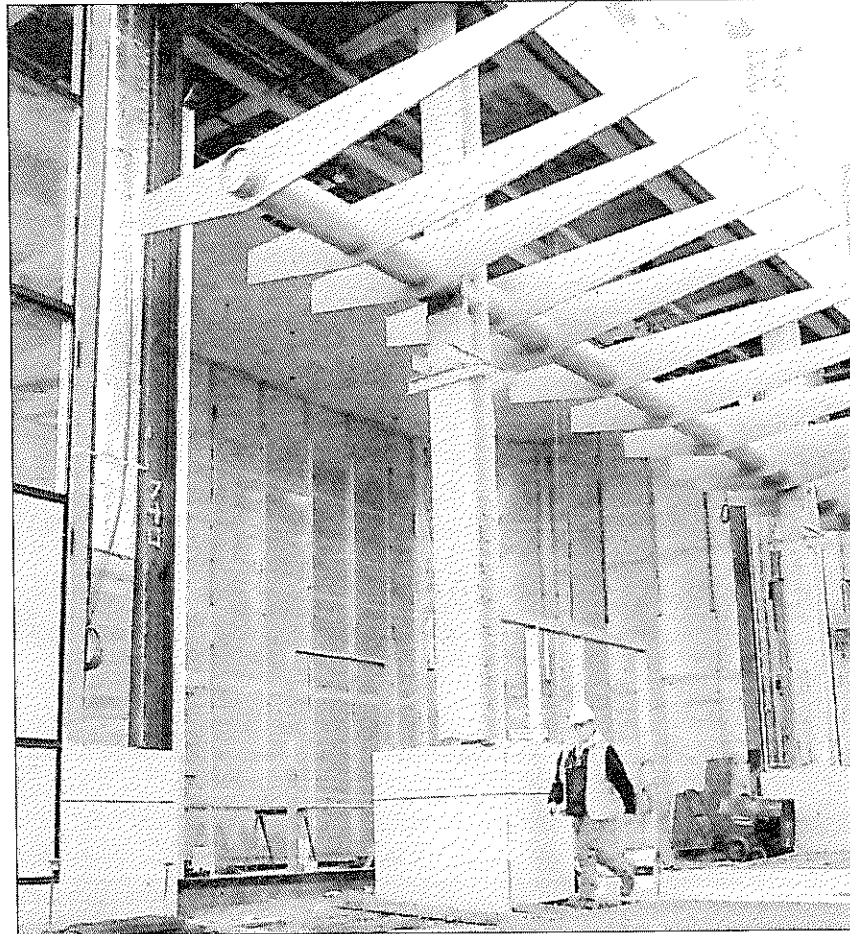
Tom Usher, managing director of Cushman and Wakefield of Oregon Inc., said vacancy rates have yet to reach their peak.

Portland's 41 million-square-foot office market hasn't yet realized the consequences of losing so many jobs.

Portland has lost about 15,000 office jobs, which translates to roughly 3 million square feet of office space.

So far, just 1.25 million square feet has

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Downtown's First and Main will open this year, adding 348,000 square feet of space to the market.

come on the market, meaning in theory there is another 1.75 million square feet of unused or under-used space tenants will likely give up when their leases expire.

Also, First & Main, downtown's newest office building, will open at the base of the Hawthorne Bridge this year, its 348,000 square feet of unleased space adding to the surplus.

Usher predicted vacancy rates will increase, rents will decline and building owners will woo prospects with concessions and generous tenant allowances.

Currently, Usher said, at least two sectors are showing interest in downtown office space.

The federal government needs to lease more than 200,000 square feet of office space in downtown to house workers displaced by the pending \$133 million renovation of the Edith Greene-Wendall Wyatt federal building.

The federal government, together with suburban tenants eager to move downtown, will keep up demand for space.

"2010 will not be a banner year, but it

won't be as challenging or uncertain as 2009 has been," he said.

The retail real estate business will have to wait several more years for employment to recover and re-ignite consumer confidence, said Doug Magnusen, partner and vice president for HSM Pacific Realty Inc.

Magnusen noted that 2009, while bad, showed there are some opportunities.

Joe's, the venerable Wilsonville retailer, went out of business in 2009, but its former big box locations attracted Dick's Sporting Goods to the Portland area.

For Portland's industrial landlords, word that the recession is over will ring hollow.

"We haven't hit bottom, said Tom Talbot, an industrial broker with GVA Kidder Mathews.

Downsizing came from all quarters and sent vacancy rates into the double digits in traditionally strong markets such as Wilsonville, where Nike Inc. shuttered its 500,000-square-foot warehouse in Wilsonville to move to Memphis. Movie Gallery Inc., Joe's, Georgia Pacific and more shut down warehouses.

Hillsboro and Clackamas have more empty space than ever.

More than half the newly constructed industrial space in the Columbia Corridor remains empty and it will take two years or more to fill it up, far longer than the usual six to 12 months, Talbot said.

Last, and certainly not least, the investment market will struggle mightily as \$250 billion to \$300 billion in commercial mortgage debt comes due annually between 2010 and 2015.

Bank lending is on a decline and commercial mortgage-backed securities are largely gone, leaving it unclear how the deals will be refinanced.

The practice of extending loans will run its course in 2010 as banks become strong enough to take losses, according to Emerging Trends, an annual forecast by PricewaterhouseCoopers and the Urban Land Institute, which anticipates a wave of foreclosures, especially on buildings purchased at the height of the market.

"2010 looks like an unavoidable bloodbath for a multitude of zombie borrowers, investors and lenders," it said.