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SUMMARY AND EDITORIAL

Eric Fruits

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As noted in the past few issues, our economy is groping its way out of recession. The US economy remains weak, but several economic indicators have turned upwards in recent months. Many economists are now somewhat more optimistic about the recovery. The Wall Street Journal survey of economists now say there is a 1-in-6 chance that that the U.S. will experience a recession in the next 12 months, which is down from the 1-in-3 chance reported in the last issue. The Economist Intelligence Unit has reduced its probability of another recession in the US.

Real estate markets are seeing some strong signs of recovery outside of the residential markets. For example, Marcus & Millichap project that the Portland area will be one of the country's top retail real estate markets for investors this year. The apartment sector is another bright spot in the overall housing market, with rising rents and very low vacancies. However, tight credit remains an issue. At a National Association of Home Builders conference, the chairman of NAHB's Multifamily Leadership Board remarked, "Capital is limited in this current market, and developers are having a difficult time obtaining the credit needed to finance the development of new apartments. Credit restrictions are so tight that even developers with a strong balance sheet and reputation are having difficulty."

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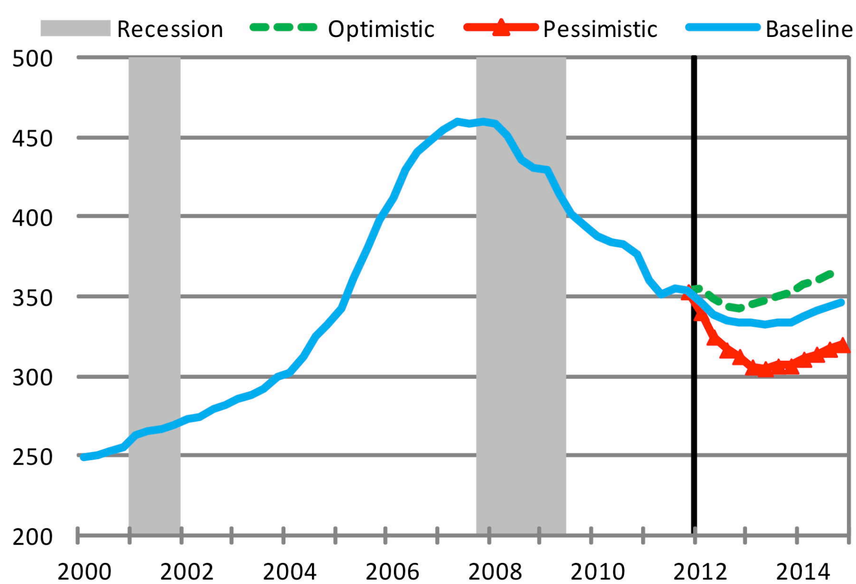
With financing scarce and often difficult to obtain, it's little wonder that real estate developers across the Northwest are looking for new ways to fund their endeavors. In this issue of the Quarterly Report, **Bradley Maier** reports that within the past three years, there has been an increasing amount of interest in the EB-5 Investor Visa Program as a potential source of capital as foreign nationals seek to invest in the US. Mr. Maier provides a very informative and easy-to-read primer on this growing program.

Forecasters note that there has been some positive news in the housing market but a large overhang of houses will prevent a strong recovery. On the one hand, Oregon State University economist Patrick Emerson writes on his blog that "the thaw has begun" in Oregon's housing market:

> We do seem to have hit the bottom but there are a lot of factors that will keep a lid on prices for some time: unemployment, foreclosures, uncertainty, tight credit, etc. But I would not be surprised to see 2012 end with modest gains in average home values as measured by Case-Shiller. And I think Portland will be one of those areas in which we will see improvement by the end of the year.

On the other hand, Zillow projects that Oregon house prices will decline by 4.1 percent in 2012. In addition, as shown in Figure 1, the Oregon Office of Economic Analysis anticipates declining house prices through 2013. The OEA does not see prices recovering to their pre-recession levels until sometime in the early to mid-2020s. It should be noted, however, property prices saw a bubble-like run-up from 2004 through 2007.

Figure 1: FHFA Oregon Housing Price Index



Source: Oregon Office of Economic Analysis

According to ForeclosureRadar, for the counties it follows, Oregon foreclosure filings have been on a somewhat steady downward trend. Figure 2 shows that January 2012 notices of sale filings are approximately half what they were in January 2011. Figure 3 shows that Portland's experience is similar the state as a whole.

RealtyTrac predicts that 2012 foreclosure activity 2012 will look less like a tsunami and more like a series of smaller waves rolling into shore over the course of the year. The company believes this should allow the market to absorb foreclosure inventory without imposing another 20 or 30 percent hit to home prices. Even so, the steady stream of foreclosure activity will likely keep home prices from appreciating substantially during the year.

Figure 2: Oregon Foreclosure Filings 2011–2012

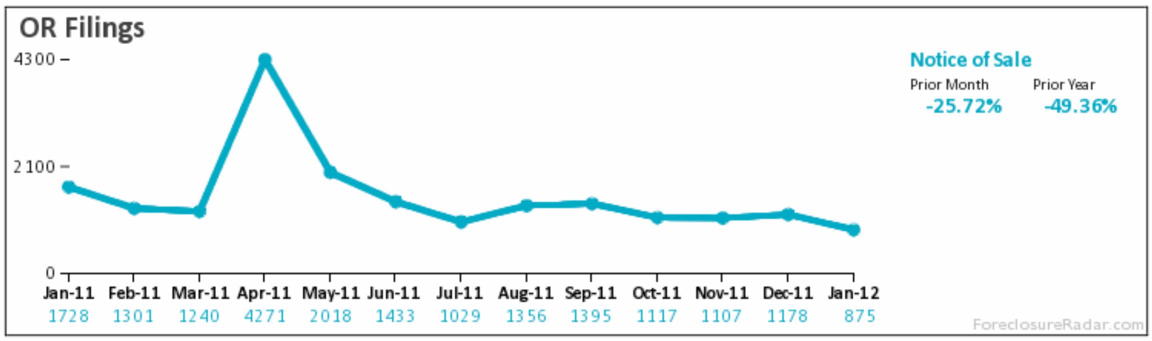
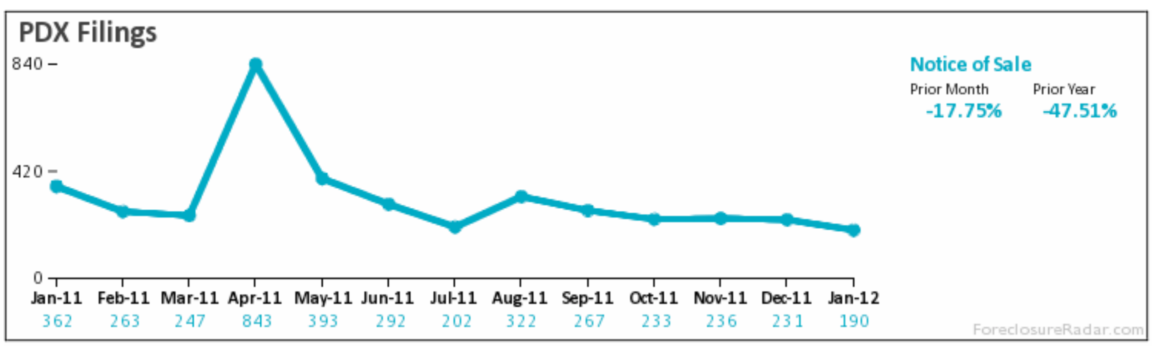


Figure 3: Portland Foreclosure Filings 2011–2012



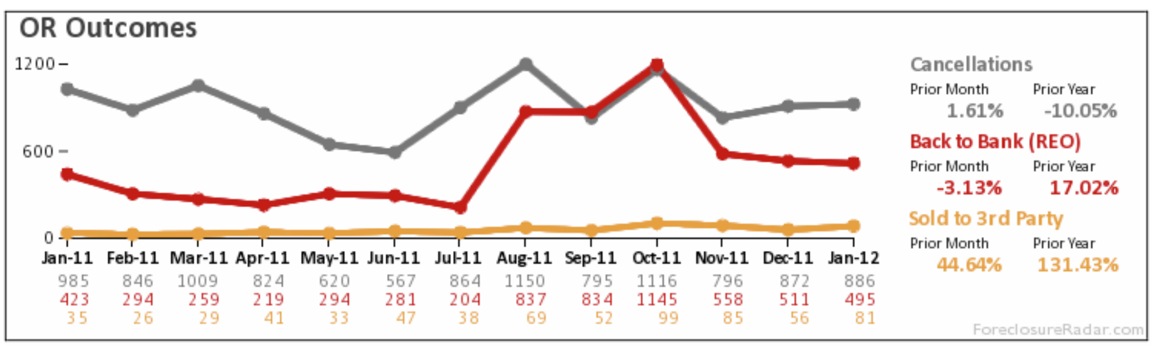
Earlier this month Oregon signed onto the settlement with Bank of America, JP Morgan Chase, Citibank, Ally Financial, and Wells Fargo regarding the "robo-signing" fuss. Oregon will receive about $230 million in settlement funds. About $30 million of that will go to the state to support foreclosure relief programs. The remainder will be distributed to struggling or foreclosed upon Oregon homeowners.

Attorney General John Kroger, indicated that qualifying homeowners will receive an average of about $1,800 in relief in the form of loan modifications, interest rate reductions, principal reductions on negative equity mortgages, and assistance to unemployed homeowners. Exactly how, when, and to whom relief will be disbursed is still up in the air. The settlement requirements will be implemented over three years and borrowers may not know immediately if they are eligible for relief.

In this issue of the Quarterly Report, **Michael Collins** reports on who gets loan modifications and what the terms of the modifications are. He studied a set of subprime loans made in 2005 among borrowers in Oregon, California, and Washington. He finds that first, that loan modifications are a rarely used option among the servicers for which he had data. Second, he finds no evidence that minority borrowers are less likely to receive a modification or less aggressive modification than white borrowers. In addition, he finds that most modifications involve reductions in the loan's interest rate, and an increase in principal balance. Perhaps most importantly, he also finds that modifications reduce the likelihood of subsequent default, particularly for minority borrowers.

Legal issues, property maintenance costs and other issues complicating the foreclosure process will lead lenders to more likely approve short sales in 2012, according to RealtyTrac. Many of the properties that started the foreclosure process in the third and fourth quarters of 2011 will end up as bank-owned properties in 2012, but many will also end up as short sales. This trend appears to be playing out already, as Figure 4 show that REOs are up nearly 20 percent over last year.

Figure 4: Oregon Foreclosure Outcomes 2011–2012



In this issue, we welcome **Kyle Brown**, who is working toward a master's degree in real estate development. As an RMLS fellow, he has prepared this issue's office, retail, and industrial reports. **Evan Abramowitz** provides the latest updates in the residential and multifamily markets. ■

THE EB-5 INVESTOR VISA PROGRAM: WHAT IS IT AND WHAT DOES IT MEAN FOR OREGON?

BRADLEY MAIER

Schwabe, Williamson & Wyatt, P.C.

With financing scarce and often difficult to obtain, it's little wonder that real estate developers across the Northwest are looking for new ways to fund their endeavors. Within the past three years, there has been an increasing amount of interest in the EB-5 Investor Visa Program as a potential source of capital as foreign nationals seek

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to invest in the U.S. According to a number of recent reports, there is a growing class of Chinese millionaires looking to invest in Oregon businesses and development projects through the EB-5 program. This article will provide an introduction to the EB-5 program, describe some of the common misperceptions and briefly discuss what the future of the program looks like for Oregon.

INTRODUCTION TO THE EB-5 INVESTOR VISA PROGRAM

The EB-5 program was created by Congress in 1990 as a mechanism to bring foreign capital to the U.S. and to create new jobs for U.S. workers, particularly in rural areas and areas of historically high unemployment. "EB-5" is an abbreviation of "Employment-Based Fifth Preference." It simply means that of the six different visa categories available to foreign nationals seeking permanent residence in the U.S. through employment (as opposed to through family), the Investor Visa Program is the fifth. Under the EB-5 program, foreign nationals who invest at least $1 million in a U.S. company ($500,000 under certain circumstances described below), and who create jobs for at least 10 U.S. workers, can obtain permanent residence through their investment. Under the program, a total of 10,000 visas are available each fiscal year to foreign nationals seeking permanent residence through their qualifying investments.

Although the EB-5 program has been around for more than 20 years, it was underutilized for most of that time. For a variety of reasons, including the strong value of the U.S. dollar and unpredictable adjudications by the responsible federal agency, relatively few applications for permanent residence were filed by investors and even fewer were approved. Within just the past five years, the face of the EB-5 program has changed significantly. In just the last two years, the number of applications has more than quadrupled to 3,800 in Fiscal Year 2011. Previously, the investors came from a wide variety of countries including the UK, South Korea, and elsewhere. Today, the overwhelming majority come from China.

A number of factors have combined to create an environment that is particularly conducive to exponential growth in investment from China in particular: the continued depressed state of the U.S. economy, the number of bank-owned properties available at deep discounts, the relatively week dollar, combined with a growing millionaire class in China which is looking to both protect its private assets from potential governmental interference as well strategically develop opportunities for themselves and their families.[1]

The EB-5 program is administered by the U.S. Citizenship and Immigration Service ("USCIS"), the federal agency under the Department of Homeland Security ("DHS") that replaced the legacy Immigration and Naturalization Service after DHS was created in 2003. There are two distinct EB-5 programs. Originally the program was only available to individual investors who purchased or created their own company

[1] "Might Davos Be a Layover for Chinese 'Migratory Birds'?," New York Times, January 24, 2012.

in which they invested the required capital. Two years later, Congress created a pilot program to pool investment in particular geographic regions through "Regional Centers" which are described in detail below.[2] First, it is helpful to understand the basic requirements of the individual investor visa program upon which the Regional Center model is based.

The primary requirements for permanent residence through an individual investment are:

- In most cases, the individual must invest at least US$1 million in "capital" into the company. However, because the primary purpose of the investor visa program is to promote investment and job creation in geographic regions of greatest need, if the new entity "principally does business" in an area designated as a "Targeted Employment Area,[3]" the required investment may be reduced to $500,000.

- The invested capital must be "at risk of entire loss." That is, if the investor is *guaranteed* the return of a portion of his or her investment or a particular rate of return on the investment, that portion of the capital does not count towards the amount that must be invested and placed at risk. Similarly, capital that is governed by a redemption agreement that explicitly protects against the loss of the capital, does not count towards the qualifying investment because a promise to return the investor's capital negates the required element of risk. Secured financing is permitted but the loan may be secured only by the personal assets of the investor and may not by the new commercial enterprise or its assets.

- The immigrant investor must be "engaged in the management of the new commercial enterprise" either through "day-to-day managerial responsibility or through policy formation." Mere passive investment will not suffice. Rather, the individual investor must, at the very least, hold an executive/managerial position as a corporate officer and/or be an active member of the board of directors (if any). This is an area in which there appears to be much confusion both on the part of the foreign investors as well as their potential U.S. partners. Unless the investment is made in an enterprise that is

[2] Although the Regional Center program has been around since 1992, it is still officially a "pilot project" which requires reauthorization from Congress every two years. The program is currently set to expire again on September 30, 2012. However, it's anticipated that Congress will again extend the program another two years and there's talk about finally making it permanent.

[3] Under 8 C.F.R. Sec. 204.6(e), a Targeted Employment Area or "TEA" is defined as either: 1) an area that has experienced unemployment of at least 150 percent of the national average, or 2) a "rural area" that is not within either a Metropolitan Statistical Area (as designated by the Office of Management and Budget) or the outer boundary of any city or town having a population of 20,000 or more (based on the most recent decennial census of the U.S.).

part of a qualifying "Regional Center" (described in detail below), the foreign national must be actively involved in the management of the company. For this reason alone, many investors from China, in particular, are instead choosing to invest through the Regional Center program.

- The investment must be in a "new" commercial enterprise. Normally, to qualify as "new," the business must have been established after 1990. However, a commercial enterprise that was created before 1990 may also qualify if it is subsequently restructured or reorganized such that a new commercial enterprise results or if there is a "substantial change" resulting either in a 40 percent increase in the net worth or number of employees attributable to the investment. This is another common area of confusion. Again, unless the investor is applying under the Regional Center program, there must be a commercial enterprise that is an active and ongoing business concern that creates jobs for at least 10 U.S. workers. It is not enough for the foreign national to simply purchase residential or even commercial property valued at $500,000 or $1 million (depending on the location). While the investment may involve real estate, there must be an active and employing commercial entity involved in order to qualify (e.g., the investor could start up or join a mutual fund that purchases and develops commercial real estate but only if the enterprise created at least 10 full-time jobs for U.S. workers attributable to the foreign investment).

- The individual must thoroughly document the legitimate source of the funds to demonstrate that it was obtained through lawful means. This is an area that has always been closely scrutinized by USCIS. With recent rumors of Chinese (in particular) looking to get ill-gotten gains out of the country, it's only a matter of time before both the officers at USCIS who adjudicate the initial investor visa applications, as well as U.S. Department of State officials who interview investors at the U.S. Consular posts abroad, make the documentation requirements more onerous for all. Because there are a couple of different federal agencies involved in the process, there are multiple opportunities to have an application go awry. Although it can be a difficult conversation to have, the legitimate source of the funds to be invested should be verified at the earliest possible opportunity to reduce the risk of problems down the road.

- In addition, the new commercial enterprise must create full-time jobs for at least 10 U.S. workers (defined as permanent resident/green card holders or U.S. citizens) not including the investor's family members. Unlike the Regional Center program where the newly created jobs may be "indirect," the individual investor program requires the newly created enterprise to directly employ all 10 new U.S. workers in positions that are demonstrably sustainable. In other words, they can't be hired one day to obtain permanent residence for the investor and then all workers fired the next day. Importantly, while the employing entity may take any form permitted by law and may

> have several owners/partners (including other foreign investors seeking permanent residence through the EB-5 program), the individual investor must be able to demonstrate that the 10 jobs were created as a result of his or her investment. This is another area of common confusion. Many potential investors mistakenly believe that they can pool their resources with other investors to reach the minimum required level (so that their combined investment reaches $500,000/$1 million). They also commonly but incorrectly assume that by pooling their required investment with other investors, the company need only hire a total of 10 workers. Instead, while pooling of qualifying investments is permitted, each investor seeking permanent residence under the program must be able to demonstrate that 10 new employees were hired as a result of his or her investment.

While the six eligibility criteria referred to above are not comprehensive, they are the basic primary requirements an individual investor must satisfy to obtain permanent residence through the EB-5 program. Historically, most applications for permanent residence submitted through the EB-5 program were submitted by individual investors who met the above requirements. One of the common problems faced by individual investors though (and one of the reasons the Regional Center program is growing in popularity), is that the application for permanent residence cannot be filed until after the new commercial enterprise is established, the funds are invested and placed at risk, and the employees are hired (or there is solid evidence that they will be within the next two years). Finding an existing business to purchase or deciding how to go starting a new business from scratch can be a daunting challenge, particularly for someone new to the U.S. marketplace.

Simply obtaining a visa to visit the U.S. to identify potential business opportunities can be a challenging process, particularly for someone who has never received a U.S. visa before. However, on January 22, 2012, the Obama Administration announced plans to make it easier for Chinese citizens to obtain visas and visit the U.S., with a goal of increasing by 40 percent the number of visas issued every year. Also, U.S. Department of State recently added Taiwan and South Korea to its list of trusted countries with which the U.S. maintains a reciprocal 90-day visa waiver visitor program. Taiwan and South Korea join a list of 36 countries whose citizens may visit the U.S. for up to 90 days without having to first apply for a visa at a U.S. embassy abroad. Importantly, although it may soon be easier for many wealthy Chinese citizens to visit the U.S. to meet with business partners, investigate potential investment opportunities, and even form the new entity, like all visitors, they must be careful to not actually "do business" as a visitor or otherwise engage in activity that might look like unauthorized employment. Anyone who wants to work in the U.S. must obtain an appropriate immigration status first (other than visitor).

Once an investor has established the new enterprise and can meet all of the eligibility criteria, he or she must submit a petition to USCIS requesting classification as a permanent resident. As a result of recent changes to streamline the application process and make decisions more uniform, all investor visa applications are now submitted to a single USCIS office which has recently hired a team of economists and business experts to assist in the adjudication process. The recent improvements to the adjudication process are significant and encouraging. Historically, USCIS adjudication of investor petitions have been unpredictable. In the mid to late 1990s, applications filed by investors often languished without resolution. Hundreds of investors spent years waiting for decisions on their applications only to have them arbitrarily denied by an agency that seemed ambivalent at best to the investor visa program and which seemed to go out of its way to find reasons to deny applications. Finally, after being subject to class-action litigation and a scathing report by the U.S. Government Accounting Office in 2005, USCIS began to turn the program around. However, it is still the case that regardless of whether they invest their capital in their own newly established enterprise or through a preexisting and certified Regional Center, foreign investors risk not only the loss of all their funds but also the possibility that after going through the required process, they could be denied the opportunity to immigrate to the U.S.

Assuming that USCIS approves the petition, the investor must then complete an interview and apply for an immigrant visa at a U.S. embassy abroad. Thus far, it appears that most of the investors whose applications are approved by USCIS also successfully complete the visa interview process and receive immigrant visas. However, U.S. Department of State is an independent federal agency and even the approval of the visa petition by USCIS is no guarantee that the Embassy will issue a visa. With the exponential growth in the number of applications filed under the EB-5 program, it's likely only a matter of time before the agencies react by tightening up adjudications, particularly with respect to the evidence required to prove the legitimate source of funds.

Assuming that the investor receives an immigrant visa, he or she must then travel to and apply for admission to the U.S. to manage the new commercial enterprise and ensure its success. Initially, the investor receives a conditional status as a permanent resident that is valid for only two years. Ninety days prior to the expiration of the conditional permanent resident status, the investor must submit another application to USCIS demonstrating that the investor invested or "is actively in the process of investing" and has in good faith "substantially" met the capital investment requirement. The investor must also demonstrate that all other eligibility criteria have been met. Although the regulations provide a little leeway, ideally the investment of the entire amount of required capital and the hiring of the 10 new employees should be complete within the first two years and verifiable by the time the investor files the petition to remove the condition on his or her permanent resident status. Failure to file the application to remove the condition on the investor's immigration status or failure to meet the investment and job creation requirements (including material changes to the geographic location, organizational structure, capital investment projects, etc.) can result in the investor losing his or her permanent resident status and deportation from the U.S. For this reason, it's critical that investors have a solid and realistic business plan to start with which must then be implemented successfully within the two-year trial period. After five years of permanent residence, including two years of conditional permanent residence, the investor may apply to become a naturalized U.S. citizen.

INVESTMENT THROUGH REGIONAL CENTERS

In addition to the process described above that is available to individual investors, there is a separate but related investor visa program which has been receiving growing amounts of interest and attention. Prior to 2005, the majority of all investors applied for permanent residence as individuals based upon their own newly created commercial enterprise. Today, the overwhelming majority of investors instead apply under the "Regional Center" program. Regional Centers are private, public or joint private/public economic units that are "established to promote economic growth, including increased export, sales, improved regional productivity, job creation, and increased domestic capital investment." The goal of the Regional Center program is to focus investment, development and job creation within a particular geographic region. Often they are established by public entities such as cities and counties to promote investment within particular areas. Occasionally they are public/private partnerships. More commonly, they are established by private entities looking to attract investment from abroad to finance development projects within the boundaries of the Regional Center.

The Regional Center model offers a number of significant advantages both to the foreign investor as well as potential partners in the U.S. Specifically:

- Regional Centers make it easier for foreign investors to identify investment opportunities and begin the investment process because much of the groundwork is often already completed by the entity that created and operates the Regional Center. Regional Centers are generally established by U.S. entities that prepare and submit the application to USCIS requesting certification as a Regional Center. Once the Regional Center is certified by Immigration, foreign investors can work with the Center's sponsor to either create a new commercial enterprise within the boundaries of the approved Regional Center or else make an investment in an existing and qualifying commercial enterprise. Many (though not all) operators of Regional Centers establish new enterprises within the boundaries of the Regional Center with the intent that foreign investors can simply buy into the company with the required investment amount, create the required number of new jobs, and readily qualify for permanent residence. Many companies within existing Regional Centers have been around for years and have a demonstrated track record of foreign nationals who have obtained permanent residence through investment in their businesses. U.S. developers seeking investment dollars from abroad could either create a new project within an existing Regional Center or else apply for certification of a new Regional Center to cover the geographic region in which the business is or will be based (with the onus that it normally takes 6 to 12 months to obtain approval of a new Regional Center application).

- Foreign nationals who invest in Regional Centers are not required to be directly engaged in the day-to-day management of the commercial enterprises in which they invest. Unlike individual investments, they may passively invest in the qualifying entity but then go live and work elsewhere in the country. This feature is a strong attraction to many investors who are merely looking for a place to invest their capital and would like the added benefit of the freedom that permanent residence in the U.S. affords, but don't want to be directly and actively involved in the day-to-day management of the company.

- The required investment is normally (but not always) the reduced amount of $500,000. This is because although a Regional Center may be established anywhere in the U.S., most are created within a Targeted Employment Area or "TEA." As a result, investors need only contribute $500,000 rather than the full $1 million. Generally speaking, Regional Centers established within a TEA are more likely to attract foreign investors because of the reduced entry cost. Again, a TEA is a geographic region, big or small, located anywhere within a state which the State government has designated as a TEA either because it qualifies as "rural" or because there is a high rate of unemployment (150 percent of the national average). In an effort to drive investments into certain areas, New York has reportedly gone out of its way to certify questionable areas of Manhattan as TEAs, much to the chagrin of competing Regional Centers and States.[4] According to the latest designation provided by Business Oregon, the State office authorized to designate TEAs, 25 out of Oregon's 36 counties qualify, as rural TEAs. In addition, significant portions of the remaining counties, including Multnomah County and even much of Portland, qualify as TEAs based upon historically high unemployment. Developers that are considering establishing a Regional Center to attract foreign investment or who hope to partner with foreign investors in a new commercial enterprise would do well to consider establishing the business within an existing TEA. Business Oregon, the responsible agency in this State, updates its list of designated TEAs once a year after completing analysis of state and federal unemployment figures. The current TEA map was published in June 2011 and is available at http://www.oregon4biz.com/The-Oregon-Advantage/EB-5/EB5-maps.php. A second map that charts the designated TEAs within the Portland metro area is available on the Portland Development Commission's ("PDC") website at http://pdc.us/pdf/rfps/2010/REI-EB5-Visa-Investment-Program.pdf. Business Oregon plans to publish a new map in June 2012 based on benchmarked data published in March 2012. It is also possible to request an individual TEA designation from Business Oregon for an area that is not currently listed on the TEA map (as the purveyors of the Regional Centers in the New York Times article have done). With the economy slowly improving, it's possible that areas currently designated as TEAs will no longer qualify in June. For more information about Oregon's TEAs

[4] "Rules Stretched as Green Cards Go to Investors," New York Times, December 18, 2011.

and how to go about requesting a TEA designation, contact Business Oregon or visit www.businessoregon.com.

- Perhaps most importantly, the job creation rules are more flexible for investments made within a Regional Center. Rather than having to prove that the new commercial enterprise has directly hired at least 10 U.S. workers, businesses that are established within a Regional Center need only demonstrate (through extensive documentation) that at least 10 full-time jobs *will be* created either "directly" by the new commercial enterprise (e.g., employees of the new enterprise) or "indirectly" *as a result of* the new enterprise (jobs held by employees of other companies that are created as a result of the new enterprise, such as producers of materials, equipment, or services used by the new enterprise). The ability to satisfy the employment requirement through evidence of indirect job creation is one of the most attractive features of the Regional Center program because according to the governing statute and regulations, the jobs need not necessarily even be based within the geographic region of the Regional Center (though USCIS adjudications on this particular issue have varied).

WHAT THE FUTURE OF THE EB-5 PROGRAM MEANS FOR OREGON

Although the Regional Center program has been around for years and has been utilized extensively in other states, prior to 2011 there were no designated Regional Centers in Oregon. Everything changed in June 2010 when the PDC, inspired by Seattle's success with the EB-5 Regional Center Program which has brought in millions in investment, issued a Request for Expression of Interest seeking entities willing to work with the City of Portland and the PDC to create an EB-5 Regional Center within the City's boundaries. The PDC and the City offered to endorse and collaborate with the applying entity and to help develop the EB-5 Regional Center application's business plan and geographic boundary selection that would attract investment, as well as further the goals and policies of the City.[5]

Today there are two certified Regional Centers in Oregon. In June 2011, USCIS certified the "Oregon Regional Center," the first Regional Center in the state. The Oregon Regional Center was established by the American United Development Group, a multinational private development company with ties in Canada and China.[6] According to the Center's website, its local management includes John Carroll and Karen Williams of the Carroll family of companies as well as Mianshing Wang, Managing Director of the U.S. Secretariat of the China-U.S. Center for Sustainable Development. Later, the Los Angeles-based American Dream Fund received approval of its "Portland Regional Center." According to a recent report, Pearl District developer

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[5] "Request for Expressions of Interest (REI): EB-5 Regional Center Formation," Portland Development Commission.

[6] "USCIS Grants Approval to Oregon's First EB-5 Regional Center," Press Release, Business Oregon, June 23, 2011.

and Portland business leader, Homer Williams, is currently partnering with the American Dream Fund to finance, in part, the development of the 225-room Residence Inn by Marriott in the Pearl District.[7] According to the Portland Business Journal article, Mr. Williams is also working with another EB-5 Regional Center on a project in Los Angeles and now plans to form his own EB-5 company.[8] In addition to the two existing Regional Centers, there are apparently at least five other applications for certification currently pending, including one submitted by Wilson Chen's company, American Pacific International Capital.[9] Mr. Chen and his company gained renown after purchasing Portland's iconic KOIN Center in 2009, when the building was foreclosed on by New York Life Insurance, Inc.[10]

The sudden increase in the number of Regional Centers in Oregon is reflective of what's going on nationwide. In FY2007 there were only 11 certified Regional Centers. Today, there are 194 operating in 40 states. In just the first quarter of FY2012, 41 new applications for Regional Center Certification were filed with USCIS (as opposed to 110 in all of FY2010). [11] Similarly, 1,293 applications for permanent residence were filed by investors in the first quarter of FY2012 (most through Regional Centers) versus 1,955 in all of FY2010 and 776 in FY2007. However, the statistics provided by USCIS also suggest that with the sudden rush to create and certify new Regional Centers, many applicants have filed deficient applications. During the first quarter of FY2012, 61 percent of all new applications for Regional Centers were denied by USCIS versus 45 percent in FY2010. Denial rates in other areas of the program have also increased, but it's still a far cry from the period between 1995 and 2005 when applications filed by investors languished for years only to be denied arbitrarily. If nothing else, the investor visa program is a growing revenue source for USCIS which recently increased filing fees considerably to $6,230 for the Regional Center certification application and $1,500 for the application filed by the investor to request permanent residence.

In short, interest in the EB-5 program, and in the Regional Center program in particular, is growing exponentially. "EB-5" is becoming a household word among many wealthy Chinese (even if they are unaware of all of the program's requirements). Although many immigration lawyers and their clients have known about the program for years, with the economy struggling and financing difficult to obtain, the business and real estate communities have taken a keen interest in the program as have City and State governments around the country. However, it's not yet clear whether the burgeoning list of investment opportunities that are now available through newly certified Regional Centers will translate into the thousands of new

[7] "Williams Hotel Seeks Immigrant Investors," Portland Business Journal, December 16, 2011.

[8] Ibid.

[9] "EB-5 Millions From Abroad," Portland Business Journal, June 24, 2011.

[10] "Foreign Capital: Chinese Investors Put their Money-And Hopes for Green Cards-In Oregon," Oregon Business, April 2011.

[11] All statistics come from the presentation materials provided by USCIS at its most recent quarterly EB-5 Stakeholder Meeting, January 23, 2012.

jobs and tens of millions of dollars that have been predicted. The record number of people who applied for green cards through the EB-5 program last year is significantly higher than it was even three years ago (3,805 in FY2011 versus 1,028 in FY2009), but it is still far short of the total number of investor visas that are available each fiscal year (10,000). In fact, because of the discrepancy, Congress recently proposed creating a new investor visa program to utilize the unused numbers from the EB-5 program. Even if the record number of new applications filed thus far in FY2012 continues at its current pace, still only half of the available visas would be used up by year's end.

There is a clear upward trend in the number of applications for permanent residence filed by investors (the majority of which are filed through Regional Centers). However, the rate of increase is far outpaced by the number of entities filing applications for Regional Center certification. Between FY2007 and FY2012, the number of approved Regional Centers grew by 1600 percent while the number of approved applications for permanent residence filed by investors grew by only 127 percent during the same period. Significantly, the number of people who actually fulfilled the requirement of two years of conditional permanent residence and went on to obtain full permanent residence grew by only 29 percent, which suggests that many investors either ended up walking away from their investments within the first two years, failed to meet the eligibility criteria necessary to remove the condition on their status or simply decided not to seek full permanent residence in the U.S.[12] In other words, there are now more entities than ever competing for the limited (even if growing) pool of potential investors. Does that mean that the predicted wave of Chinese looking to spend tens of millions in the U.S. within the next five years won't come to fruition? Not at all, but anyone considering establishing a new Regional Center to attract foreign investment should complete thorough due diligence, market research and develop an EB-5 specific business plan development with the assistance of an expert before embarking on a new enterprise which must include a sound and realistic plan and strategy for identifying, screening and landing potential investors.

Every potential investor who has contacted me about the EB-5 program, without exception, has asked the same two questions in common:

- How much experience do you have/what is your success rate with EB-5 cases?
- Are you able to provide comprehensive, one-stop services?

While those questions have been posed to me as legal counsel, the concerns they represent I believe also translate to what they are looking for from business partners and Regional Center operators in the U.S. Having a website available in Chinese by itself is not enough. Being able to effectively communicate with potential investors in their own language and in a culturally sensitive way isn't a marketing advantage, it's a baseline necessity. The secret to success will be to demonstrate competency

[12] USCIS EB-5 materials.

(and ideally, past success) with respect to the EB-5 program in particular to assure the investor that he or she is likely to obtain permanent residence through the program and a return on the investment, while avoiding the temptation to make guarantees about either.

With a growing number of wealthy people from China now seeking to emigrate,[13] the current economic conditions in the U.S., the Obama Administration, USCIS and State and local governments in Oregon all fully behind the EB-5 program, it appears that the stars have aligned for savvy developers in Oregon seeking to attract investment from abroad. ■

[13] "Might Davos Be a Layover for Chinese 'Migratory Birds'?," New York Times, January 24, 2012.

WHO RECEIVES A MORTGAGE MODIFICATION? RACE AND INCOME DIFFERENTIALS IN LOAN WORKOUTS

J. MICHAEL COLLINS

University of Wisconsin

Loan modifications offer one strategy to prevent mortgage foreclosures by lowering interest rates, extending loan terms and/or reducing principal balance owed. Yet we know very little about who receives loan modifications and/or the terms of the modification. To learn more about the nature of mortgage modification, my co-author and I examined a sample of subprime loans made in 2005 among borrowers in Oregon, California, and Washington. Our results suggest, first, that loan modifications are a rarely used option among the servicers in our data. Second, we find no evidence that minority borrowers are less likely to receive a modification or less aggressive modification than white borrowers. In addition, we find that most modifications involve reductions in the loan's interest rate, and an increase in principal balance. We also find that modifications reduce the likelihood of subsequent default, particularly for minority borrowers.

In 2008, the federal government launched the Making Home Affordable Modification Program, which allocated $75 billion to support loan modification efforts, with a goal

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of reaching 9 million distressed borrowers by December 2012. Although there are many variations in the way loans can be modified, loan modifications change the terms of a loan (for example, by reducing the interest rate, monthly payments, or amount of the loan) in an effort to help distressed borrowers prevent foreclosure. In theory, both borrower and investor are better off if a foreclosure is avoided. However, in practice it has proven to be much more difficult to modify loans, and the number of modifications—both temporary and permanent—has fallen significantly short of the number of distressed borrowers. As of October 2011, the HAMP program has resulted in approximately 880,000 permanent and 1.7 million trial modifications.[1] While falling short of expectations, these loan modifications still have the potential to prevent foreclosures and their negative impacts on borrowers, communities, and the overall U.S. economy.

Surprisingly, we know very little about who received these loan modifications and whether or not they were successful in helping these borrowers prevent foreclosure. The lack of data on borrower race and income is particularly troubling. Advocates and housing counselors have raised the concern that the loan modification process presents challenges for historically underserved borrowers—lower-income and minority borrowers in particular—who lack experience and knowledge of dealing with a lending institution. For example, borrowers who do not speak English or who may distrust banking institutions may fail to pursue a loan modification entirely, despite being eligible for a HAMP modification. Lack of knowledge could also result in the increased likelihood of submitting incomplete paperwork; complete documentation is a critical part of the HAMP modification process and is required to move from a trial to a permanent modification. Race or perceived race could also serve as a proxy that servicers use for decision-making on modifications, especially if these borrowers are deemed less sophisticated, more time consuming and therefore more costly to serve.

To understand if there might be systematic differences in who gets loan modifications and how well those loan modifications work, we analyzed a unique dataset that merges data on the loan performance of subprime home mortgages that are managed by Corporate Trust Services (CTS) of Wells Fargo Bank[2] with data on borrowers (including race/ethnicity and income) reported as part of the Home Mortgage Disclosure Act (HMDA). With these merged data, we were able to provide some initial insights into who is receiving loan modifications, what types of loan modifications they are receiving, and whether or not loan modifications are helping to prevent subsequent default. In our analysis, we focused on loans originated in 2005 in

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[1] Hope Now Alliance, Industry Extrapolations and Metrics (October 2011), available online at http://is.gd/gj0Xfe.

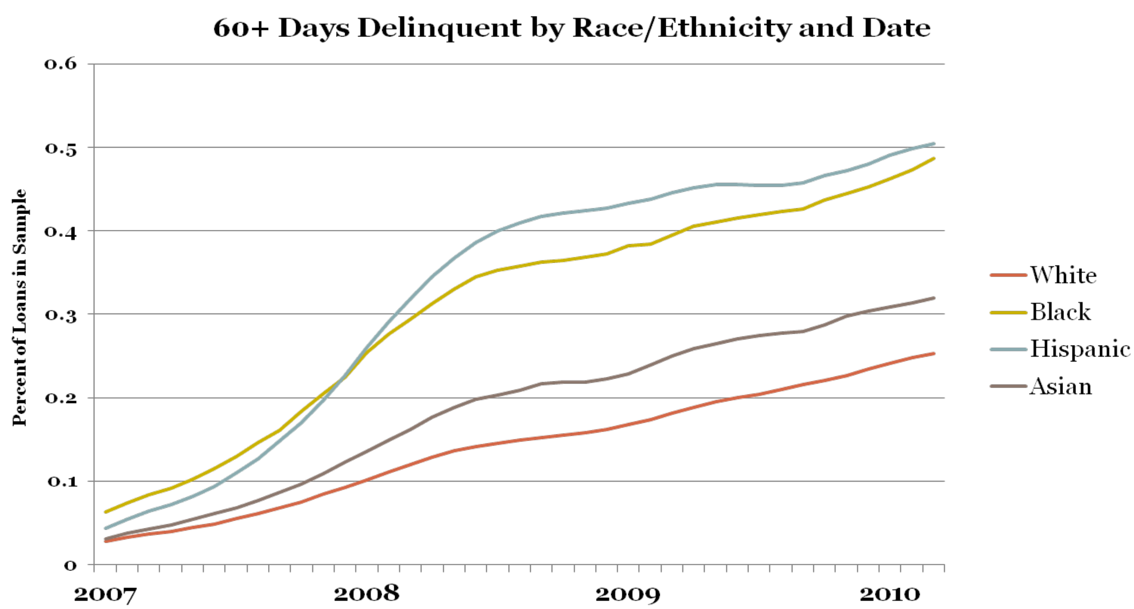
[2] CTS is a service of Wells Fargo Bank, N.A. that provides information on a variety of investment vehicles administered by the bank. The CTS data covers securitized mortgages for which Wells Fargo serves as the trustee, and includes mortgages with different interest rate structures, different purposes, different property types, and different lien statuses. These investor report files are available at www.ctslink.com, administered by the Corporate Trust Services group of Wells Fargo Bank, N.A.

three states: California, Oregon, and Washington, and measure their performance through May 2010.

WHAT DID WE FIND?

First, we find that the highest delinquency rates have been among Latino and African American homeowners. (Figure 1). These findings are consistent with other research that has examined the same question, and document the impact that the foreclosure crisis is having in communities of color. Researchers trying to understand the disparate impact of foreclosures on lower-income and minority communities have increasingly focused on the failings of the "dual mortgage market," in which lower-income and minority neighborhoods and borrowers were served primarily by subprime lenders (even when they could have qualified for a prime loan), and as a result were more likely to receive subprime loans or loans with other risky product features, even after controlling for borrower and neighborhood risk characteristics.[3]

Figure 1

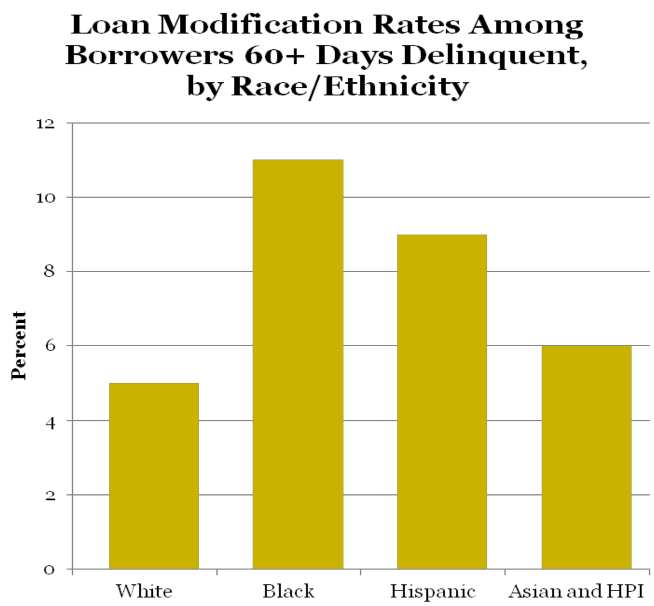


However, we did not find any significant racial and/or ethnic differences in who receives a loan modification. (Figure 2) In fact, African Americans were slightly more likely to receive a loan modification than whites, although we did not find the same effect for Latinos. This finding persists when we control for borrower, loan and other factors that might influence loan modification rates. While these results sug-

3. D. Immergluck (2009). *Foreclosed: High-Risk Lending, Deregulation, and the Undermining of America's Mortgage Market*. Ithaca, NY: Cornell University Press.

gest that loan modifications are relatively evenly distributed across borrowers—regardless of race and/or ethnicity—it does not entirely erase the possibility of disparities in who gets a loan modification. One thing we cannot assess in these data is whether there are differences in who gets a loan modification among those who applied for one. If Black or Hispanic borrowers applied for a loan modification at higher rates than white borrowers, and were either denied a permanent modification or were thwarted by the lengthy and confusing application process, racial and ethnic disparities in the loan modification process could still exist. In other words, we do not see loan modification denial or non-completion rates.

Figure 2



Second, we also didn't find any significant racial and/or ethnic differences in the type of modifications received. The most common form of loan modification is one that reduces the interest rate on the loan. On average, modifications reduced a loan's interest rate by between 1.7 and 1.8 percentage points. We also did not find evidence of racial disparities in who gets an interest rate reduction. While on average, African Americans paid a slightly higher interest rate, approximately 11 basis points, than whites, blacks who received a loan modification paid a bit less—an additional drop of 17 basis points (although not statistically significant). Latinos and Asians who received a modification also saw an added reduction in their interest rates. However, we find no evidence that borrowers are being offered modifications that reduce their principal balance, or how much they owe on the loan.

Third, and this is important from the perspective of preventing foreclosures and stabilizing the housing market, we found that modifications work. Loans that received a modification were more than two-thirds less likely to end up in foreclosure than loans that did not receive a modification. The strength of this effect may be due in part to the fact that we only considered permanent modifications, which would select for borrowers with both the motivation and capacity to stay in their homes over the long term. But we also find that loan modifications greatly decreased the likelihood that African Americans, Latinos, and Asian/Hawaiian Pacific Islanders would go back into foreclosure. Our results suggest that loan modifications are an effective way of preventing foreclosure for these populations, an important outcome that can help to minimize the impacts of the crisis on these communities.

These findings suggest efforts to improve the loan modification process and help more borrowers restructure their loans to make them affordable over the long-term deserve policy-makers attention. But there are also some important caveats to these findings. As mentioned earlier, we can't see modification applications in our data, so we have not excluded the possibility that some groups are having a more difficult time getting modifications. In addition, the CTS data only include loans that are privately securitized, and our research is focused only on a small slice of the overall mortgage market. So we cannot be sure that our findings are representative of all loan modifications. As more data on loan modifications become available, it will be important to revisit these questions to ensure that the federal HAMP program is benefiting distressed homeowners of all races and ethnicities.

Despite the positive findings in this research, it is worth emphasizing that the scale of loan modifications is still falling well short of impending foreclosures, and despite some improvements in recent months, delinquency and foreclosure rates remain at historically high levels. Poor loan servicing practices, for example, continuing the foreclosure process while the borrower is pursuing a modification (known as dual tracking), are also contributing to unnecessary foreclosures. Cutbacks in funding for housing and foreclosure counseling are further hurting efforts to reach distressed borrowers; recent studies examining the role of counseling for mortgage borrowers in default suggest that counseling and related interventions play an important role in preventing foreclosure.[4] Finally, as we found in this study, modifications that reduce principal balance are rare. Modifications that reduce principal and are net present value positive would enhance income streams for investors and servicers while keeping families in homes, especially in markets hard hit by the housing downturn. ■

[4] Collins, J.M., Schmeiser, M.D., 2010. Estimating the effects of foreclosure counseling for troubled borrowers. Available at SSRN: http://ssrn.com/abstract=1670859. Neil Mayer et al. (2011). National Foreclosure Mitigation Counseling Program Evaluation: Final Report Rounds 1 and 2. Washington, D.C.: The Urban Institute.

HOUSING MARKET ANALYSIS

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The housing market remained troubled throughout 2011. While sales have increased year-over-year, prices continue to dip. Nationwide, the median price of existing homes declined approximately 2.5 percent. The Portland area saw an even steeper decline of 6.1 percent (Table 1). At the same time, the National Association of Realtors reports that sales of existing homes increased 3.6 percent nationwide and 10.3 percent in the Portland area.

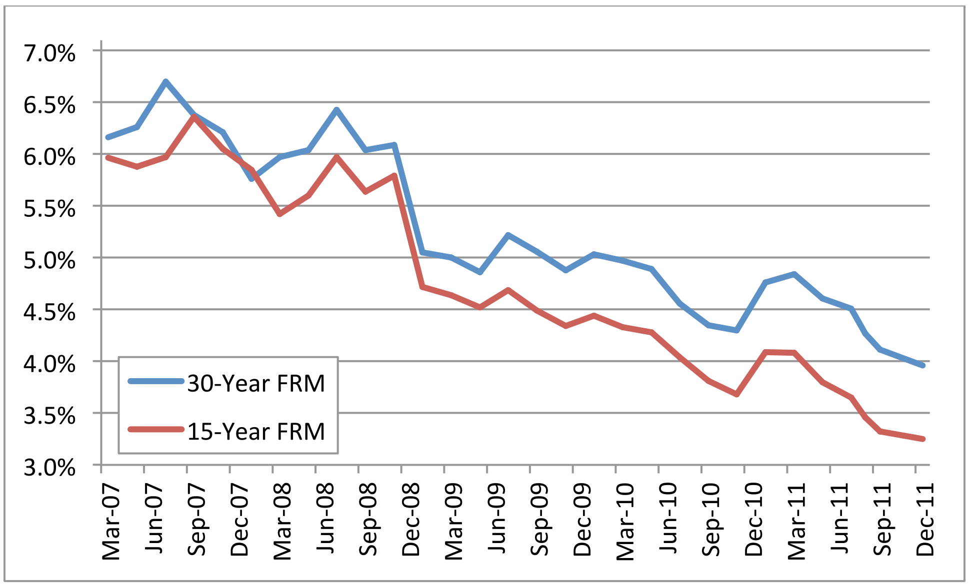
Table 1: Median Home Values of Existing Detached Homes

	U.S.	West	Portland Metro Area
December 2011 Median Sales Price	$164,500	$205,200	$216,600
December 2010 Median Sales Price	$168,300	$205,800	$229,800
% Change in Median Sales Price	-2.5%	0.3%	-6.1%
% Change in Number of Sales Dec 2010- Dec 2011	3.6%	-0.8%	10.3%

Source: National Association of Realtors

Mortgage interest rates have been steadily decreasing since the first quarter of 2011 and are now at nearly 60-year lows. The national average commitment rate for a 30-year conventional, fixed-rate mortgage was 3.96 in December, down from 3.99 percent in November; the rate was 4.71 percent in December 2010.

Figure 1: Single Family Mortgage Interest Rate



Source: Freddie Mac

First time home buyers made up 32 percent of home sales in September, unchanged from August. They were also 32 percent in September 2010. Investors purchased 19 percent of homes in September, down from 22 percent in August.

Standard & Poor's Case-Shiller Index for Portland was 135.44 through October 2011. The represents a decrease of 0.5 percent from September 2011, and a year-over-year decrease of 4.7 percent. Case-Shiller's 20 city composite index is down 1.2 percent compared to the same time last year. The index data shows that in 19 of the 20 major U.S. metropolitan cities, home prices decreased from the previous month, but are still down over the past year.

Of the 20 cities tracked, Washington D.C. and Detroit were the only markets to post a year over year gain at growth rate of 2.5 percent and 1.3 percent respectively. Portland, Ore. was one of fourteen markets that saw improvements in their annual rates of return in October versus September.

Data published by RealtyTrac, show 586,133 foreclosure filings for the fourth quarter 2011, a decrease of 4 percent from the previous quarter and a 27 percent decrease from the fourth quarter of 2010. The filing figures include default notices, schedule auctions and bank repossessions.

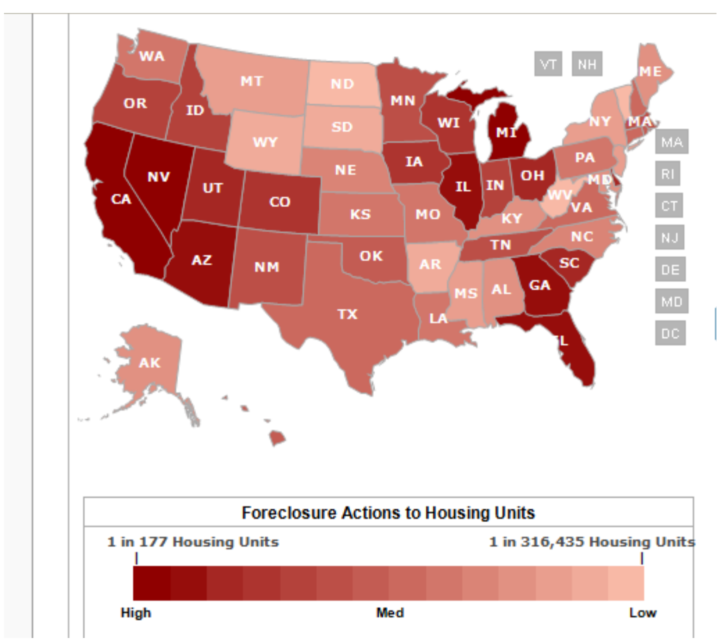
Foreclosure filings were reported on 205,024 U.S. properties in December, a 9 percent decrease from November and a 20 percent decrease from December 2010. December's total was the lowest monthly total since November 2007, a 49-month low.

"Foreclosures were in full delay mode in 2011, resulting in a dramatic drop in foreclosure activity for the year," said Brandon Moore, chief executive officer of RealtyTrac. "The lack of clarity regarding many of the documentation and legal issues plaguing the foreclosure industry means that we are continuing to see a highly dysfunctional foreclosure process that is inefficiently dealing with delinquent mortgages — particularly in states with a judicial foreclosure process.

"There were strong signs in the second half of 2011 that lenders are finally beginning to push through some of the delayed foreclosures in select local markets. We expect that trend to continue this year, boosting foreclosure activity for 2012 higher than it was in 2011, though still below the peak of 2010."

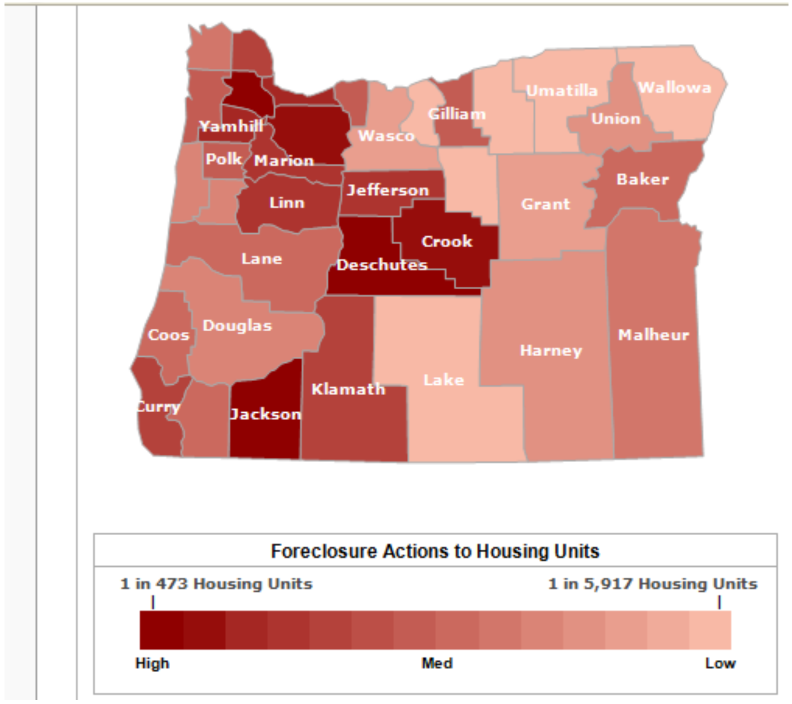
During 2011 Oregon reported 22,492 foreclosure fillings, which is a 39.1 percent decrease from the previous year. Multnomah County had the state's highest level of activity in 2011 with 3,335 homes. In the U.S., one in every 177 homes received a foreclosure filling while one in every 473 homes in Oregon received a foreclosure filling during December 2011.

Figure 2: Foreclosure Rate Heat Map, December 2011



Source: RealtyTrac

Figure 3: Foreclosure Rate Heat Map-Oregon, December 2011



Source: RealtyTrac

According to RealtyTrac, the ten states that ranked the highest in foreclosure rates in the third quarter were Nevada, Arizona, California, Utah, Idaho, Georgia, Michigan, Florida, Colorado and Illinois. Of these states, Nevada posted the nation's highest state foreclosure rate, with one in every 16 housing units receiving a foreclosure filing in 2011. In Arizona one in every 24 housing units and in California one in every 31 housing units filed for foreclosure during 2011.

Single family building permits decreased in the US and Oregon from November 2010 to November 2011. Bend was the only submarket in Oregon which increased by 29%. All other submarkets decreased with the largest decline in Salem at 36%.

Table 2: Building Permits Issued, Year to Date, in thousands

	Single Family			Multi Family		
	Nov-11	Nov-10	% Change	Nov-11	Nov-10	% Change
United States	384.3	416.2	-8%	176.9	134.3	32%
Oregon	4.80	5.41	-11%	2.36	1.22	94%
Portland-Vancouver-Beaverton OR-WA	2.86	3.15	-9%	1.82	0.77	138%
Salem OR	0.23	0.36	-36%	0.07	0.24	-69%
Eugene-Springfield OR	0.36	0.44	-17%	0.31	0.08	296%
Bend OR	0.43	0.34	29%	0.00	0.01	-83%
Corvallis OR	0.03	0.04	-17%	0.22	0.02	1122%
Medford OR	0.24	0.27	-10%	0.07	0.09	-15%

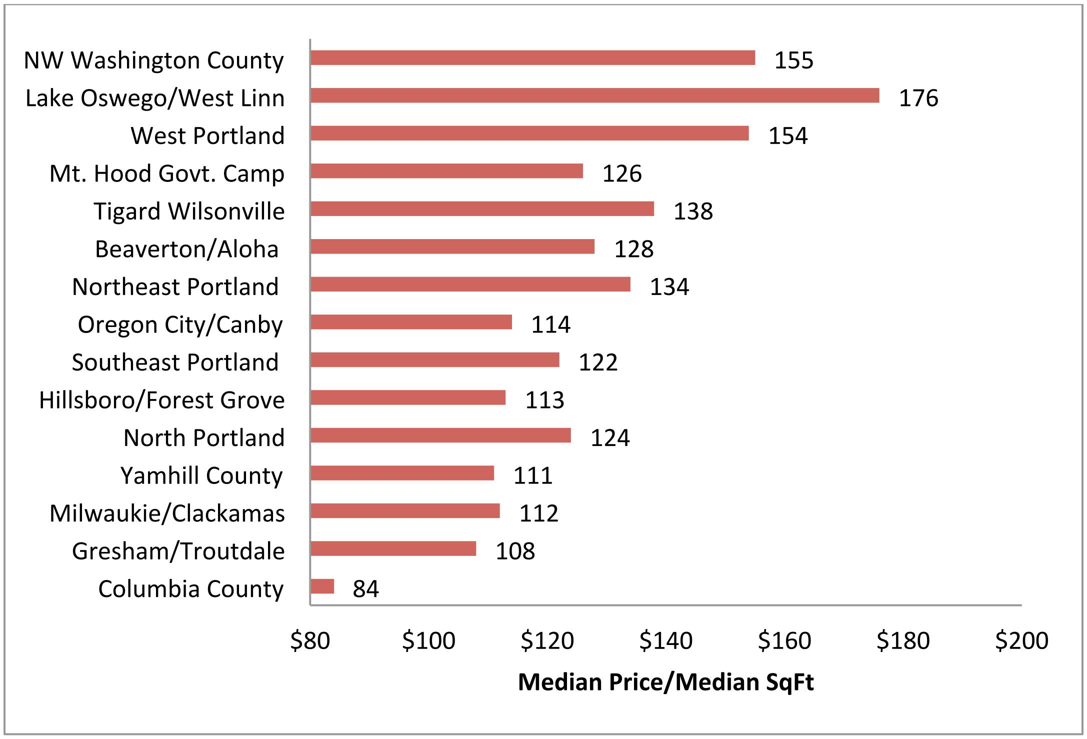
Source: National Association of Home Builders

PORTLAND

The number of Portland metropolitan area home sales decreased by 45.12 percent during the fourth quarter compared to the third quarter of 2011, and buyers closed on purchases of 2,873 existing homes. This is an 8.5 percent decrease from the fourth quarter of 2010 when there were 3,140 transactions in the metropolitan area.

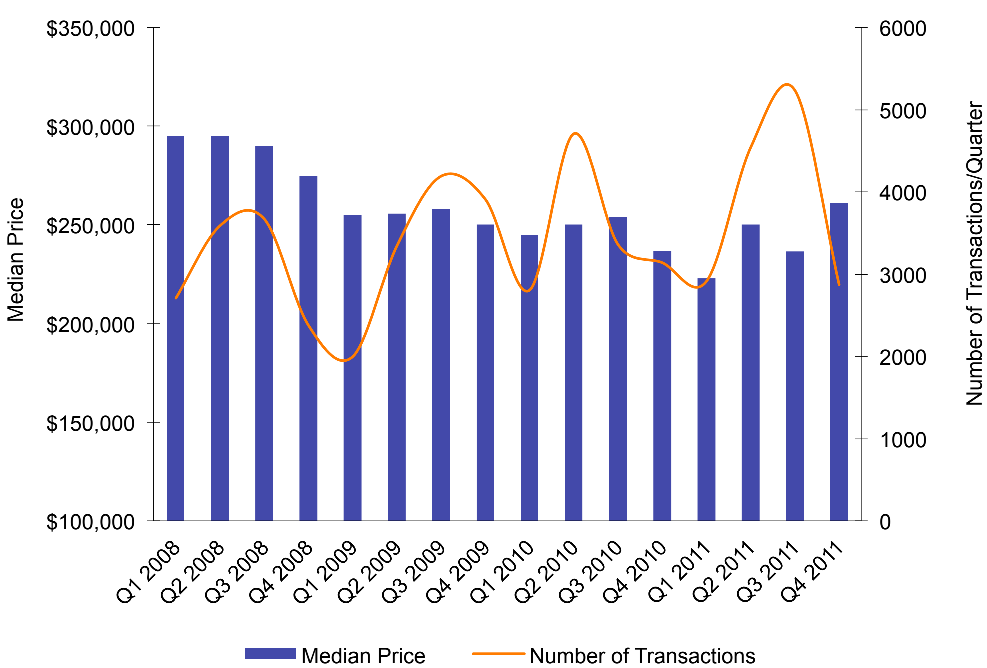
Median prices for the fourth quarter were at $261,140, which represents a 10.34 percent increase over the previous quarter and a 10.19 percent increase annually. Sales price to original list price are coming closer together, with average sales taking place at 98.27 percent of the original list price. This is a 1.54 percent point increase from the previous quarter which was 96.78 percent, and a 2.13 percent increase annually from 96.22 percent. Sellers in the Portland area have had their homes on the market for an average of 55 days before closing, reflecting a 24 day decrease from 2010 and a 34 day decrease from the previous quarter.

Figure 5: Single Family Price per Square Foot, New and Existing Detached Homes, Portland Sub Markets



Source: RMLS

Figure 6: Median Sales Price & Number of Transactions, Existing Detached Homes, Portland Metro (excluding Clark County, WA)



4th Quarter Median Price: $261,140

Quarterly % Change: 10.34%

Annual % Change: 10.19%

Number of Transactions: 2,873

Quarterly % Change: -45.12%

Annual % Change: -8.50%

Figure 7: Sale Price/Original List Price& Average Days on Market, Existing Detached Homes, Portland Metro (excluding Clark County, WA)

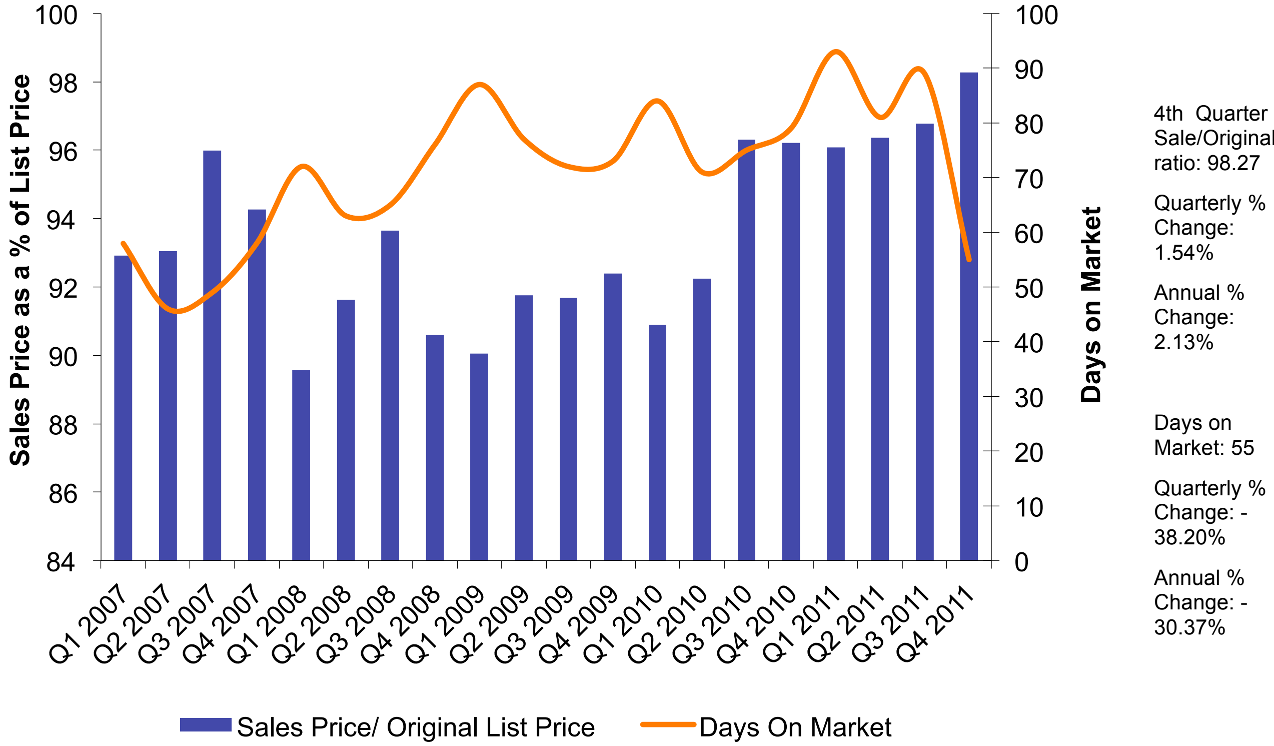
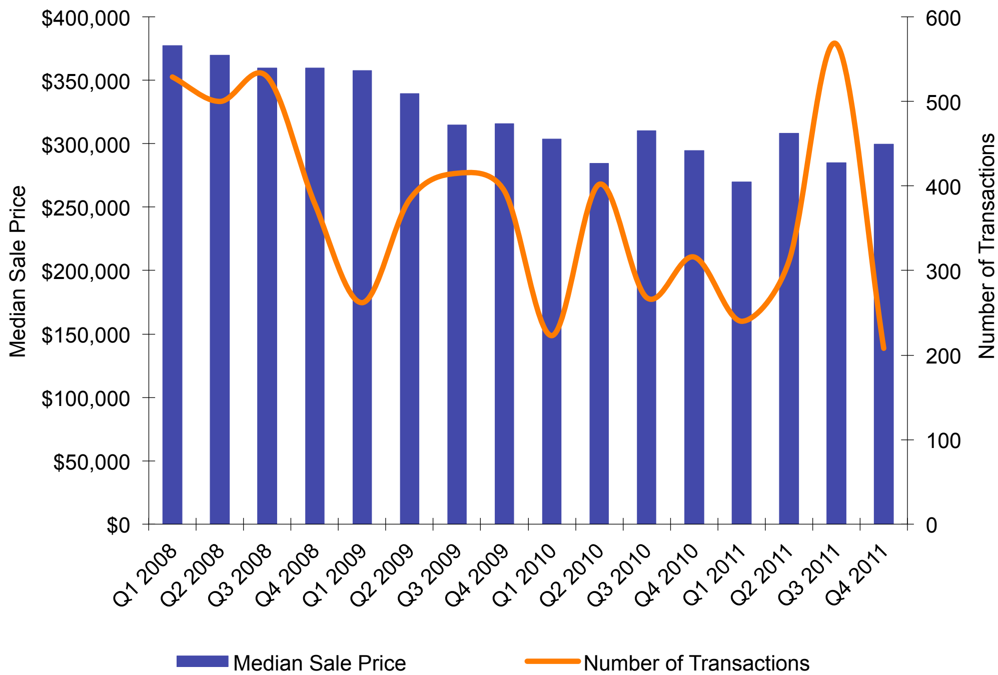


Figure 8: Median Sales Price & Number of Transactions, New Detached Homes, Portland Metro (excluding Clark County, WA)



4th Quarter Median Price: $299,475

Quarterly % Change:

5.08%

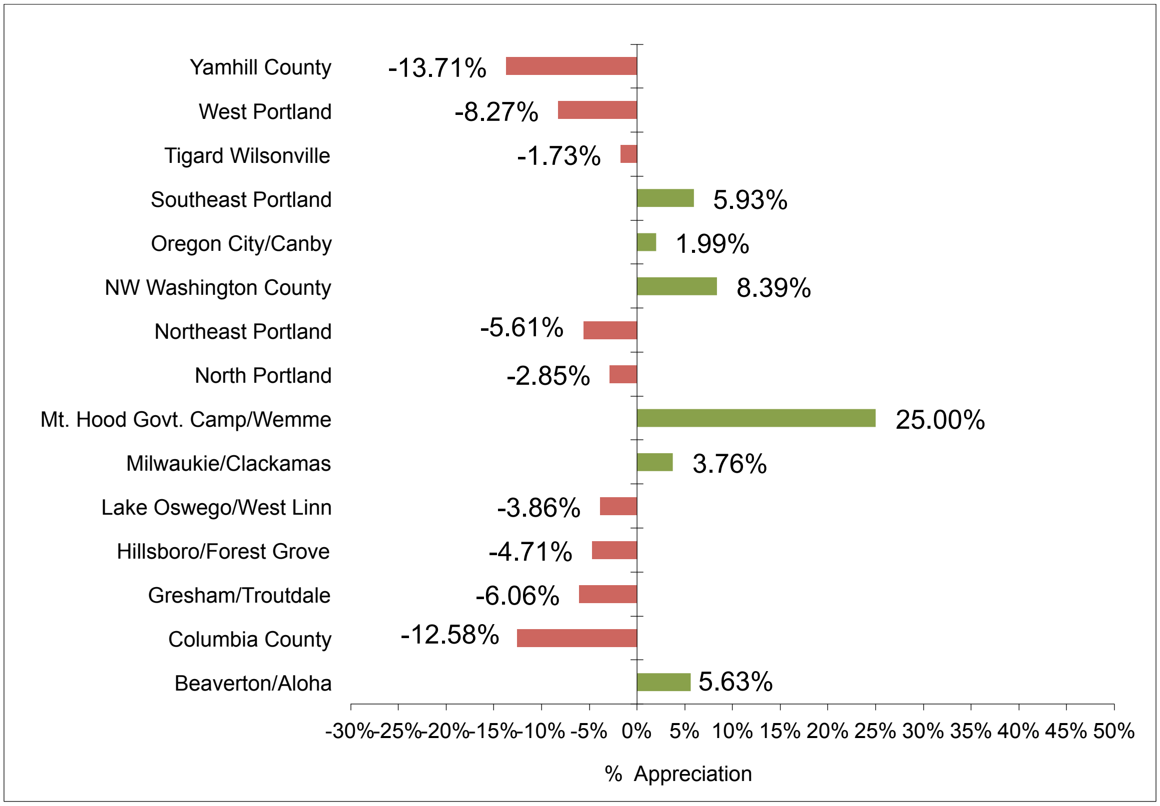
Annual % Change: 1.64%

Number of Transactions: 208

Quarterly % Change: -63.3%

Annual % Change: -34.1%

Figure 9: Appreciation Rates of Existing New Detached Homes from Q4 2010 to Q4 2011, Portland Sub-Markets



The largest annual depreciation was experienced in Yamhill County with a 13.71 percent, while Mt. Hood, Government Camp increased by 25.00% and NW Washington County increased by 8.39%.

VANCOUVER

Vancouver's median home price was $191,746 resulting in a quarterly increase of 0.9 percent and an annual increase of 3.5 percent in home values. The number of homes sold throughout the third quarter decreased by over 38.9 percent to 460 from the third quarter of 2011, but only a slight decrease of 5.5 percent since fourth quarter 2010. The average number of days on the market decreased to 57 days. Third quarter 2011 average number of days on the market was 85, while it was 86 during the fourth quarter of 2010.

Figure 10: Median Price and Annual Appreciation Existing Detached Homes, Vancouver

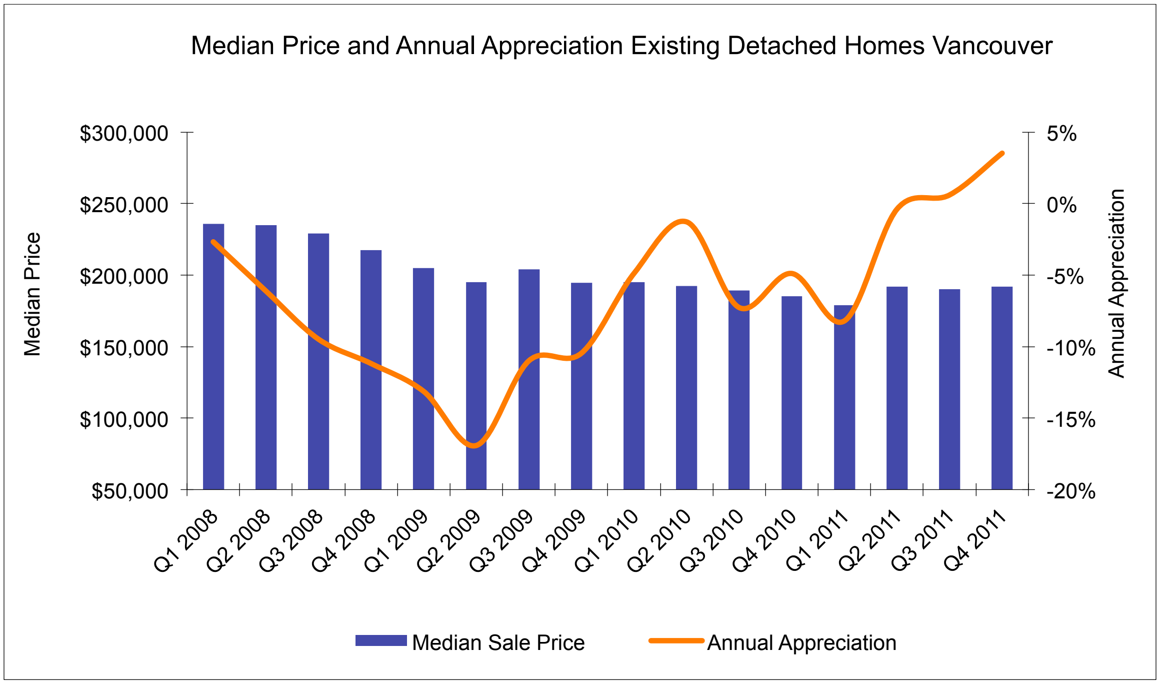


Figure 1: Average Days on Market and Number of Transactions Existing Detached Homes, Vancouver

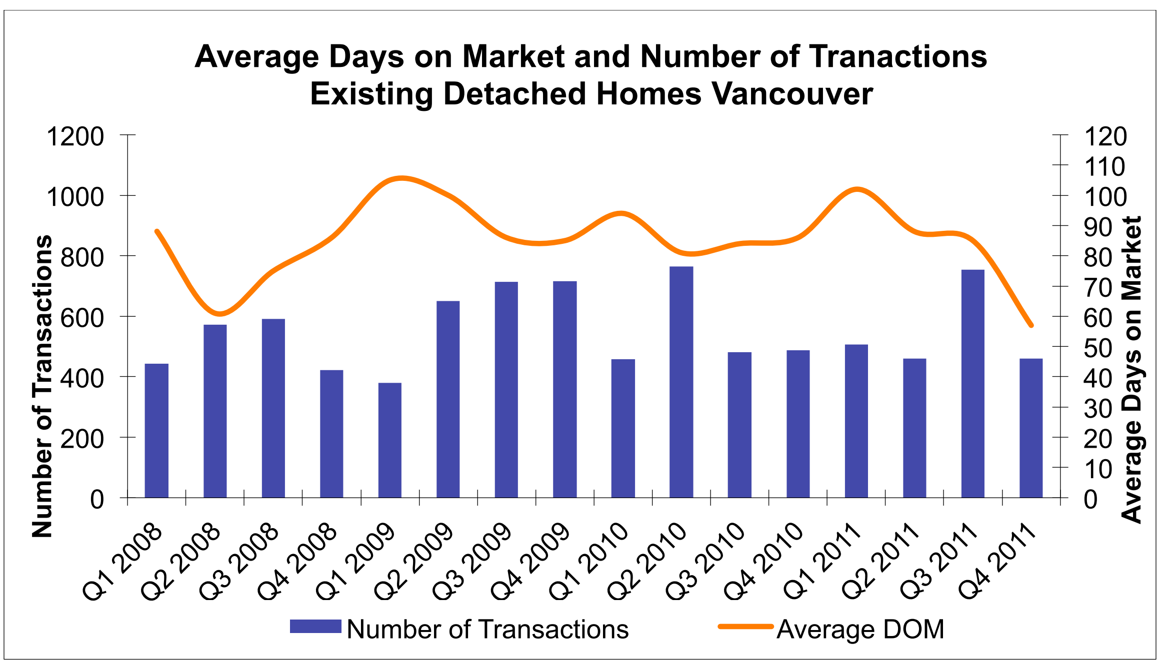
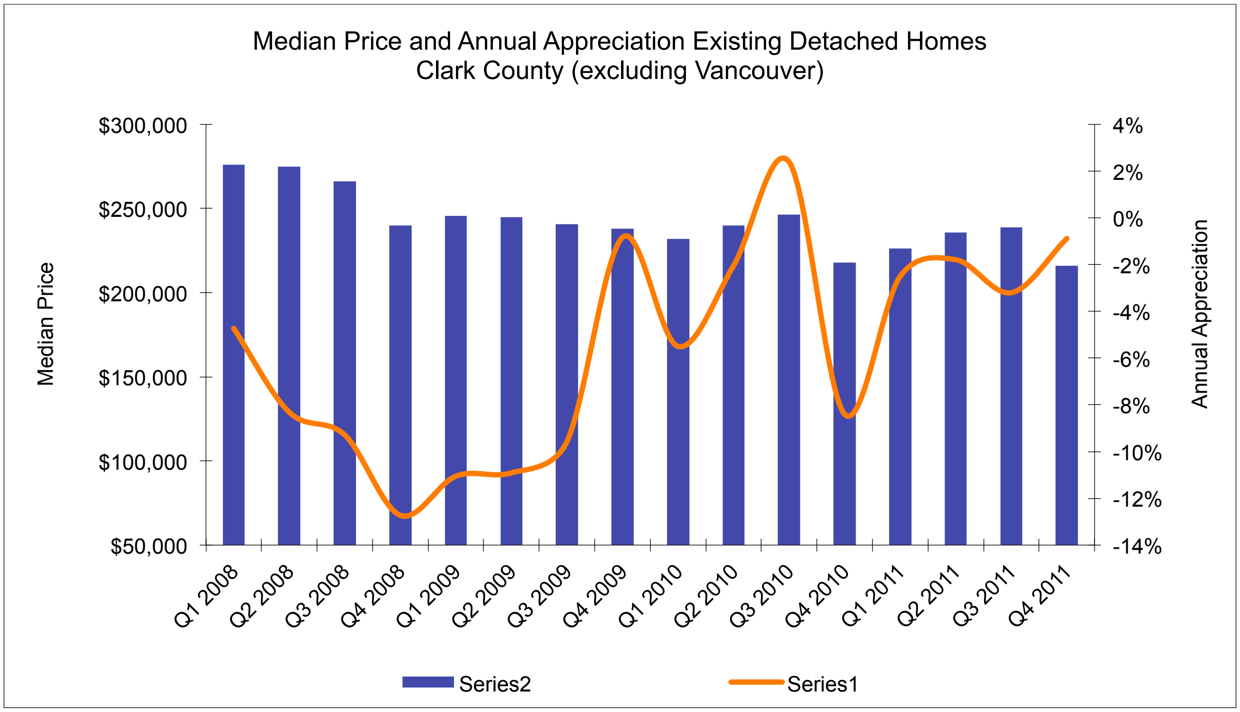


Figure 12: Median Price and Annual Appreciation Existing Detached Homes, Clark County (excluding Vancouver)



In the suburban areas of Clark County there were 340 transactions during the fourth quarter of 2011, compared with 345 transactions during the third quarter, a 1.45% decrease. The average days on the market was 68, compared to 102 in fourth quarter of 2010. The median sold price was $216,073, a 9.45% decrease from the previous quarter. The median price decreased by 0.88% over the year from $218,000. The submarkets that increased the most since the fourth quarter were Ridgefield at 107% and Brush Prairie at 50.3%.

Figure 23: Average Days on Market and Number of Transactions Existing Detached Homes Clark County (excluding Vancouver)

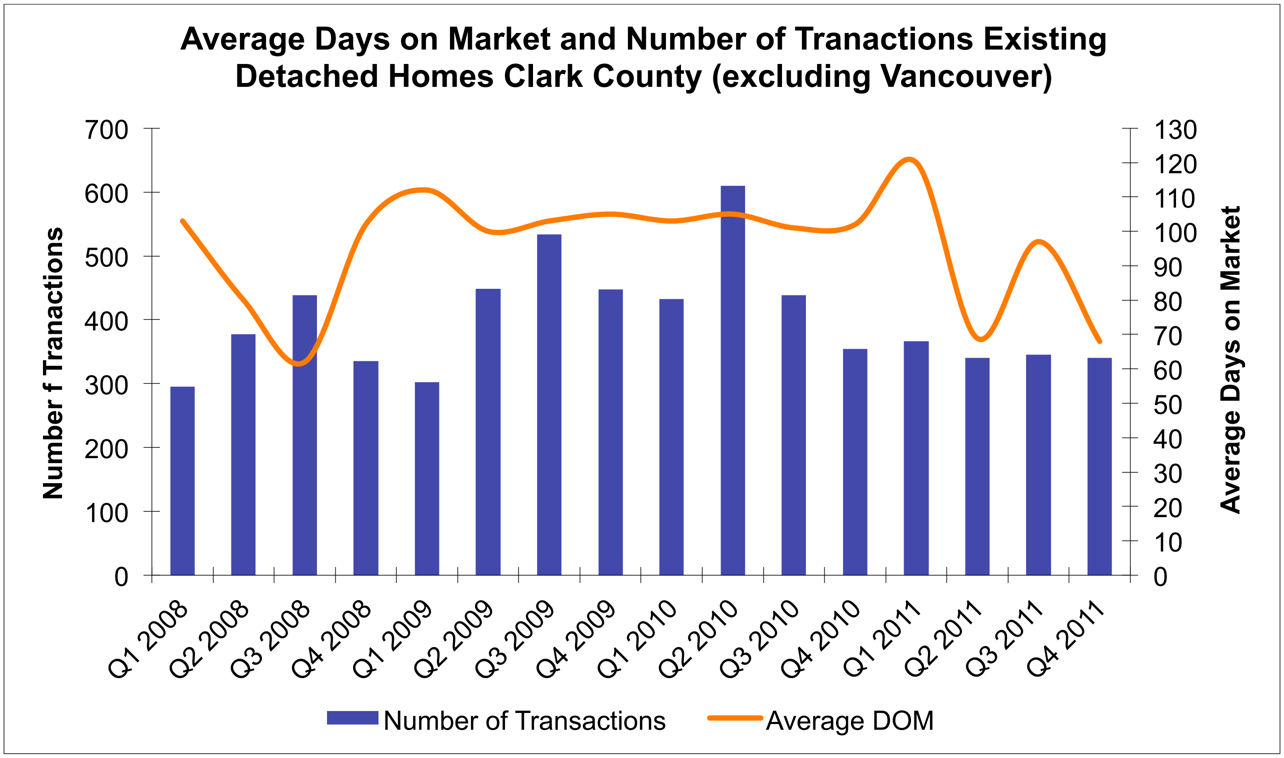
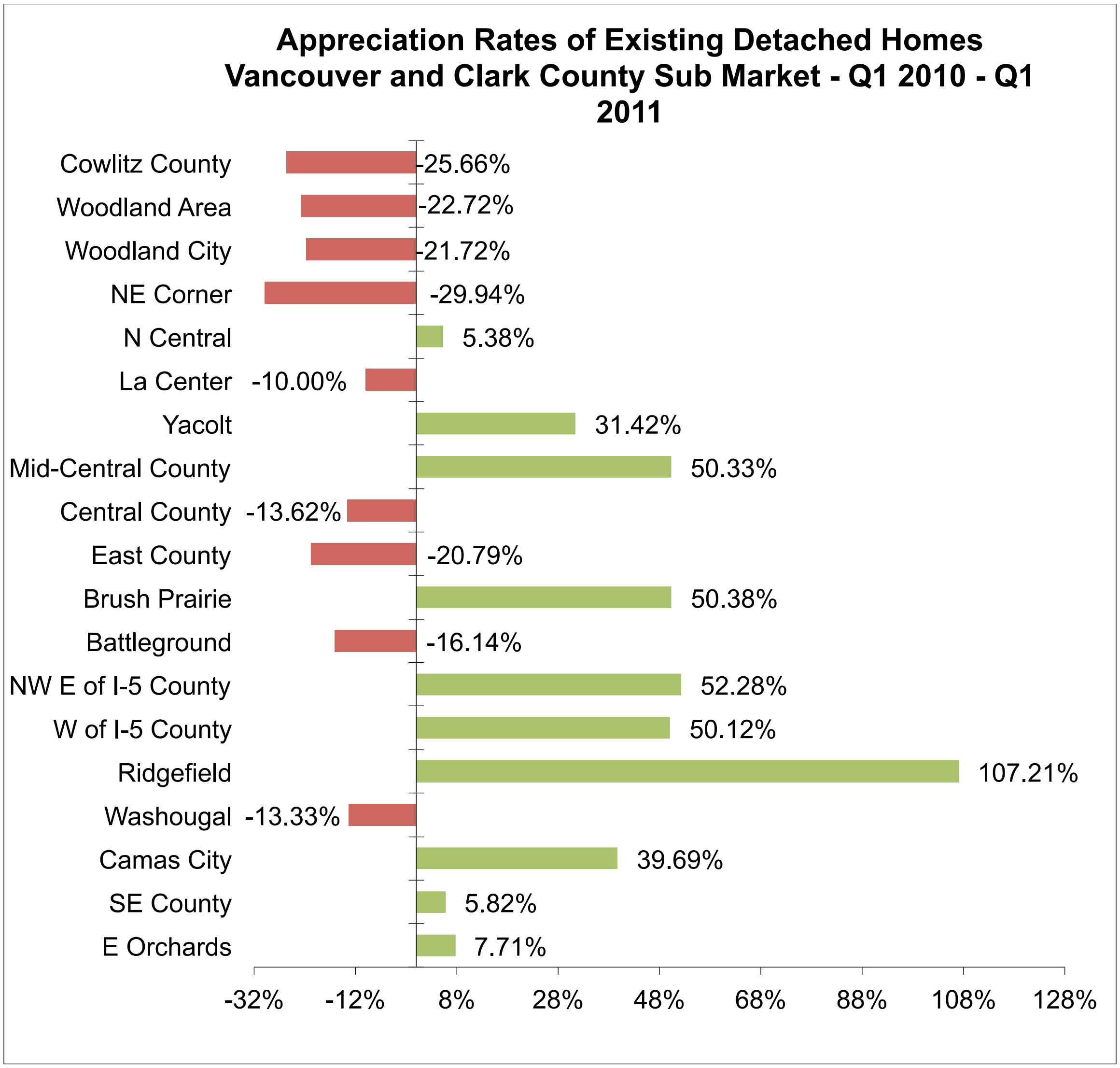


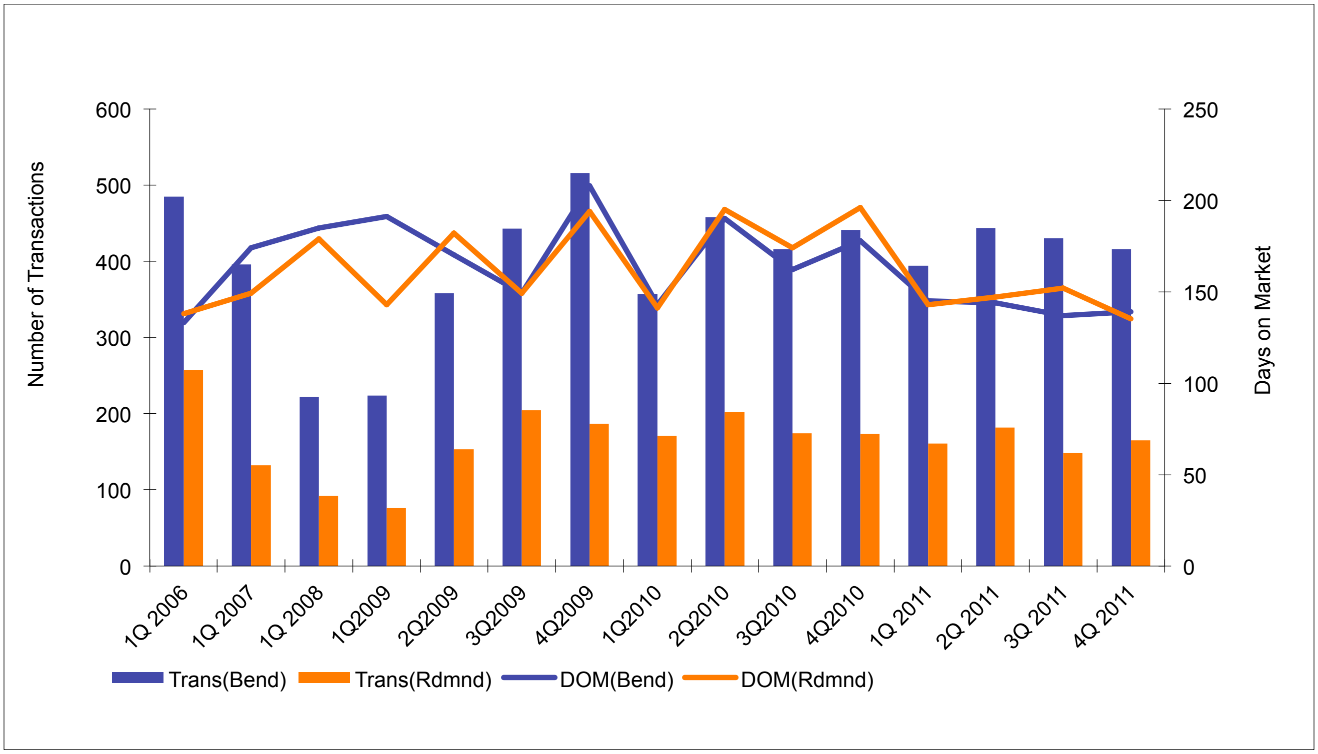
Figure 14: Appreciation Rates of Existing Detached Homes, Vancouver and Clark County Sub Market from Q3 2010 to Q3 2011



CENTRAL OREGON

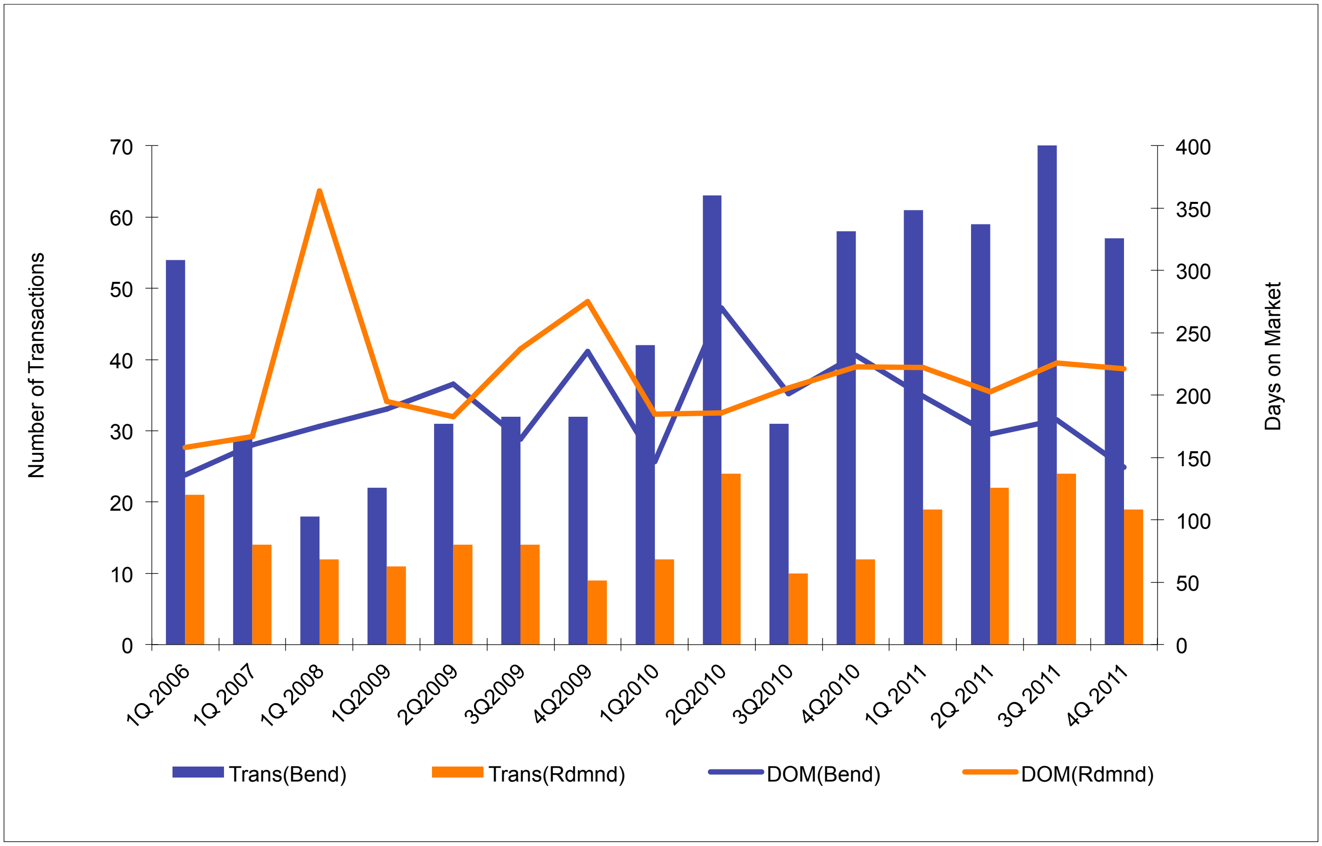
Bend home sales less than one acre decreased 3.3 percent to 416 while Redmond's increased 11.5 percent to 165 in the fourth quarter on homes sold less than one acres. On the other hand, sales volume for homes on 1-5 acres decreased 20.8 percent from 24 to 19 in Redmond and decreased 25.0 percent from 76 to 59 transactions in Bend. For homes on less than one acre, the average number of days on market increased slightly from 137 (in the third quarter 2011) to 139 (in the fourth quarter 2011) in Bend and decreased from 152 to 135 in Redmond. 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 data is provided to control for lot size between both categories.

Figure15: Number of Transactions and Days on the Market, Single Family Under 1 Acre, Bend and Redmond



Source: Central Oregon Association of Realtors

Figure 16: Number of Transactions and Days on the Market, Single Family 1-5 Acres, Bend and Redmond



The median home prices for the Bend market decreased during the fourth quarter of 2011, while the Redmond market increased over 7% for the second consecutive quarter. The Bend market decreased 5.1% to $182,500, while the Redmond increased 7.4% to $123,500 from the previous quarter for homes less than one acre. Both markets increased on homes 1-5 acres as the Bend market increased 12.6% to $335,000, while the Redmond market increased 21.2% to $275,000. Over the past year the Bend market under and acre decreased slightly by 1.4% while the Redmond market increased 4.7% for home sales under an acre. For sales 1-5 acres, Bend increased 5.2% and Redmond has decreased 16.4% since fourth quarter of 2010.

Figure 17: Median Single Family Price and $/SqFt Under 1 Acre, Bend and Redmond

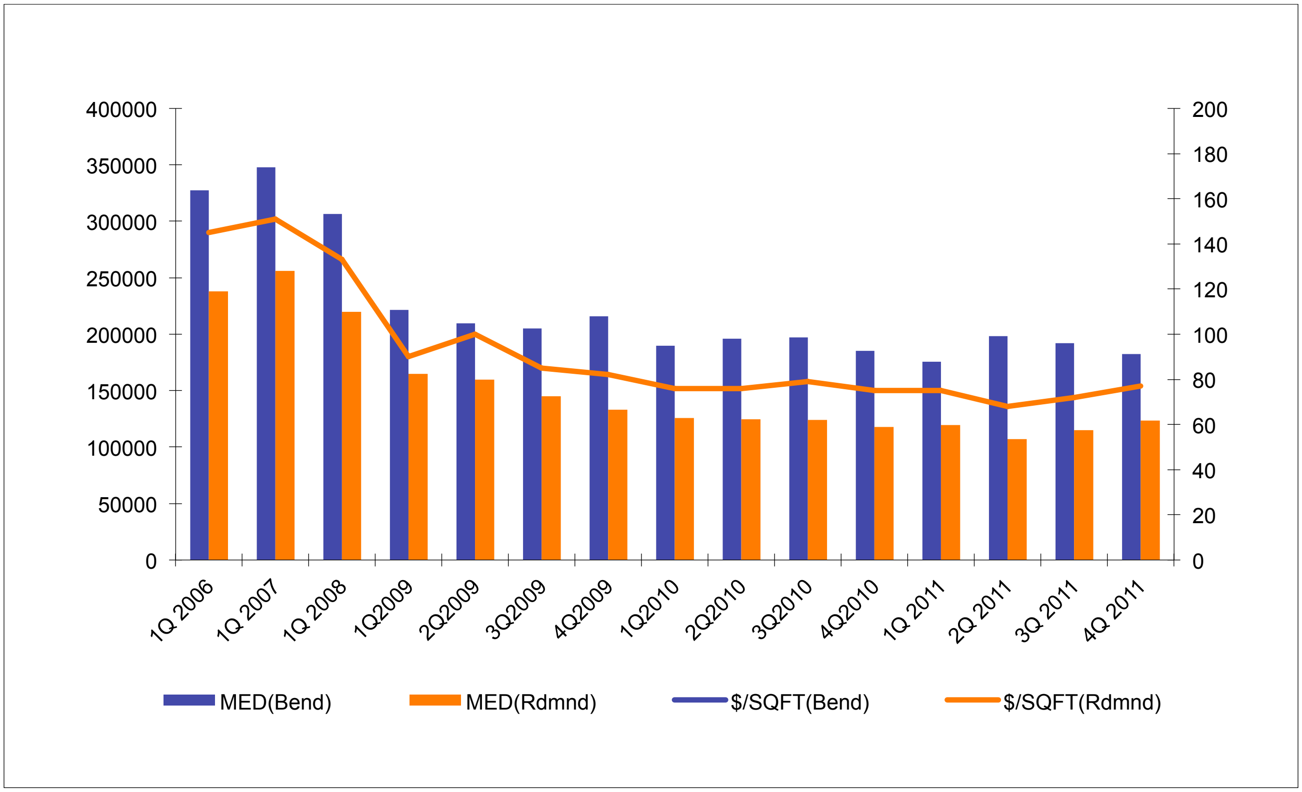
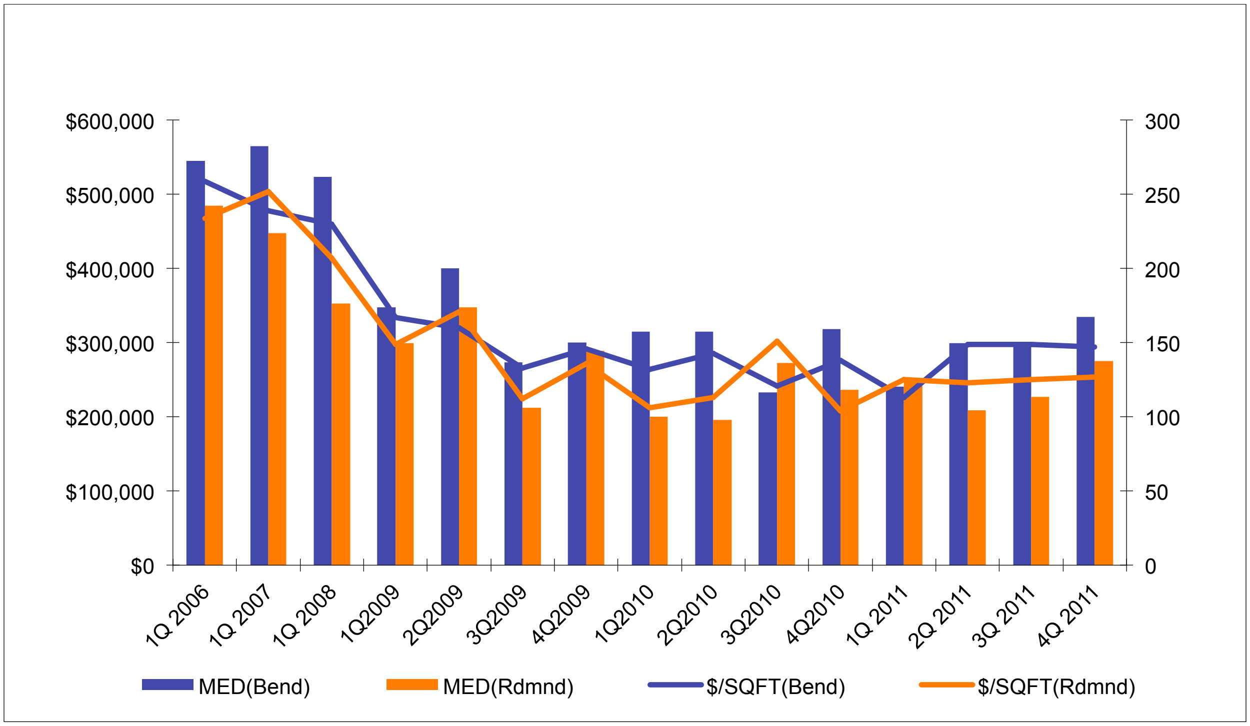


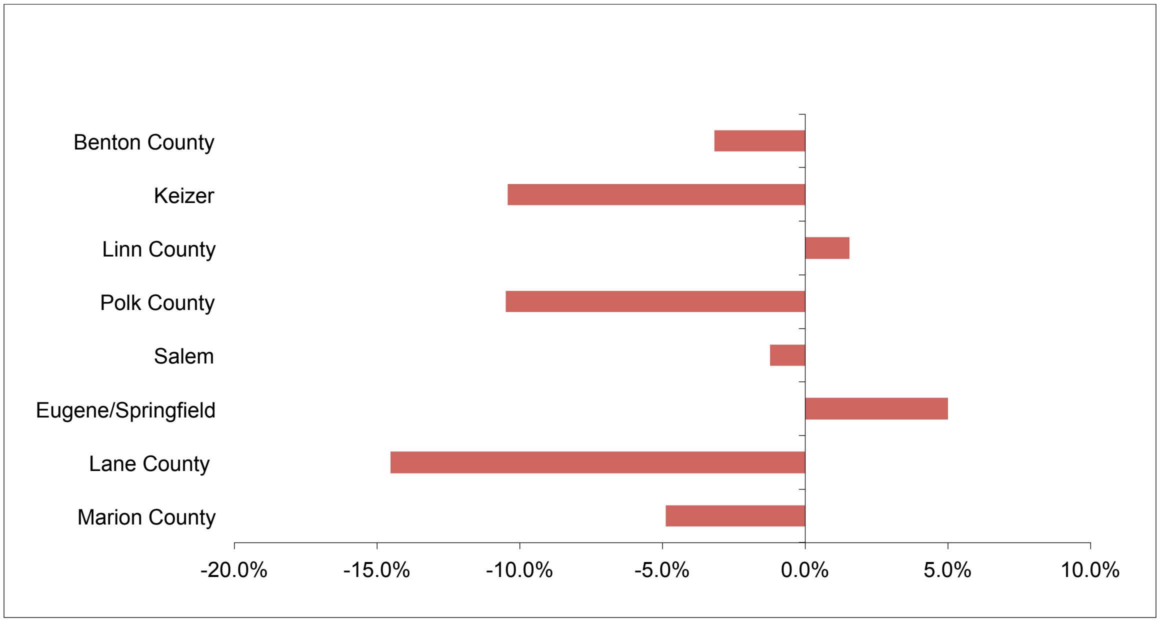
Figure 18: Median Single Family Price and $/SqFt, 1-5 Acres, Bend and Redmond



WILLAMETTE VALLEY

Prices in Marion County decreased 4.9% since the fourth quarter of 2010 to a median sold price of $146,000. Linn County and Eugene / Springfield increased year over year by 1.6% and 5% respectively. Lane County decreased 14.5% over the past year to a median price of $155,750.

Figure 19: Annual Appreciation Rates of Existing Detached Homes, Willamette Valley from Q3 2010 to Q3 2011

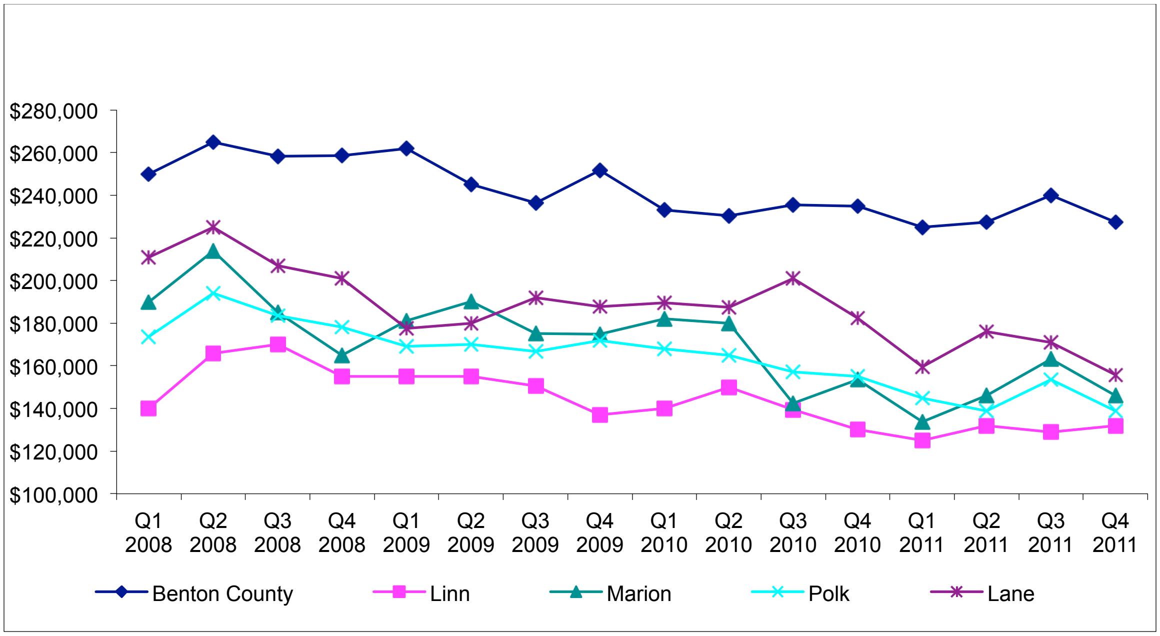


Source: Willamette Valley MLS

The number of transactions over the past year decreased annually for all of these submarkets except Marion County where the number of transactions during the second quarter of 2011 increased 5.2%. The number of transactions in Marion County increased from 134 to 141.

The number of days on the market decreased annually for all submarkets, except for Lane County which increased by 13.9% to 115 days. The largest change in number of days on the market on a percentage basis was the Benton County submarket which decreased 27.6% from 119 in third quarter 2010 to 86 in third quarter 2011.

Figure 20: Median Sales Price Existing Detached Homes, Willamette Valley



SALEM

Salem's housing market again experienced annual depreciation of 1.3% year over year in the fourth quarter while the number of days on the market decreased. The median sale price increased slightly while the number of transactions increased from the third quarter of 2011. The number of transactions increased from the previous year from 320 to 394, but decreased from the third quarter of 2011 from 415. The average number of days on market increased from 105 in the third quarter to 188 in the fourth quarter of 2011.

Figure 21: Median Sales Price and Annual Appreciation, Existing Homes, Salem

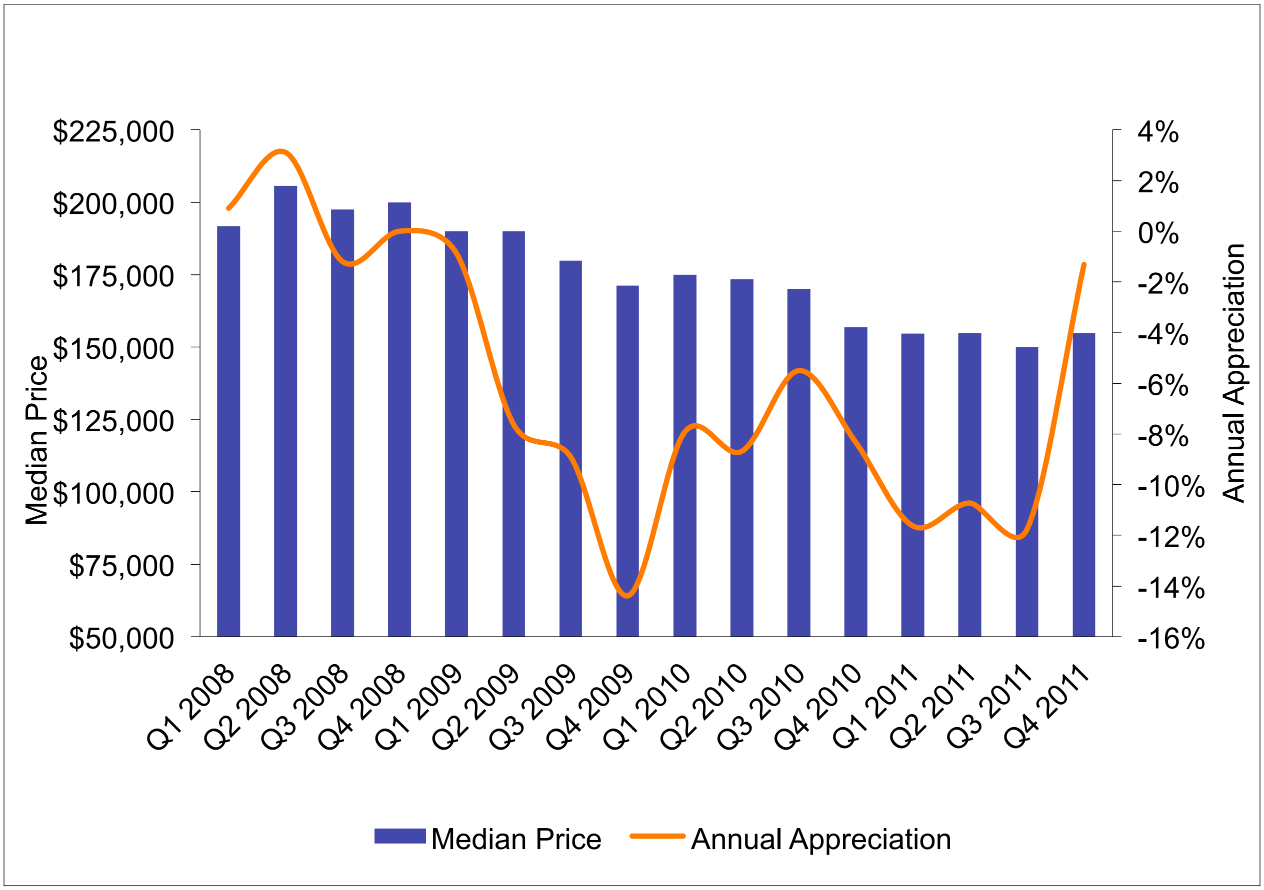
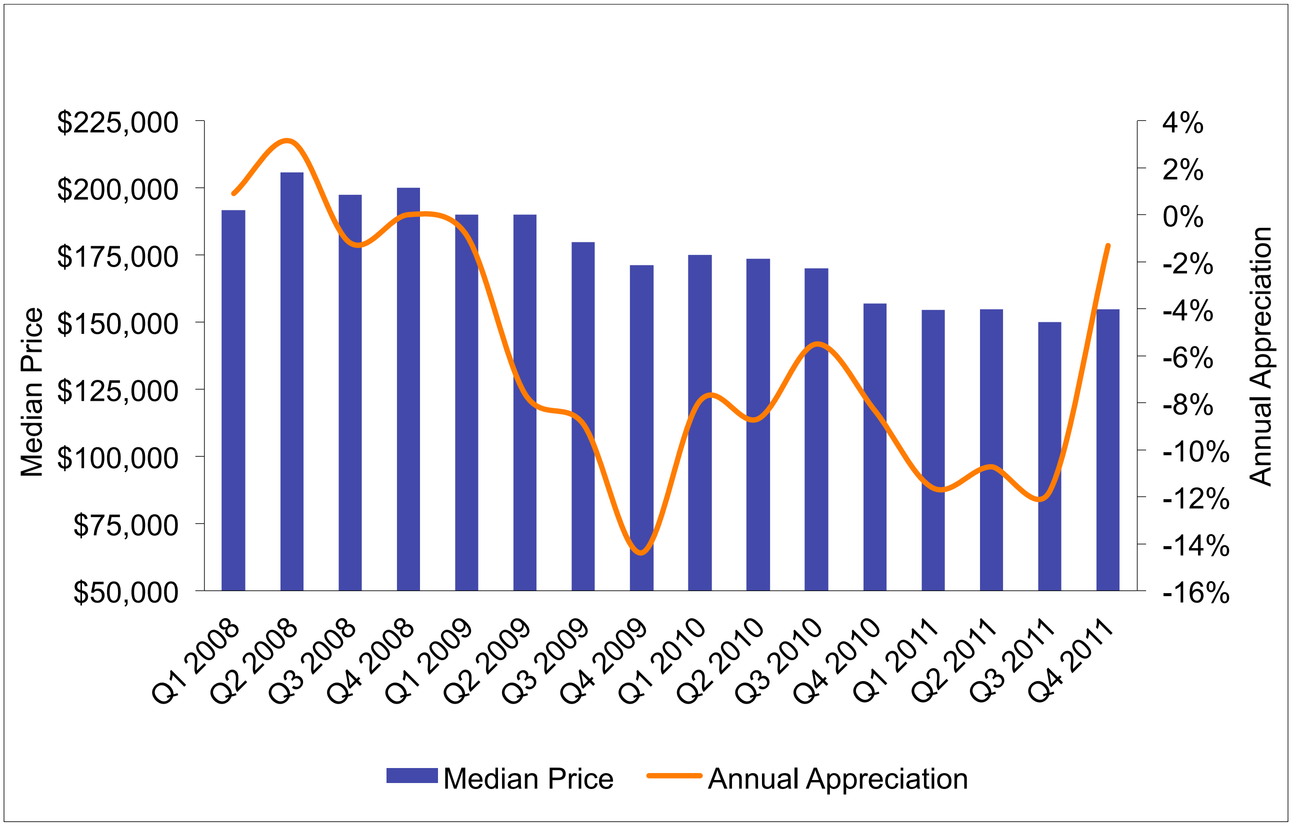


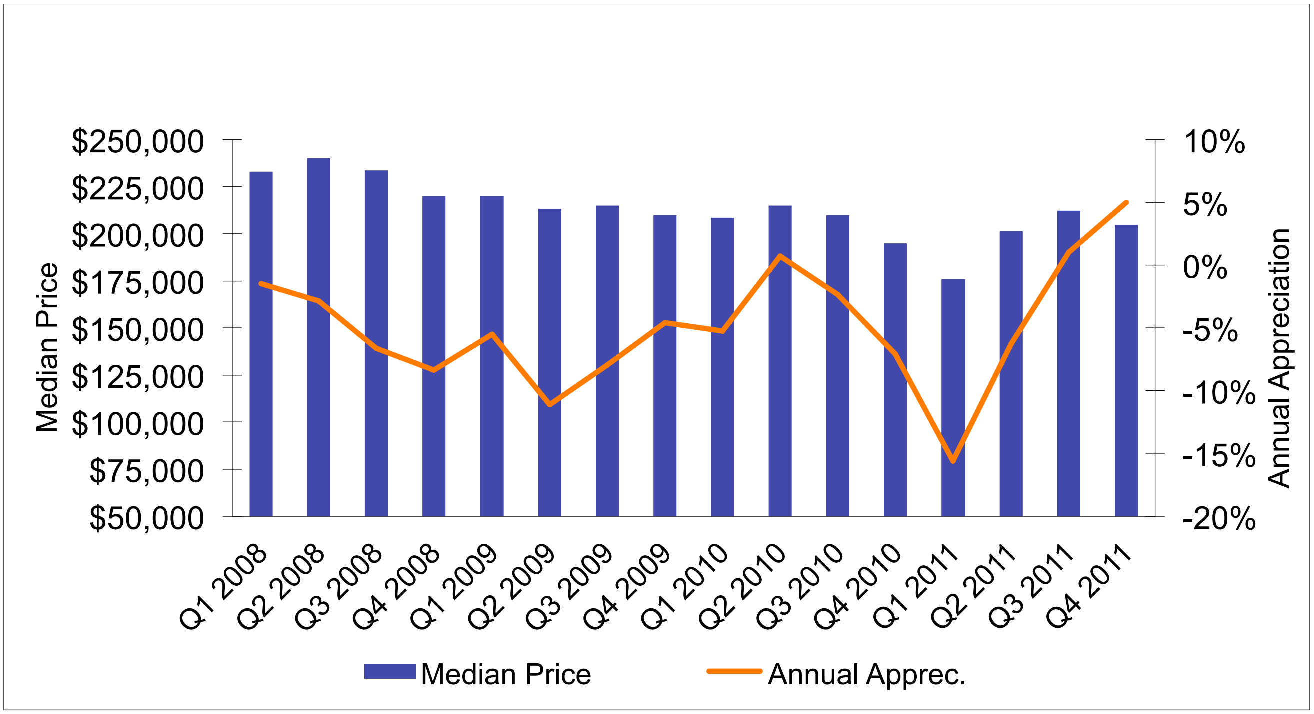
Figure 22: Average Days on Market and Number of Transactions, Existing Homes, Salem



EUGENE/SPRINGFIELD

Home prices in the Eugene/Springfield area decreased 3.47% from the third quarter of 2011 to $204,755. Annual appreciation increased 5% since the fourth quarter of 2010. ■

Figure 23: Median Price and Annual Appreciation Existing Detached Homes, Eugene/Springfield



Source: Willamette Valley MLS

MULTIFAMILY MARKET ANALYSIS

EVAN ABRAMOWITZ

MULTIFAMILY BROKER, JOSEPH BERNARD INVESTMENT REAL ESTATE

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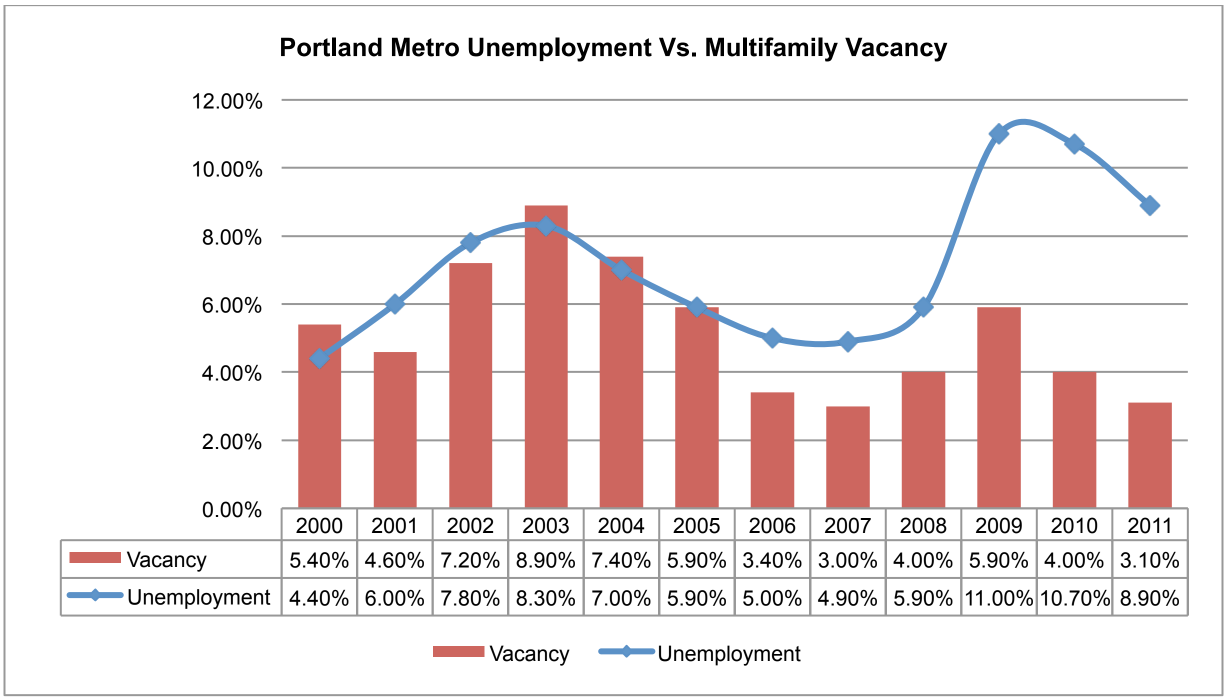
The apartment market in Portland remains strong as multifamily continues to lead the commercial real estate recovery. According to the November 2011 National Association of Realtors report, Portland had a 2.80% vacancy rate, which is among the lowest vacancy rates in the US. Strong rental demand has persisted as fewer buyers are drawn to the single-family market. According to the January 2012 Barry Report: "The apartment market has everything going for it, with increasing rents, increasing income, low vacancies, financing which is readily available, relatively slow apartment construction, and good investor demand." The report projects stronger performance in the market in 2012 and 2013 and forecasts that we are entering a "two to four year sweet spot in the market and the real estate cycle."

On the supply side, construction for multifamily in 2011 increased significantly from 2010, but is still far below historical figures. Through October 2011 permits have been issued for 1,559 units in the four county metro area, compared to 1,100 in 2010, according to the Barry Report. From 2004-2008 an average of 4,700 units came online annually. Half of the units being built are in the close-in areas where vacancy is lowest. The high demand for rentals is expected to persist over the next several years and absorb the new construction projects. It is expected that new construction will continue to ramp up, as more projects are approved in the coming year. Until these projects are delivered in 3-4 years, vacancy rates are projected to remain low and market conditions should remain strong for property owners.

Although the current and future state of the local and national economy is uncertain, people need somewhere to live. With more and more potential single-family buyers opting to rent instead of own, the demand for apartments continues to be strong. Nationally, revenue increased by an average of 5.8% and effective rents increased by 4.7% in 2011 according to MPF Research, a Carrollton, TX real estate research firm. Occupancy climbed 1.1% during 2011 to 94.6%.

Unemployment rates are positively correlated with vacancies as shown in the chart below. Locally, the vacancy rate has been declining with the unemployment rate since 2009. In 2009 the vacancy rate was 5.9% and the unemployment rate was 11% and in 2011 the vacancy rate is 3.1% and the unemployment rate is 8.9%.

Figure 1: Unemployment and Multifamily Vacancy, Portland Metropolitan Area

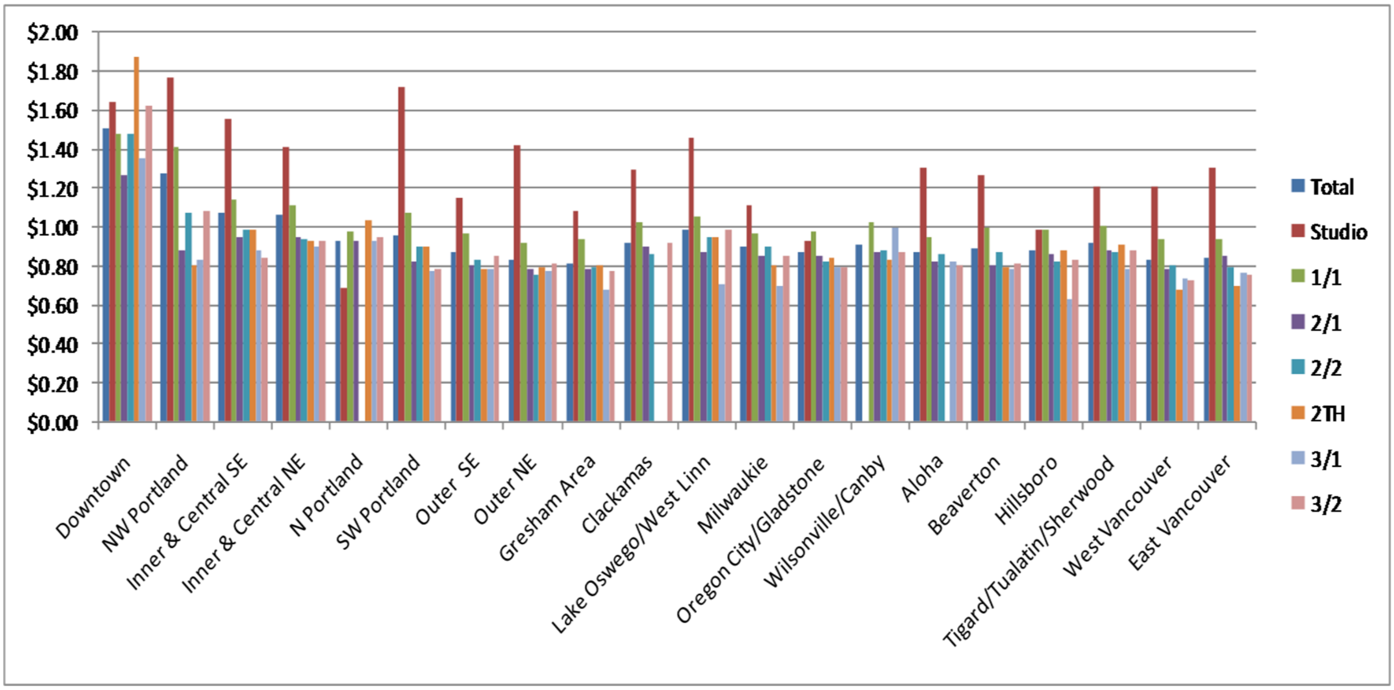


	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Vacancy	5.40%	4.60%	7.20%	8.90%	7.40%	5.90%	3.40%	3.00%	4.00%	5.90%	4.00%	3.10%
Unemployment	4.40%	6.00%	7.80%	8.30%	7.00%	5.90%	5.00%	4.90%	5.90%	11.00%	10.70%	8.90%

These market factors have driven vacancy rates in historically undersupplied Portland to among the lowest in the nation. The highest overall vacancy submarket was 4.5% in Outer Northeast and NW Portland and the lowest was Oregon City / Gladstone at 2.3%. The highest vacancy rate among studios was Outer Northeast at 11.11%, while six submarkets reports 0% vacancy for studios. The highest vacancy rate for 1 BD, 1 BA was Outer Southeast at 5.28%, while the lowest was N Portland with 0%. For 2 BD, 1 BA the highest vacancy was N Portland at 6.01% and the lowest was Oregon City/Gladstone at 0.37%. Downtown Portland had a 0% vacancy rate among 3 BD, 1 BA, but a 16.67% vacancy rate for 3 BD / 2 BA. This could be an indicator of families using less space, as Milwaukie, East Vancouver, West

Vancouver, Wilsonville/Canby, and Outer Northeast reported 0% for 3 BD / 1BA and modest vacancy rates for the 3 BD / 2 BA units.

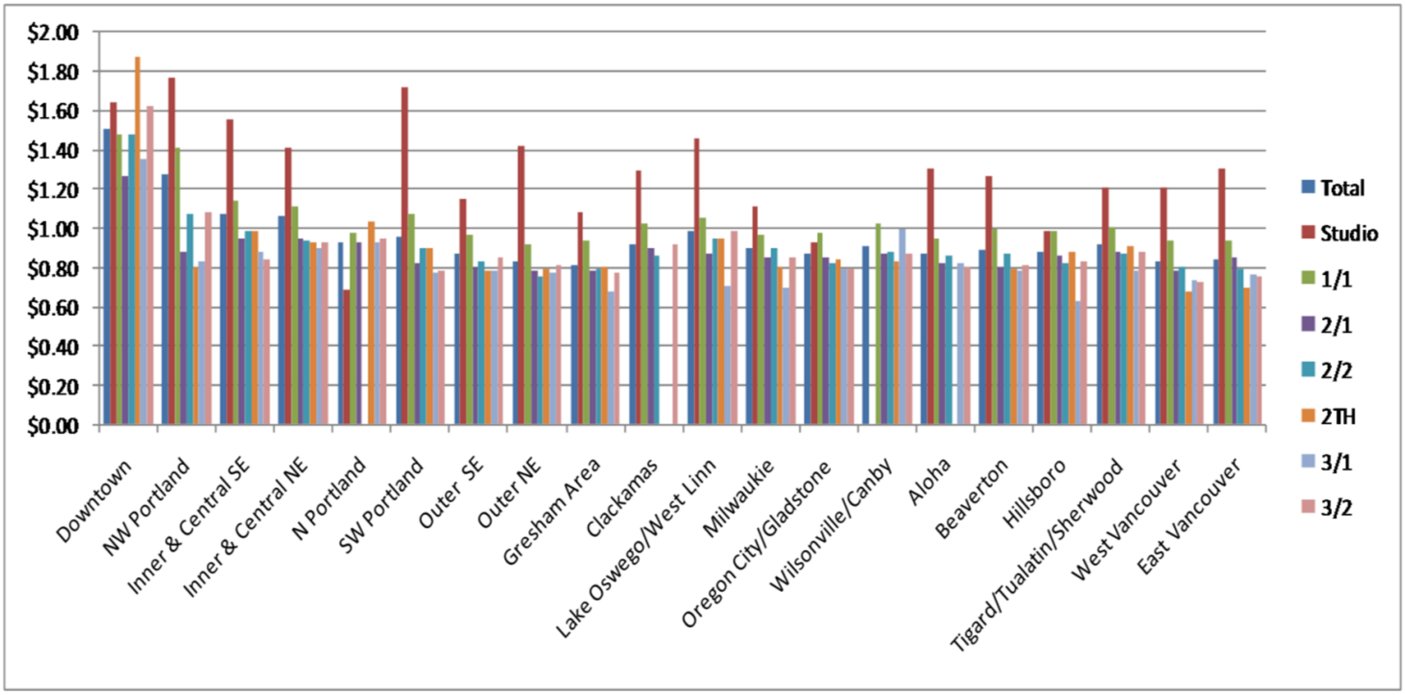
Figure 2: Vacancy Rates by Submarket 2011 Portland Metropolitan Area



Source: MMHA

The submarket with the highest overall rent/SF is downtown Portland with a $1.51 average, followed by NW Portland at $1.28. The lowest overall rent/SF is Gresham area, which includes Gresham, Troutdale, Fairview, and Wood Village at $0.81, followed by Outer Northeast and West Vancouver at $0.83. The highest rent/SF for studios was NW Portland at $1.77 and the lowest was N Portland at $0.69. The highest rent/SF for 1 BD, 1 BA was downtown at $1.48 and the lowest was Outer Northeast at $0.92. The highest rent/SF for 2 BD, 1 BA was downtown at $1.27 and the lowest was $0.78 in Gresham area, West Vancouver, and Outer Northeast.

Figure 3: Rent / SF by Submarket 2011 Portland Metropolitan Area



Source: MMHA

In this high demand market, investors are aggressively seeking quality, well-located properties. Apartments are viewed as a relatively safe investment to gain a higher return than bonds, or conventional Treasuries. Several 100+ unit, Class A, institutional quality properties traded in the fourth quarter of 2011, at below-market cap rates. These major sales transactions included Timber Ridge ($39 million) in NW Portland, Westview Heights ($29 million) in NW Portland, The Beverly ($29 million) in NE Portland, Reflection at the Park ($21 million) in Vancouver, and Woodspring ($15 million) in Tigard. Institutional buyers aggressively pursued core close-in properties in the second quarter, and are paying a premium. Several of the transactions have resulted in cap rates between 4 and 5 percent.

Figure 4: Major Sales Transactions, 4th Quarter, 2011, Portland Metropolitan Area

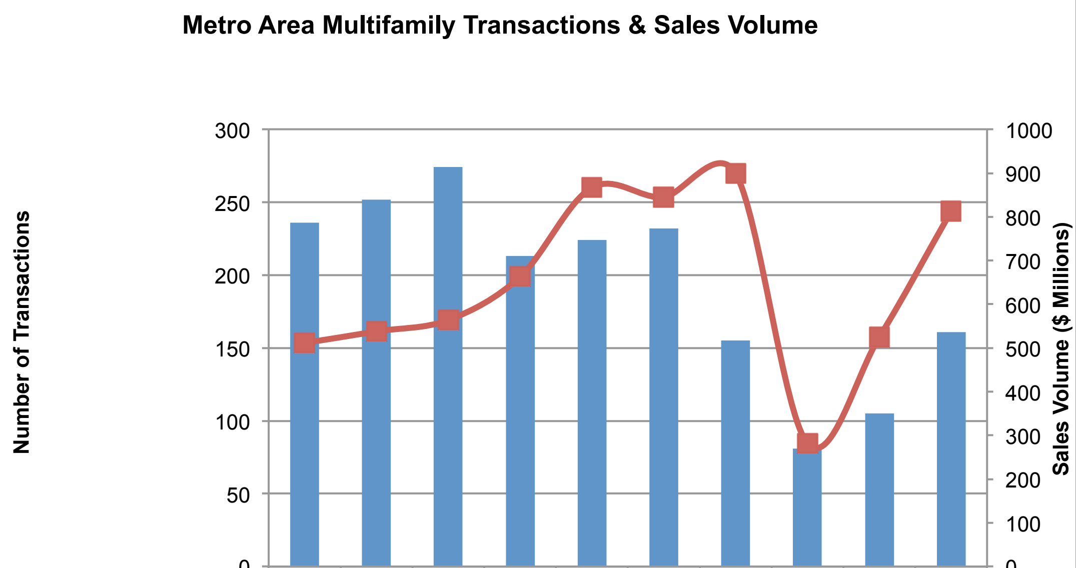
Q2 2011 Major Sale Transactions					
Building	**Buyer**	**Price**	**Units**	**Price/Unit**	**Submarkets**
Timber Ridge	David Dufenhorst	$ 39,500,000	238	$ 165,966	NW Portland
Westview Heights	William McMorrow	$ 29,500,000	198	$ 148,989	NW Portland
The Beverly	Morgan Deal	$ 29,000,000	54	$ 537,037	NE Portland
Reflection at the Park	Vancouver Apt Associates LLC	$ 21,000,000	244	$ 86,065	Vancouver
Woodspring	Wstpi LLC	$ 15,250,000	172	$ 88,682	Tigard

Source: Costar

The majority of the product in Portland is Class B and C quality properties based on location and condition of the building. In Portland, approximately 70% of the apartments were built in the 1970s. These properties are often in the 8-60 unit range, have varying levels of deferred maintenance, and many sell in the $50,000-$80,000 per unit range depending on rents, location, condition, and other factors.

The number of transactions and sales volume has rebounded nicely since 2009. In 2011 there were 161 transactions and $813 million in sales volume compared with 105 transactions and $525 million in 2010. This is 65% more transactions and a 64% increase in sales volume. Experts are projecting that the increases in sales volume and transactions will continue to be strong in 2012 and the next several years.

Figure 5: Multifamily Transactions and Sales Volume, Portland Metropolitan Area, June 2011 Year to Date



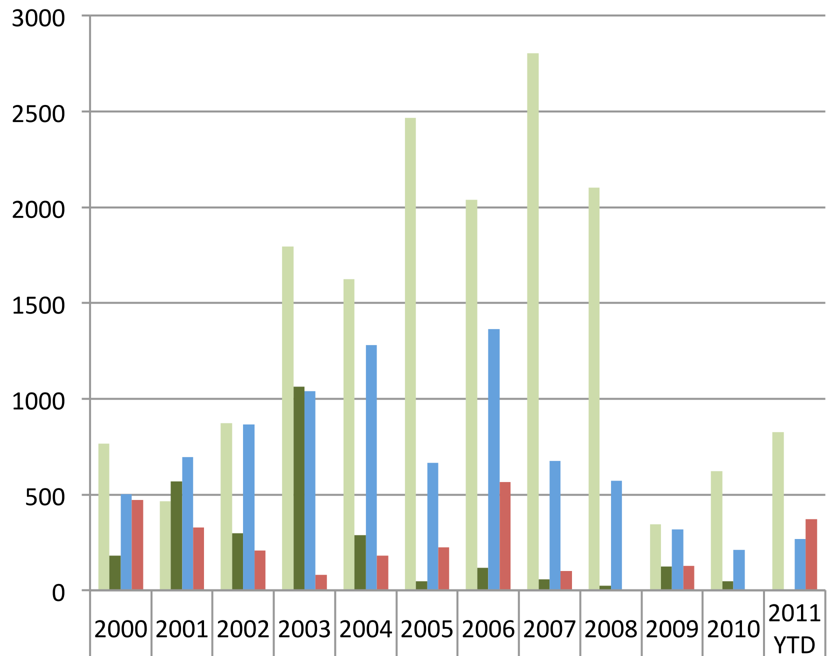
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Number of Transactions	236	252	274	213	224	232	155	81	105	161
Sales Volume	511	538	564	663	867	845	899	282	525	813

Source: The Barry Apartment Report

Through the first eleven months of 2011, multifamily building permits have exceeded 2010 levels within the City of Portland. There have been 371 multifamily units built in Clackamas County, the most since 2006, and a significant increase from 2010 when only 5 units were permitted. Of the 371 units, 327 were the large Brenchley Estates development in Wilsonville. Through November 2011, total building permits for 825 units have been issued in the City of Portland. In the City of Portland, the number of permits is on pace to be the highest since 2008, but remains significantly below 2003-2008. Washington County has had multifamily permits for 267 units issued, with 230 units spread over 14 projects in Hillsboro.

Factors contributing to the current lag in new construction include the weak economy, difficulty obtaining financing, and the current gap between replacement cost and market value. In light of the microscopic vacancy rate in the metropolitan region and lack of new construction, many real estate professionals and would argue that the market is experiencing a shortage in apartments this year. In order to get back in balance the market needs 5,000-7,000 apartment units, and it will take developers three years to produce this supply, according to the Barry Report. This shortage will be felt first within the urban core and later in the suburbs, where there is slightly more inventory available.

Figure 6: Multifamily Building Permits Issued, November 2011 Year to Date



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 YTD
City of Portland	767	465	874	1793	1623	2466	2038	2802	2103	345	622	825
Multnomah Co. (excluding Portland)	181	570	297	1062	288	46	119	56	24	125	47	0
Washington Co.	501	695	866	1040	1279	664	1364	674	572	319	212	267
Clackamas County	473	327	208	81	181	226	564	100	0	128	5	371

Experts predict a spike in number of transactions and sales volume as a result of owners and investors positioning their portfolios to capitalize on the further rent growth projected and persistent low vacancy in the market. The Barry Report asserts that sales volume of $700-$800 million and 175-200 transactions per year in 2012 and 2013 are possible. ■

OFFICE MARKET ANALYSIS

KYLE BROWN

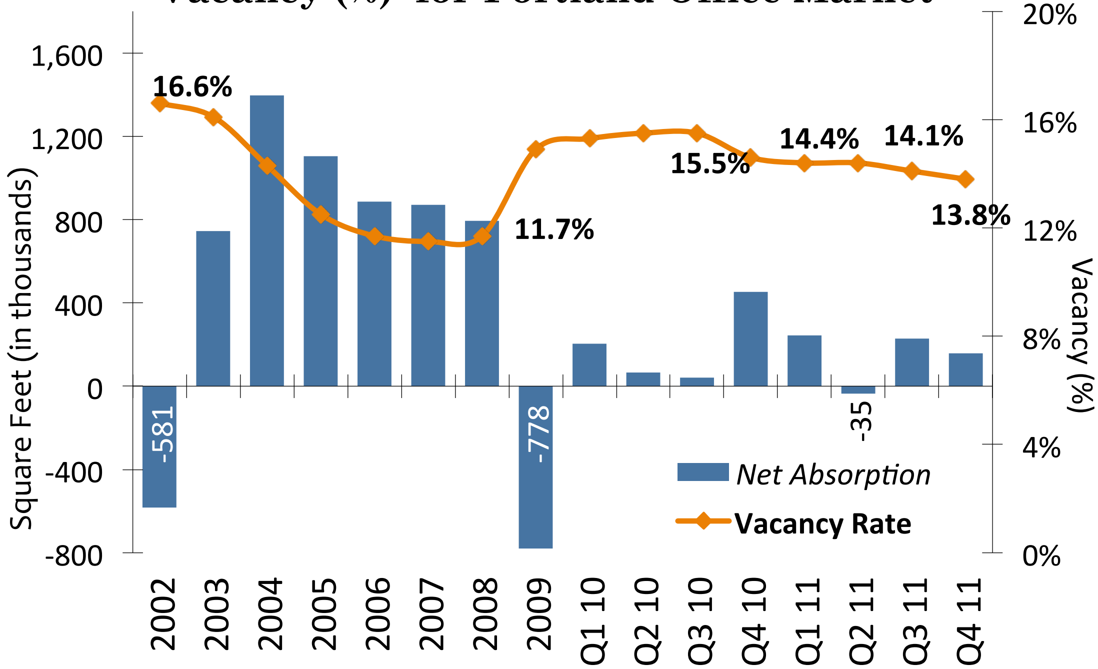
RMLS Fellow, Master of Real Estate Development Candidate

Amid some encouraging signs nationally, the Portland office market has maintained its stability, with the CBD meeting modest expectations in the fourth quarter of 2011. Local indices show evidence of a decline in vacancy and modest absorption throughout the year. The pressure on the central city Class A market that continued for most of the year has begun to level out, as high-end users return underutilized space to the market.

Portland's economic recovery has slowly gained traction with the unemployment situation starting to improve, and year-over-year increases in professional and financial services offsetting losses in government jobs. Oregon's unemployment rate has held steady over the last few quarters ending in December at 8.9%, but still above the national average of 8.3%. Having entered the recession late, job recovery has also been slow to get a toehold, leaving Oregon trailing other states with its resurgence. As could be expected, the Portland MSA has seen greater growth in employment relative to smaller cities and rural areas in Oregon. Grubb & Ellis reports that Portland ranks 5th in "over-the year" employment growth for large metro areas, dropping from 9.8% to 8.4% (Figure 2).

In the office market Grubb & Ellis (G&E) reports a 30 basis point drop in market-wide vacancy from 14.1 percent to 13.8 percent in the fourth quarter, with 157,000 square feet of net absorption overall. Tenant demand in the suburbs grew substantially in 2011, with six of the ten largest leases being signed in the suburban markets and Vancouver. Overall vacancy rates in the suburbs have remained somewhat stable, with the Washington Square/Kruse Way submarket stabilizing around 20%.

Figure 1: Overall Net Absorption (SqFt) and Vacancy (%) for Portland Office Market



Source: Grubb & Ellis, Office Quarterly Reports

Steady leasing in the Vancouver submarket registered over 235,000 square feet of net absorption. The signing of PeaceHealth, Nautilus, and LionBridge Technologies helped to cut its vacancy rate by nearly half over 2011. Overall the year ended on a positive note, but the pace and scale of recovery is highly segmented by location. For cost-sensitive tenants in suburban markets this is good news; tenants may be able to realize significant rent cuts when renewing leases, and new tenants may be able to negotiate incentives and larger tenant improvement allowances.

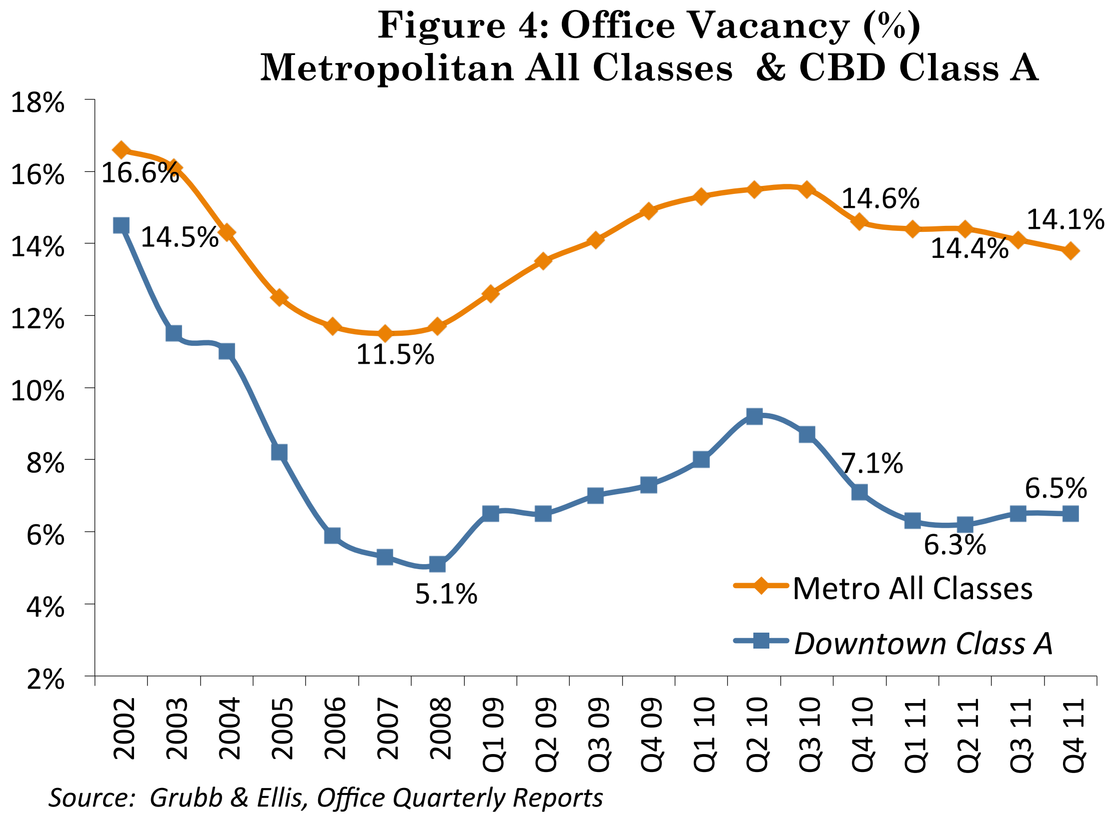


Figure 4: Office Vacancy (%)
Metropolitan All Classes & CBD Class A
18%
16%
14%
12%
10%
8%
6%
4%
2%
16.6%
14.5%
11.5%
14.6%
14.4%
14.1%
5.1%
7.1%
6.3%
6.5%
Metro All Classes
Downtown Class A
2002
2003
2004
2005
2006
2007
2008
Q1 09
Q2 09
Q3 09
Q4 09
Q1 10
Q2 10
Q3 10
Q4 10
Q1 11
Q2 11
Q3 11
Q4 11
Source: Grubb & Ellis, Office Quarterly Reports

Table 1: Office Market Vacancies and Asking Rents, Q4, 2011

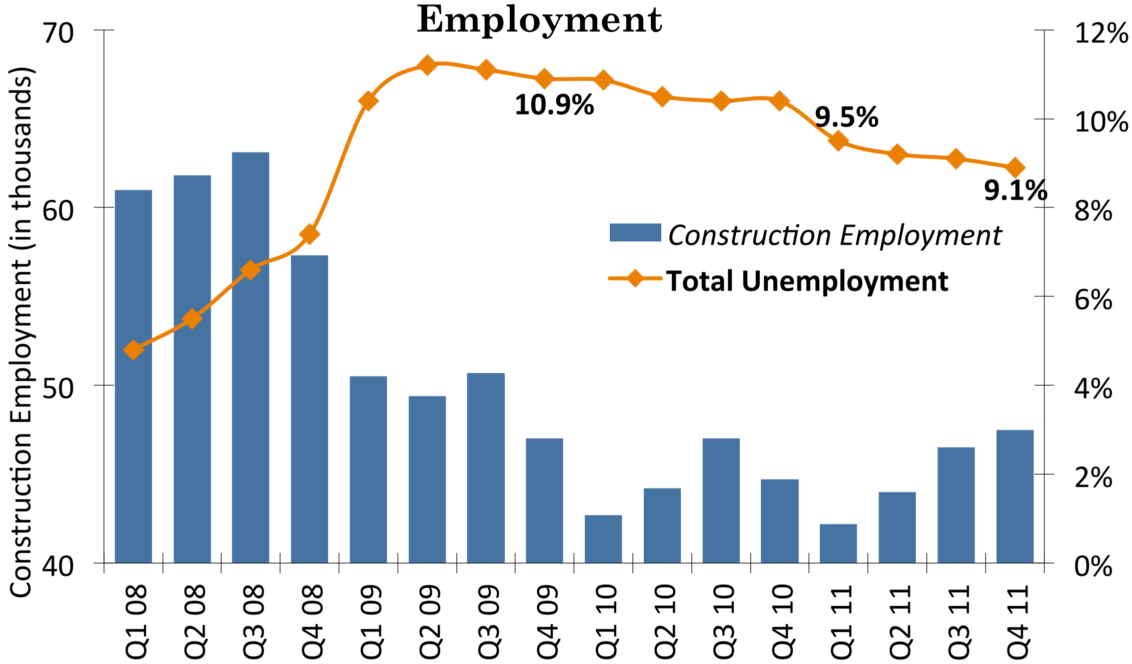
	CB Richard Ellis	Cushman & Wakefield	Grubb & Ellis	Norris, Beggs & Simpson	Median
Market-Wide Vacancy	14.5%	13.5%	13.8%	16.7%	14.2%
Previous Quarter	14.9%	12.4%	14.1%	17.2%	14.5%
Fourth Quarter 2010	16.4%	16.1%	15.5%	17.7%	16.3%
Fourth Quarter 2009	15.4%	15.9%	14.1%	17.1%	15.7%
CBD & Downtown Vacancy	9.7%	9.1%	9.1%	12.9%	9.4%
Previous Quarter	9.7%	9.6%	9.3%	12.8%	9.7%
Fourth Quarter 2010	10.3%	11.6%	10.7%	12.1%	11.2%
Fourth Quarter 2009	10.0%	11.7%	9.8%	11.1%	10.6%
CBD Class A Vacancy	-	6.5%	6.5%	N/A	6.5%
Previous Quarter	-	-	6.5%	9.2%	7.9%
Fourth Quarter 2010	8.9%	10.5%	9.4%	11.8%	10.0%
Fourth Quarter 2009	3.8%	6.4%	5.1%	5.4%	5.3%
CBD Class A Asking Rents	-	$26.56	$26.19	N/A	$26.38
Previous Quarter	-	$24.54	$25.99	N/A	$25.27
Fourth Quarter 2010	N/A	$26.34	$27.03	N/A	$26.69
Fourth Quarter 2009	N/A	$25.79	$25.86	N/A	$25.83
Suburban Vacancy	19.1%	18.1%	-	23.2%	19.1%
Previous Quarter	19.9%	17.0%	17.0%	23.2%	18.5%
Fourth Quarter 2010	20.8%	20.2%	17.8%	23.9%	20.5%
Fourth Quarter 2009	20.3%	19.9%	17.4%	20.2%	20.1%
Suburban Class A Vacancy	N/A	-	-	N/A	N/A
Previous Quarter	N/A	-	19.8%	N/A	19.8%
Fourth Quarter 2010	N/A	-	-	-	-
Fourth Quarter 2009	N/A	16.3%	15.2%	17.0%	16.3%
Suburb Class A Asking Rent	N/A	$21.16	$22.30	N/A	$21.73
Previous Quarter	N/A	$22.95	$21.79	N/A	$22.37
Fourth Quarter 2010	N/A	$22.56	$22.40	N/A	$22.48
Fourth Quarter 2009	N/A	$24.04	$23.84	N/A	$23.94

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

Vacancy rates above include subleases except those reported by CBRE, and NBS, which report direct vacancies. CBD figures include close-in neighborhoods, except Class A figures reported by CBRE. All rents are full service. All other suburban figures include Vancouver.

Although construction employment numbers have grown steadily over 2011, seen in Figure 2, completed construction remains severely constrained with just 62,000 feet delivered during the year, as seen in Figure 7. Construction in the CBD has essentially stopped and new projects are on hold pending more favorable financing options and the market tightening further.

Figure 2: Unemployment & Construction Employment

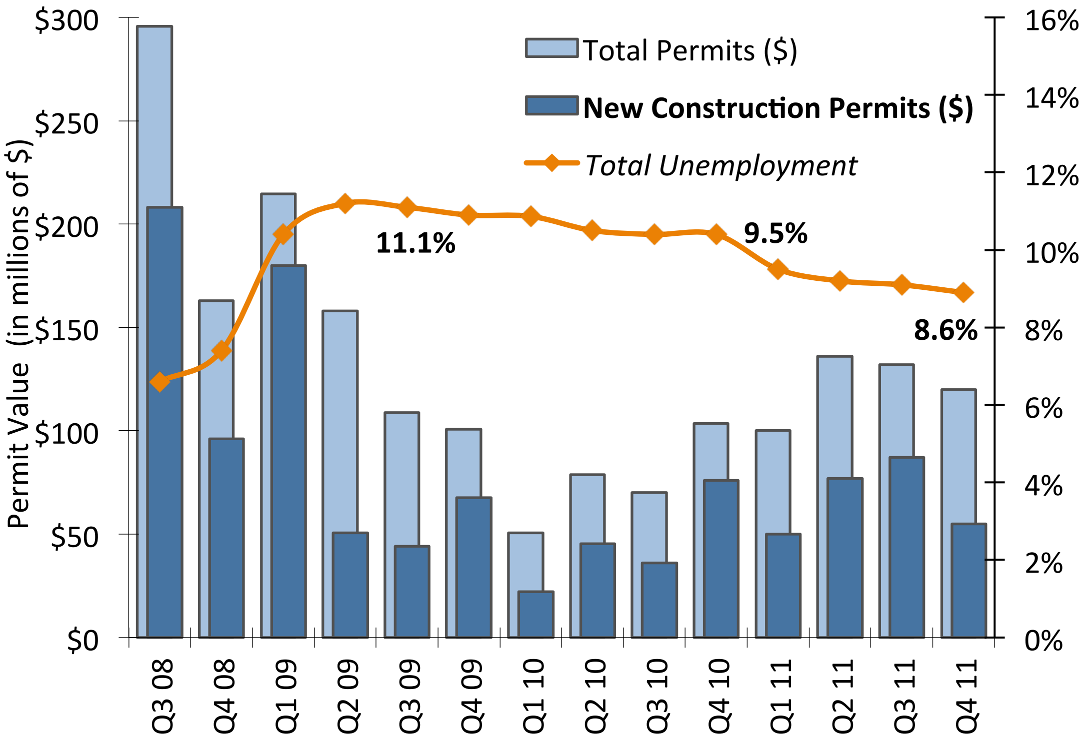


Source: Oregon Employment Department

Construction had faster growth than any other sector in 2011. The 3,500 additional jobs over the year demonstrated a growth rate of around 5 percent. Oregon's growth in 2011 placed it fifth in states that track construction jobs. Oregon would need to continue this rate for 10 years to reach 2007 construction employment numbers.[1]

[1] Source: Oregon Labor Market Information System (OLMIS)

Figure 3: Portland Construction Permits & Metro Unemployment



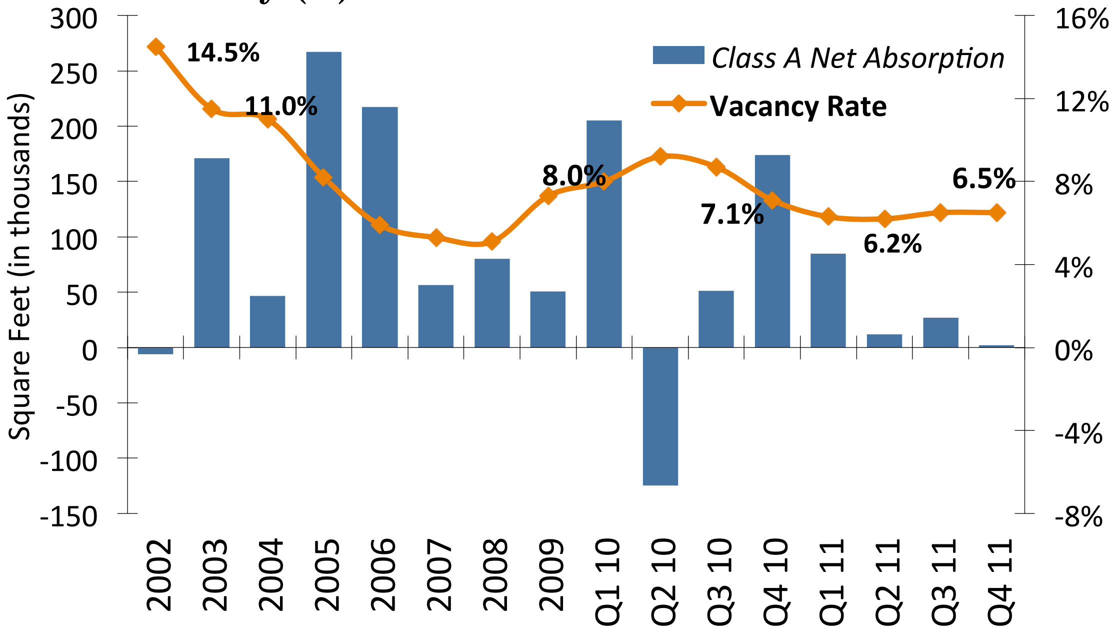
Source: Portland Development Services and Oregon Employment Department

Over the year, metro-area employers added 14,200 jobs for a gain of 1.5 percent. That increase exceeds 1.1 percent job growth for Oregon as a whole. Many rural counties remain stalled in double-digit unemployment.[2]

---

[2] Source: Read, Richard. "Portland-area unemployment drops to 8.6 percent, lowest in three years", The Oregonian, January 26, 2011

Figure 5: Class A Net Absorption (SqFt) & Vacancy (%) for the Central Business District



Source: Grubb & Ellis, Office Quarterly Reports

Occupiers in the CBD Class A market absorbed just over 125,000 square feet in 2011, close to the area's historic average. Q4 showed an exceptionally low demand of just over 2,000 square feet. Lacking an abundance of major office tenants, Portland's average lease size came in just under 7,000 square feet for the metro area.

Table 2: Total Vacancy for Select Suburban Submarkets

Submarket	Market Size (SqFt)	4Q 10 Vacancy	1Q 11 Vacancy	2Q 11 Vacancy	3Q 11 Vacancy	4Q 11 Vacancy
Wash. Square/Kruse Way	6,187,668	19.7%	19.2%	20.7%	20.5%	19.2%
Sunset Corridor	4,321,964	25.5%	24.5%	24.6%	23.2%	21.9%
SW/Beaverton/Slyvan	3,530,939	17.0%	16.3%	16.1%	15.8%	16.8%
Eastside	2,855,826	8.6%	10.6%	9.0%	9.2%	10.8%
Johns Landing/ Barber Blvd.	1,759,476	17.7%	15.7%	14.2%	14.4%	14.6%
Tualatin/Wilsonville	1,676,855	32.0%	32.5%	33.1%	33.4%	34.3%

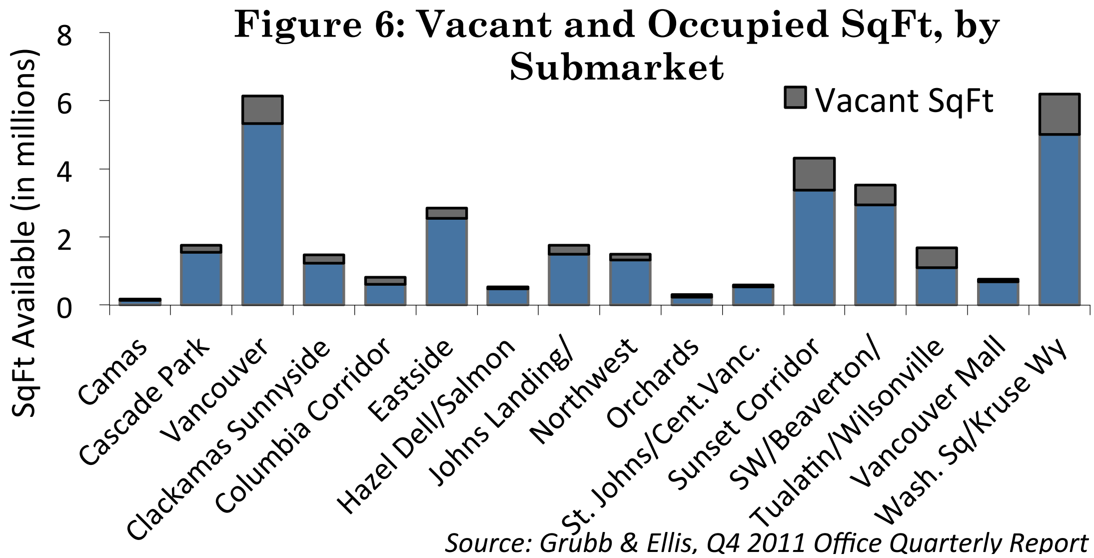
Source: Grubb & Ellis, Quarterly Statistics Reports

Table 3: Suburban Office Submarkets, Ranked by Vacancy Rate

Submarket	4Q 11 Vacancy
Tualatin/Wilsonville	34.3%
Camas	25.4%
Columbia Corridor	24.0%
Orchards	23.4%
Sunset Corridor	21.9%
Wash. Sq/Kruse Wy	19.2%
SW/Beaverton/Sylvan	16.8%
Clackamas Sunnyside	16.6%
Johns Landing/Barbur Blvd	14.6%
Vancouver	13.1%
Hazel Dell/Salmon Creek	12.4%
Northwest	11.9%
Cascade Park	11.3%
Eastside	10.8%
St. Johns/Cent.Vanc.	9.7%
Vancouver Mall	9.3%

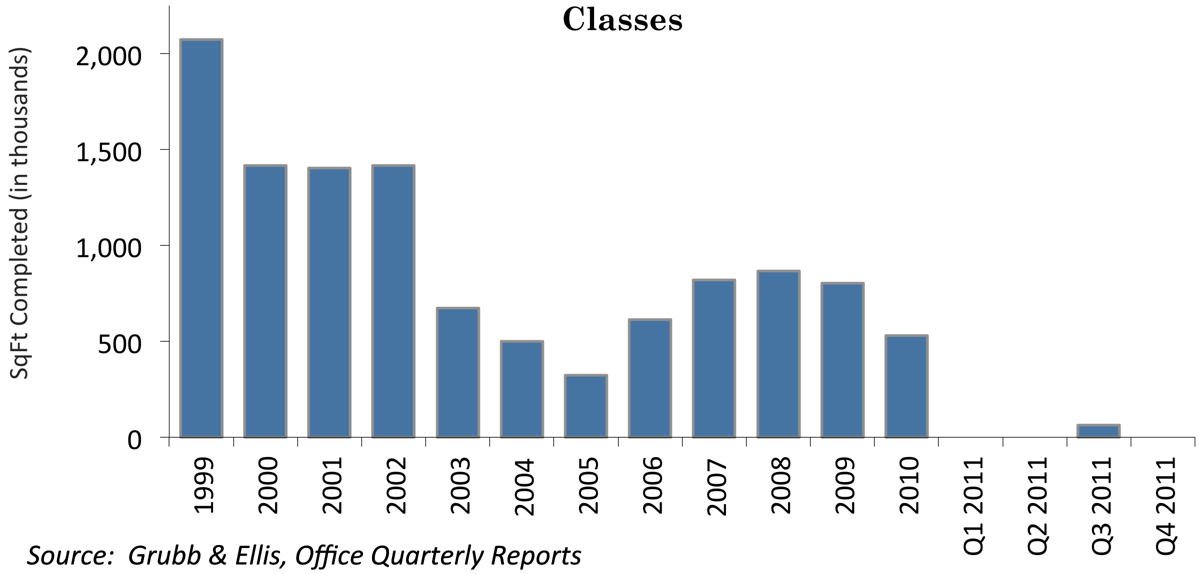
Source: Grubb & Ellis Office Report, Q4 2011

Rankings of vacancy by submarket from Grubb and Ellis (Table 3) show few dramatic shifts from the first quarter. Tualatin/Wilsonville remains at the top of the list, climbing 230 basis points to a striking 34.3 percent vacancy. Despite positive absorption in the past year, the major submarkets of Sunset Corridor & Washington Square/Kruse Way remain strong renter's markets at around 20 percent vacancy. The Camas submarket dropped 150 basis points to 25.4 percent vacancy to end 2011. The Eastside submarket climbed 220 basis points to hit 10.8 percent, losing its rank in 2011 for lowest vacancy to Vancouver.



Although only 62,000 feet were delivered to the market in 2011, the key factor to remember is that demand for space can grow much faster than space can be built. This applies specifically to Portland's downtown office market, and may help excess vacancy be absorbed in suburban markets in 2012 and beyond. As certain markets in San Francisco and Seattle begin taking off, this should mean good news for Portland. If Portland can continue to improve at a modest pace it will gradually drive rents and ultimately spur new construction.

Figure 7: Office Construction Completed by Year for All Classes



Source: Grubb & Ellis, Office Quarterly Reports

Table 4: Major Lease Transactions, 4th Quarter, 2011

Lessee	Property	Submarket	Size (SqFt)
HDR, Inc	Congress Center*	CBD	48,111
DeLap LLP	Kruse Woods Way	CBD	20,922
Everest Institute	Plaza West Bldg	217 Corridor/Beav.	20,646
Columbia Sportswear	Cornell Oaks-Summit	Sunset Corridor	24,073

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

Oregon's economic recovery has translated into a moderate improvement in demand for office space. While not a banner year, 2011 provided market stabilization and slow but steady tenant growth in most submarkets. Although some tenants began planning for future growth, most will continue to continue move forward cautiously. Continued global recessionary concerns cause uncertainty, but forecasts for downtown Class A property continue to be positive. The CBD will continue to be one of the strongest in the country as Class A vacancy approaches 6 percent, and rental rates increase. Suburban markets will continue to stabilize. Continuing to watch the construction pipeline for speculative projects will be a key indicator. And on a positive note, it was announced in December that in late 2013 construction will resume on the proposed 27-story Park Avenue West office building downtown. There are no confirmed tenants for Park Avenue West at this time. ■

RETAIL MARKET ANALYSIS

KYLE BROWN

RMLS Fellow, Master of Real Estate Development Candidate

The retail market continues to show slow but steady improvement, but remained mostly flat during the fourth quarter. Consumers are beginning to spend again after years of saving, shown by a solid holiday season by retailers. While progress and activity remain moderate by pre-recession standards, most analysts are predicting continued gains and stabilization through 2012, even amid continuous declines in housing prices, poor income performance, and sluggish growth in GDP.

Portland's economic recovery has slowly gained traction with the unemployment situation starting to improve. Oregon's unemployment rate has held steady over the last few quarters ending in December at 8.9%, but still above the national average of 8.3%. Having entered the recession late, job recovery has also been slow to get a toehold, leaving Oregon trailing other states with its resurgence. As could be expected, the Portland MSA has seen greater growth in employment relative to smaller cities and rural areas in Oregon. Grubb & Ellis reports that Portland ranks 5th in "over-the year" employment growth for large metro areas, dropping from 9.8% to 8.4%.

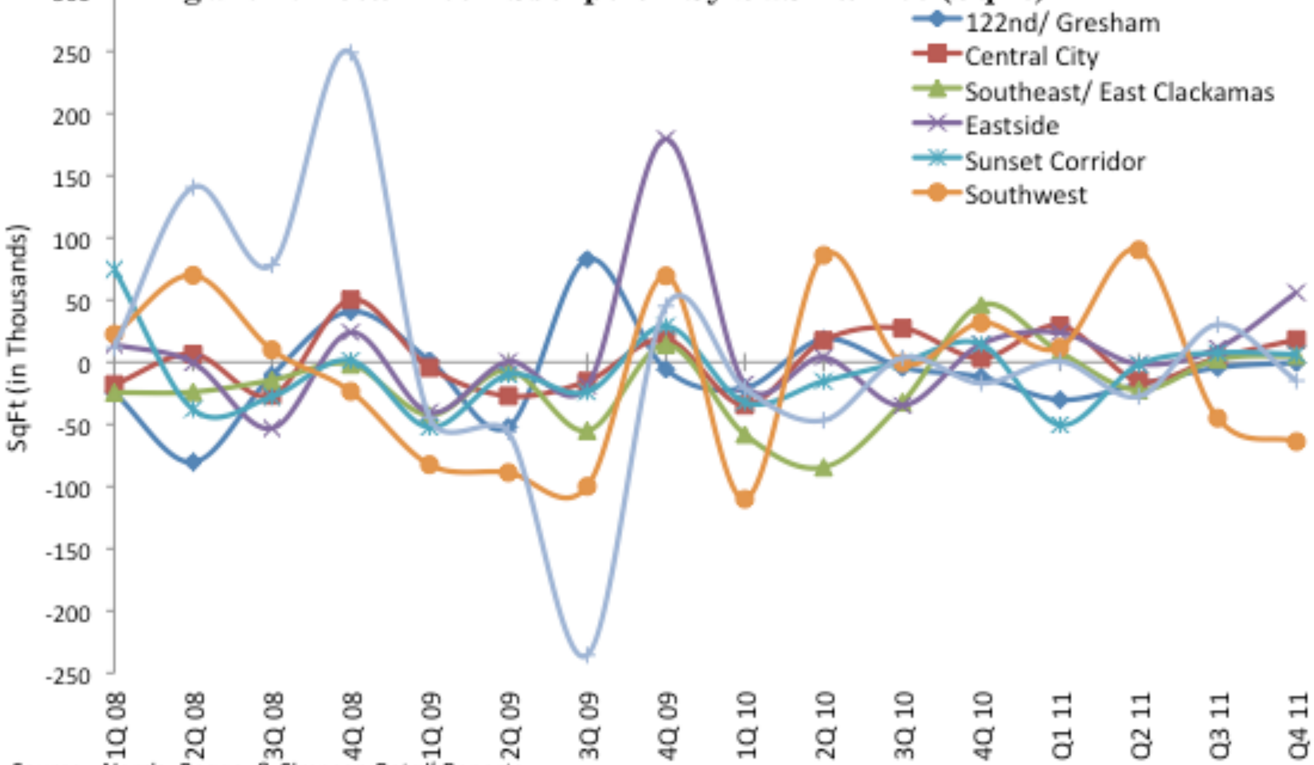
Multiple brokerages report that institutional investors are actively seeking retail centers anchored by well-known grocers. Walmart has opened a new store in Vancouver, and is expanding rapidly into the Portland area with a smaller concept-leasing existing stores rather than new construction. According to Cushman & Wakefield, Walmart has at least 12 transactions closed or underway.

Table 1: Major Retail Lease Transactions, 4th Quarter, 2011

Tenant	Property	SqFt	Submarket
Walmart	2100 SE 164th	40,000	Vancouver
The Lumberyard	Robinwood Shopping Center	40,000	Southeast
Yamaha Sports Plaza	San Rafael Shopping Center	23,695	Gresham

*Source: Portland Business Journal, Norris, Beggs & Simpson, and Cushman Wakefield Q4 2011 Reports

Figure 1: Total Net Absorption by Submarket (SqFt)

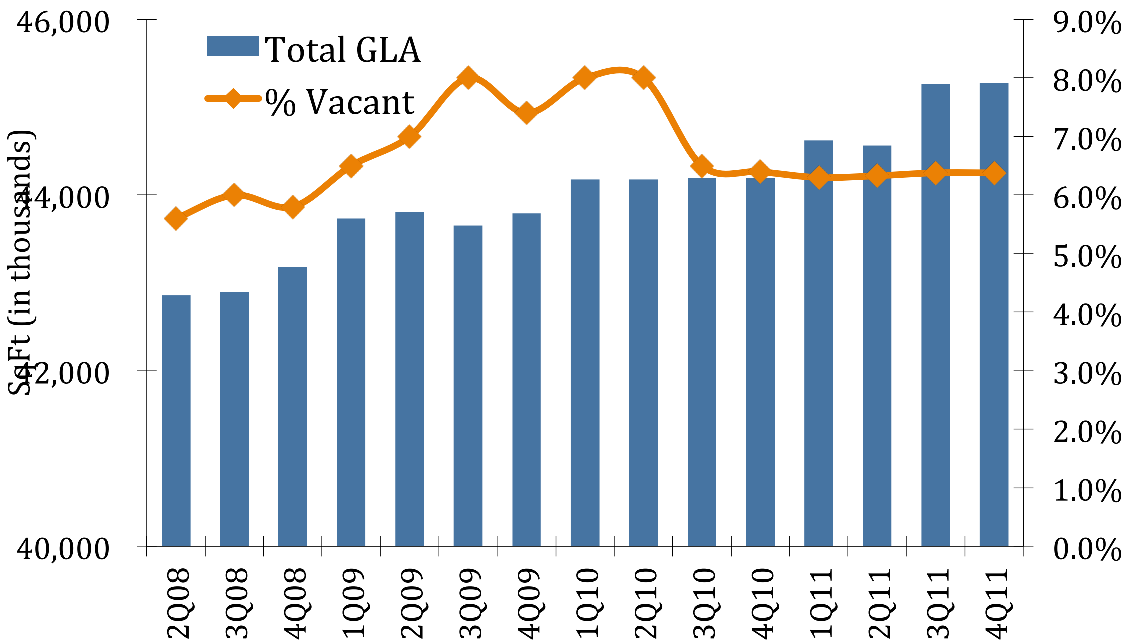


Source: Norris, Beggs, & Simpson Retail Reports

Norris, Beggs and Simpson reports that retail vacancy has remained stable since the Third Quarter of 2010 at around 6.4 percent, alongside a positive but minor net absorption of 7,000 square feet. This coincides with Kidder Matthews reports of a 30 basis point drop to 5.5 percent vacancy in the metro area, though Kidder Matthews reports a more very different absorption total of 256,000 square feet for a total net absorption of over 851,000 square feet in 2011.

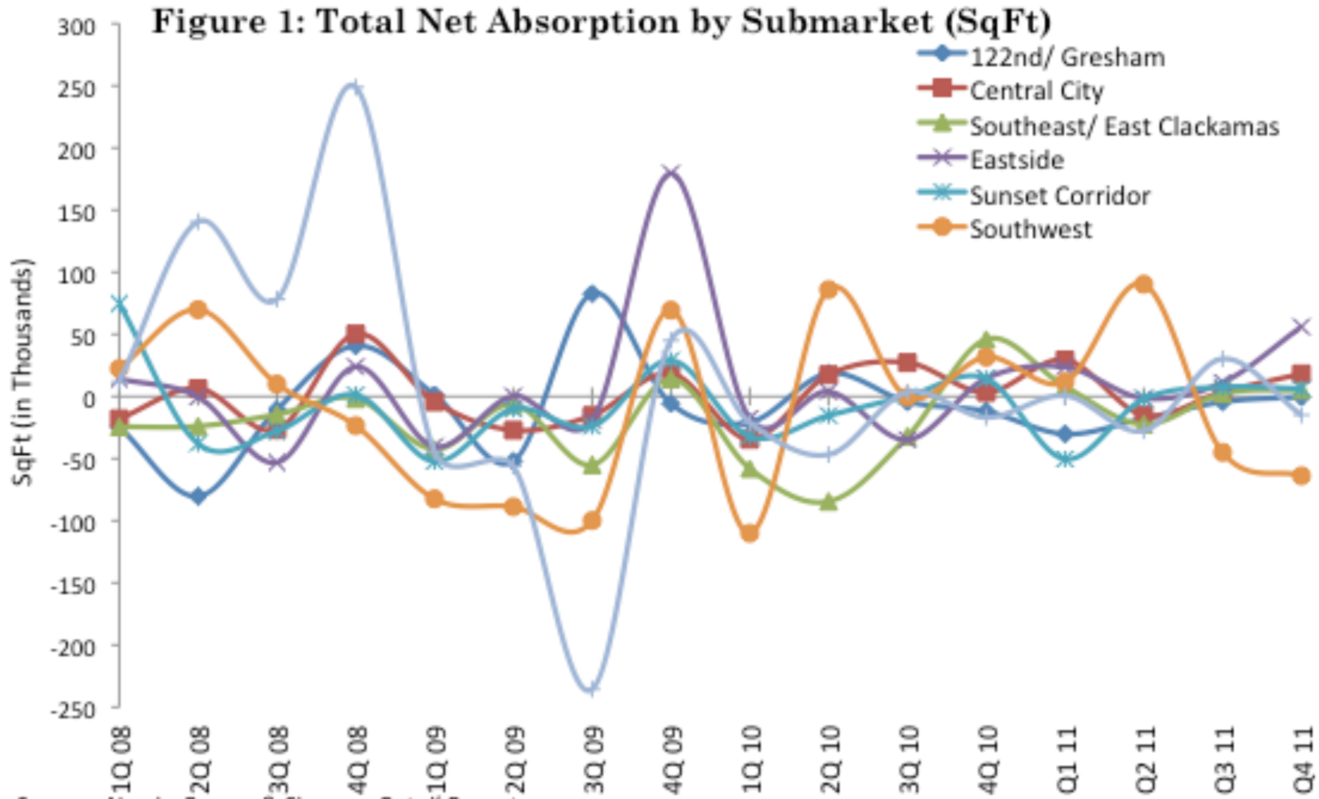
The Gresham submarket has continued to carry the highest vacancy rate according to Norris, Beggs & Simpson, up 36 basis points to 9.36 percent in the Fourth Quarter. Vancouver carries the next highest vacancy rate at 8.1%, followed by Central City with a vacancy of 7.5 percent, down 90 points from the Third Quarter. Eastside remains well below all other submarkets, and has continued its drop in vacancy ending the year with a very strong 2.4 percent, according to Norris, Beggs & Simpson. Following a mostly strong year, the Southwest submarket experienced a net loss of 63,849 square feet in the Fourth Quarter, driving the vacancy rate up 60 basis points to 5.61 percent.

Figure 2: Total Gross Leasable Area (GLA) and Vacancy (%)



Source: Norris, Beggs, & Simpson Retail Reports

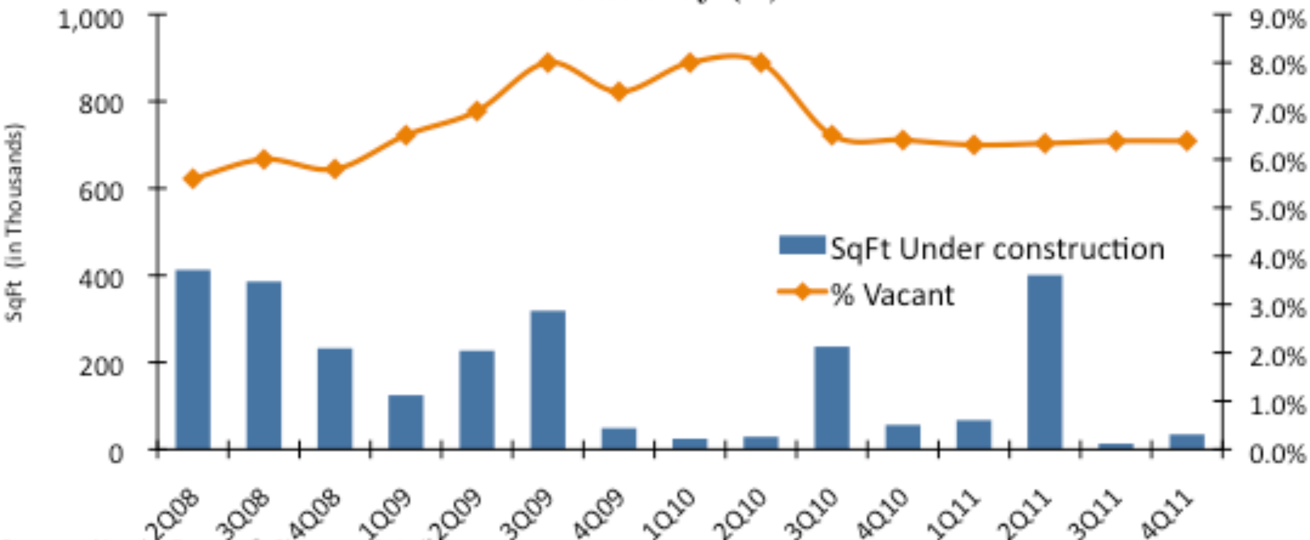
Kidder Matthews reports that average retail quoted rents for the Portland market currently sit at $15.99/square foot (triple net), a rate that has been steadily dropping since a peak of $18.14 in Q4 2008, and down nearly $0.91 from Q4 2010. Kidder Matthews' notes a consensus between brokerages that landlords have begun reducing concessions, and that this may mark a period of stabilization in the market. Positive signals include significant pre-leasing numbers for new retail centers under construction.



Source: Norris, Beggs, & Simpson Retail Reports

Kidder Matthews notes in their year-end report that big box retailers have been focusing on downtown Portland and designing scaled-down versions of their stores to fit smaller spaces in downtown areas. Target Corp. announced in January it would begin selling limited edition merchandise in smaller stores. The initial such concepts as “The Candy Store” in San Francisco, and the “The Polka Dog Bakery” in Boston, which would surely be a hit in Portland. Some major deals occurred downtown this year, including commitment from Target to move into downtown Portland’s historic Galleria Building, the occupancy of 25,000 s.f. in Pioneer Place by New York-based clothing store H&M, and ICF, an energy, environment, and transportation professional services company, filled the formally vacant Kitchen Kaboodle space. Macy’s is planning a new sidewalk-accessible coffee shop at their downtown store.

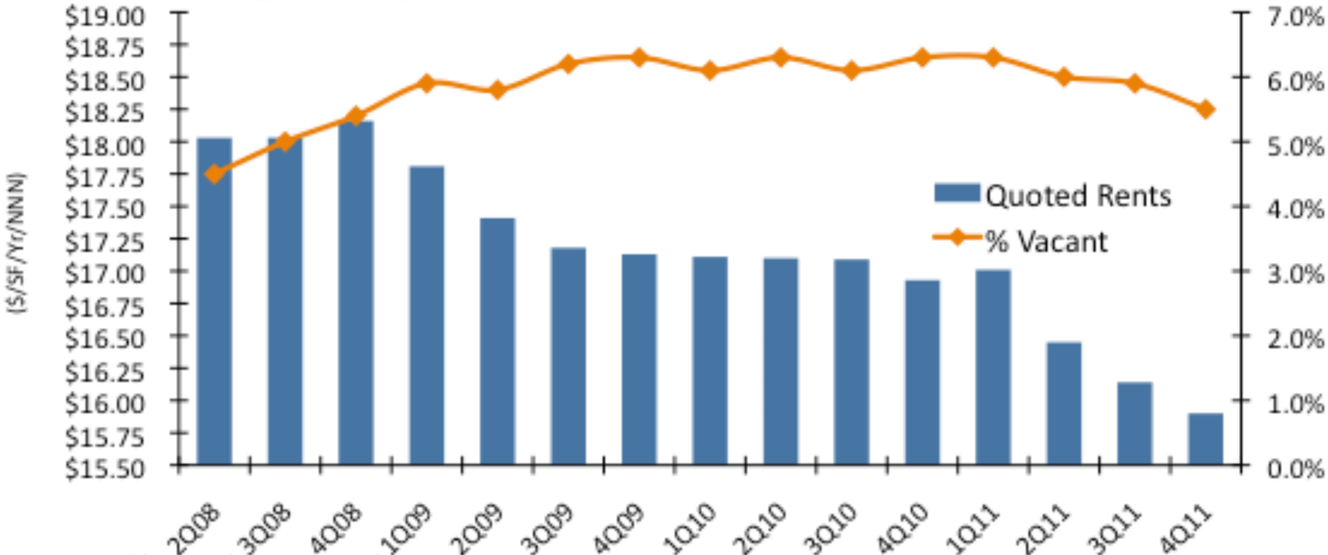
Figure 3: SqFt of Retail Space Under Construction and Vacancy (%)



Source: Norris, Beggs, & Simpson Retail Reports

The year brought the closing of the 11 Borders stores in Oregon and Southwest Washington. With the average Borders store at 25,000 square feet, the closure of 11 stores has made a significant dent in overall retail absorption, and could be interpreted as good news that overall vacancy and absorption remain stable after the shock of the loss of a major chain. The Nike Store in downtown Portland closed and was replaced with a newer "brand experience store", the new concept is designed with modern amenities and a museum like feel.

Figure 6: Quoted Rents and Retail Vacancy (%)



Source: Kidder Matthews Quarterly Reports

Oregon's economy is expected to slowly strengthen and pick up speed by the end of 2012, or early 2013. Portland's livability will continue to attract a solid inflow of new residents, but job growth in the area will be one of the last segments to rebound. As the Portland/Vancouver MSA population base and employment returns, we can expect to see positive trends in retail growth as services are needed to accommodate the growth. Portland's retail sector will benefit from the increased demand, and both local and national retailers will expand in the market. ■

INDUSTRIAL MARKET ANALYSIS

KYLE BROWN

RMLS Fellow, Master of Real Estate Development Candidate

The industrial market in Portland has maintained its stability and steady positive trend seen throughout the year. Local indices show convincing evidence of a decline in vacancy over 2011, and strong absorption for the third and fourth quarters. Portland's economic recovery has slowly gained footing with unemployment starting to improve, and year-over-year employment increases in manufacturing, trade, utilities, and transportation sectors according the Bureau of Labor Statistics. Industrial real estate growth was driven by build to suit and renovation activity,

Oregon's unemployment rate has held steady over the last few quarters ending in December at 8.9%, but still above the national average of 8.3%. Having entered the recession late, job recovery has also been slow to get a toehold, leaving Oregon trailing other states with its resurgence. As could be expected, the Portland MSA has seen greater growth in employment relative to smaller cities and rural areas in Oregon.

Nationally, the manufacturing market has been a positive force in the United States economic recovery. And while the median vacancy rate hasn't declined quickly, it is ahead of the national average of 9.2 percent. The fourth quarter brought strong positive absorption numbers and drops in vacancy across brokerages, at a median value of 30 basis points. Grubb & Ellis reported over 890,000 square feet of net absorption; the strongest number seen since the second quarter of 2010. Multiple brokerages reported positive absorption around 1 million square feet, and represent a majority of gains seen this year based on a loss of 120,000 square feet in the first quarter. Most of this vacancy is in manufacturing and warehouse space.

Table 1: Industrial Market Vacancies and Asking Rents, Q4, 2011

	CB Richard Ellis	Cushman & Wakefield	Grubb & Ellis	Norris, Beggs & Simpson	Kidder Matthews	Median
Market-wide Vacancy	7.8%	6.7%	9.3%	14.2%	7.2%	7.8%
Previous Quarter	8.1%	6.6%	8.4%	15.0%	7.6%	8.1%
Fourth Quarter 2010	8.1%	7.0%	8.5%	15.0%	8.3%	8.1%
Fourth Quarter 2009	8.0%	8.7%	8.8%	14.9%	8.8%	8.0%
Warehouse/Distribution	-	-	8.1%	-	N/A	8.1%
Previous Quarter	-	-	9.8%	18.2%	N/A	14.0%
Fourth Quarter 2010	-	-	8.2%	N/A	8.2%	8.2%
Fourth Quarter 2009	8.7%	-	8.9%	N/A	8.8%	8.7%
R&D/Flex Vacancy	12.9%	-	9.3%	17.5%	N/A	12.9%
Previous Quarter	13.5%	-	10.9%	15.0%	N/A	13.5%
Fourth Quarter 2010	-	10.0%	8.8%	18.2%	N/A	10.0%
Fourth Quarter 2009	N/A	9.6%	7.9%	15.1%	N/A	9.6%
Asking Monthly Shell Rates	$0.37	$0.39	$0.41	-	N/A	$0.39
Previous Quarter	$0.37	N/A	$0.47	N/A	$0.43	$0.43
Fourth Quarter 2010	$0.38	N/A	$0.41	N/A	$0.45	$0.41
Fourth Quarter 2009	$0.40	N/A	$0.41	N/A	$0.47	$0.41
Asking Monthly Flex Rates	-	N/A	$0.66	-	N/A	$0.66
Previous Quarter	$0.79	N/A	$0.66	N/A	N/A	$0.73
Fourth Quarter 2010	$0.81	N/A	77.0%	N/A	N/A	$0.79
Fourth Quarter 2009	$0.93	N/A	$0.80	N/A	N/A	$0.87

Source: Grubb & Ellis, Cushman and Wakefield, Norris, Beggs & Simpson, and Kidder Matthews Quarterly Reports

The median vacancy between the five brokerages considered in this analysis dropped 30 basis points to 7.8 percent in the fourth quarter. Most brokerages differed slightly showing both slight increases and decreases. Norris, Beggs and Simpson's vacancy figure falling 80 basis points to 14.2 percent. It should be noted, however, that Norris, Beggs & Simpson's vacancy rates consistently vary significantly from the other reports considered due to the use of different source data.

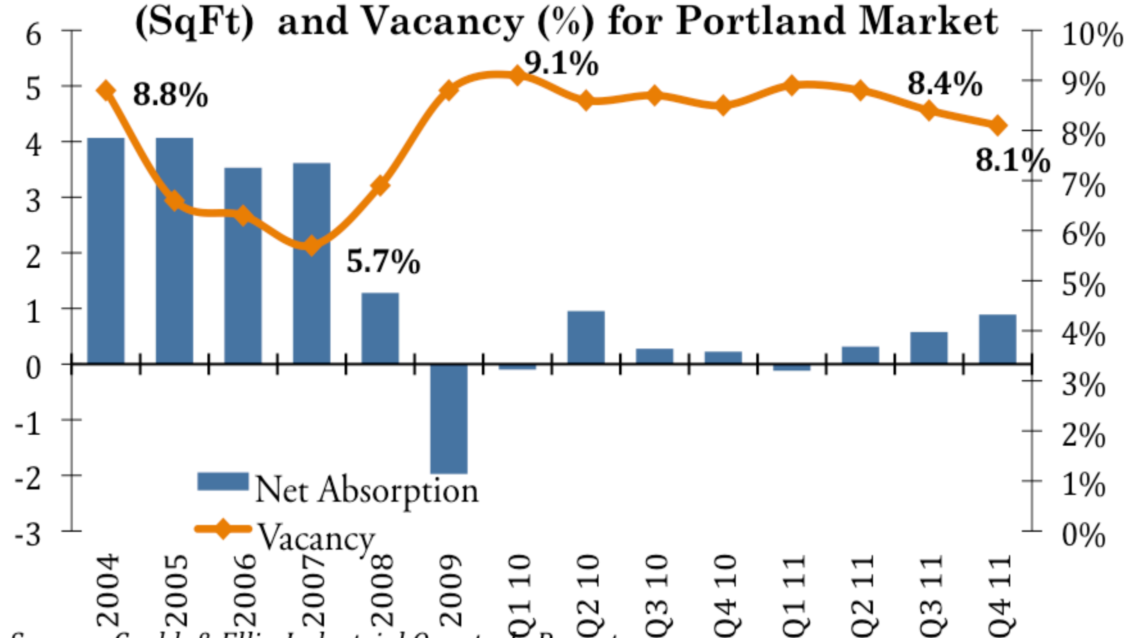


Figure 1: Overall Industrial Net Absorption (SqFt) and Vacancy (%) for Portland Market

Source: Grubb & Ellis, Industrial Quarterly Reports

Manufacturing is the main driver within the industrial real estate landscape, and it has been a bright spot in the current recovery. U.S. factory activity has been lifted by a surge in exports but economists are worried that the growth in exports could falter if overseas markets such as Europe show signs of slowing. Europe accounts for about one-fifth of U.S. exports.

Table 2: Major Industrial Transactions, 4th Quarter, 2011

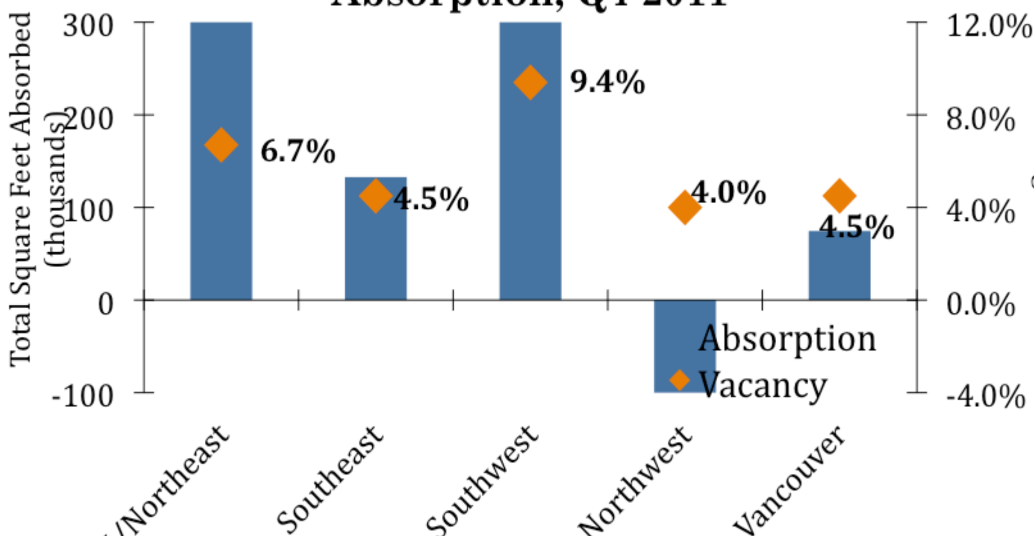
Tenant	Property	SqFt	Submarket
Central Garden & Pet	Rivergate Corporate Center	278,125	Portland
Northwest Paper Box	Swan Island Corporate Center	95,000	Portland
Nike	Cornell Oaks	93,938	Beaverton
Nike	Woodside*	92,680	Beaverton
Nike	Evergreen Center	91,084	Hillsboro
Subaru Distribution	Rivergate Corporate Center	417,000	Portland

*Source: NAI Norris Beggs & Simpson, CB Richard Ellis, and Kidder Matthews Industrial Quarterly Reports *renewal*

Nike boosted the Southwest submarket with two new leases totaling over 185,000 square feet, and renewed another for 92,680 feet.

CBRE reports that overall net absorption was over 1.5 million s.f in 2011. While this seems like very strong positive growth, it is worth noting that Portland still added fewer square feet of space in 2011 than in any previous year. Portland's Northeast and Southwest submarkets combined for nearly 70 percent of the total postive absorption in the fourth quarter. The new construction of Subaru's build-to-suit in Rivergate added 413,000 s.f. to the industrial inventory in the fourth quarter, and bolstered the positve absorption numbers in the Northeast. This facility replaced Subaru's 175,000 square foot facility at 158th Commerce Park and was called "the largest build-to-suit transaction in Portland in a decade" by the Portland Business Journal. Multi-Employer Property Trust (MEPT) holds a 55-year master lease on the land from the Port of Portland, and has contracted with Trammel Crow for development.

Figure 3: Submarket Vacancy and Overall Absorption, Q4 2011



Source: Cushman and Wakefield, Q4 2011 Industrial Quarterly Report

The Portland industrial market continues to stabilize and is expected to get stronger over the next year. Net absorption will remain steady with market activity improving. While nationwide concerns over the industrial economy begin to dissipate, the main perceived risk continues to be global economic news, particularly from Europe. Industrial users will continue to use space efficiently as a majority of exports head to the continent. Companies that have the capability to purchase are sensing the bottom of the market, and owner/user transactions such as Subaru's will continue. Locally, leaders are anticipating continued demand for large parcels of industrial land; both the Portland Development Commission and Portland Business

Alliance have commissioned studies to explore shovel ready sites on large parcels. Overall Portland can remain cautiously optimistic about the Portland Metro industrial real estate market over the next 12 months. ■