

EDITORIAL

Happy Talk

Portland doesn't do bad news.

So in an effort to calm Portland residents about current regional economic conditions, last month a Sunday *Oregonian* business section headline read: "Best of times, worst of timing: Portland condos that opened as the boom melted down sit vacant in a shifting market."

Reporters Ryan Frank and Jeff Manning wrote: "Portland has outperformed almost every other major housing market. Job growth has slowed but is relatively stable and people continue to move here."

Favored City Hall developer Homer Williams argues that a slowing economy is really a psychological problem, not an overbuilt condominium market or sub prime mortgage problem.

This is news to the *Wall Street Journal*.

But Williams told the *Oregonian*, "It's between the ears. People are afraid right now."

According to Frank and Manning, "Portland has roughly 1,300 new and existing condos on the market in the 28 biggest downtown projects. Over the past five years, an average of 800 condos sold annually. If the past five years is an indicator — and some say it's not — the city has enough supply to serve demand for 18 months to two years, said Patrick Clark, one of the city's top condo salesmen at Realty Trust City."

Portland Monthly magazine also seems determined to follow Williams' advice about staying positive. Their April cover story was titled, "Buy Here Now. Why Portland is Still America's Hottest Hometown."

Nothing wrong with hometown boosterism, but is it accurate?

With a Portland mayoral race this month, accurate numbers might be crucial to informing the public about the stakes in the coming election.

Last month *BNW* talked with top executives from two of the area's prominent regional banks. When asked separately if the figure of unsold condominiums in Multnomah County was in the 1,300 range their answer was no. Both believed the figure was closer to 7,500.

Jerry Johnson, principal at Johnson-Gardner, a real estate development firm in Portland, believes the bankers' figures are accurate. "The bankers are closer to the right number. It is over 5,000, and there are a lot of soft listings. There would be more on the market if there were buyers."

Johnson believes the true number could be well above 5,000. “We don’t know how many true owner-operator condos there are and how many are spec buyers — people who have bought these on spec. As rentals, they don’t cash out well. Owners are renting their condos at 1 percent return on their asset value. They are bleeding on this thing. So all those people are in play. In essence, we have a soft supply because there is a limit to how long owners will bleed at this current rate.”

Johnson says the effect is downward cyclically. “When you have this glut of product, it depresses prices. Spec buyers are renting these things at low rates, which also has an impact on the rental market. The first to lose money in the deal is the equity partner, and then the developer loses a piece. They weren’t expecting to place this debt long term; they thought they would be out in a year and a half.”

And for the South Waterfront neighborhood, the problem gets worse, says Johnson. “There are a lot of commitments from the city to buyers, but there is no funding mechanism to pay for the infrastructure.”

How much does it matter whether there are 1,300 empty condominiums in Multnomah County or 7,500? Using the 1,300 number, *Oregonian* reporters comment that the city’s supply can serve demand for 18 months to two years.

But what if their feel-good figure of 1,500 is wrong? And what if a recession causes condo sales to fall well below that 800-per-year average? If you recalculate the math, the city may have enough condominium supply to last, say, a decade. Ouch.

The better news, notes former Portland Business Alliance Chairman and Melvin Mark Properties President Scott Andrews, is that so far the commercial real estate market in the downtown core has stayed solid.

Last month the *Financial Times* reported that in 1970 it took Americans two years salary at the national median income to afford the cost of the national median house. Today, it takes five years income to afford the same house. The price of the national median home is \$200,000. In the Portland metropolitan area, because of the Urban Growth Boundary, the average home price is much more than \$300,000, or more than 50 percent higher than the national average. Per capita incomes in Multnomah County have also been declining. Commissioner Sam Adams, and this month’s mayoral favorite, says, “Portland median incomes are the lowest in the region. To match other western cities, we would have to get it to change by \$8,000. Portland never recovered in terms of jobs in the city from the last recession.”

Adams also notes that 21 percent of Portlanders earn salaries near the poverty level, while the figure in Seattle is only 9 percent.

In short, the region just doesn’t have the kinds of jobs and incomes to support its high-income housing glut and may not for years to come. The price of housing may be a

neighborhood issue, but thousands of unsold high-end condominiums in Multnomah County could have hard consequences:

1. Thousands of empty condominiums could depress housing prices regionally for a decade. (Keep in mind that almost half of the growth in our nation's gross domestic product this decade was related to the housing boom.)
2. There's a real possibility that certain area construction firms could go bankrupt, further depressing area jobs and incomes.
3. Publicly subsidized high-end condominium neighborhoods in South Waterfront or the Pearl District that may sit empty for years ought to make citizens want to reassess the Smart Growth planning efforts of the last decade of City Hall and the Portland Development Commission. If the condo neighborhoods don't work, then the transportation projects that underpin those neighborhoods won't work either.

Luckily, there's a mayor's race in Portland this month. We certainly have a few serious things to talk about. Especially helpful would be some fresh reporting that doesn't try to cover up an agenda gone seriously wrong. Enough with the happy talk. We all know bad news and an empty condo when we see it.