

# **History May Not Repeat Itself, But it Certainly Does Rhyme\***

*\*Mark Twain*

## **An Economic and Real Estate Forecast**

**Ted C. Jones, PhD  
Chief Economist, Stewart Title**

<http://blog.stewart.com/>

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# What have we learned in 2,066 years?

**"The budget should be balanced,  
the Treasury should be refilled,  
public debt should be reduced,  
the arrogance of officialdom should be  
tempered and controlled,  
and the assistance to foreign lands should  
be curtailed lest Rome become bankrupt.**

**People must again learn to work,  
instead of living on public assistance."**

**- Cicero - 55 BC**

**Evidently nothing.....**

## All you Need to Know about Government Bureaucracy

<b>Pythagorean theorem .....</b>	<b>24 words</b>
<b>Lord's prayer .....</b>	<b>66 words</b>
<b>Archimedes' Principle .....</b>	<b>67 words</b>
<b>10 Commandments .....</b>	<b>179 words</b>
<b>Gettysburg address .....</b>	<b>286 words</b>
<b>Declaration of Independence .....</b>	<b>1,300 words</b>
<b>US Constitution with 27 Amendments .....</b>	<b>7,818 words</b>
<b>US Government regulations on sale of cabbage</b>	<b>26,911 words</b>

# Jobs Are Everything

Period.

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## US Employment

January

Year Millions

2001 132.5

2011 130.3

2.15 Million Lost Jobs

-1.6 Percent

10 Years at 100,000 Per Month  
= 12 Million Needed Jobs

## Portland MSA

January

Year Thous

2001 984.8

2011 970.4

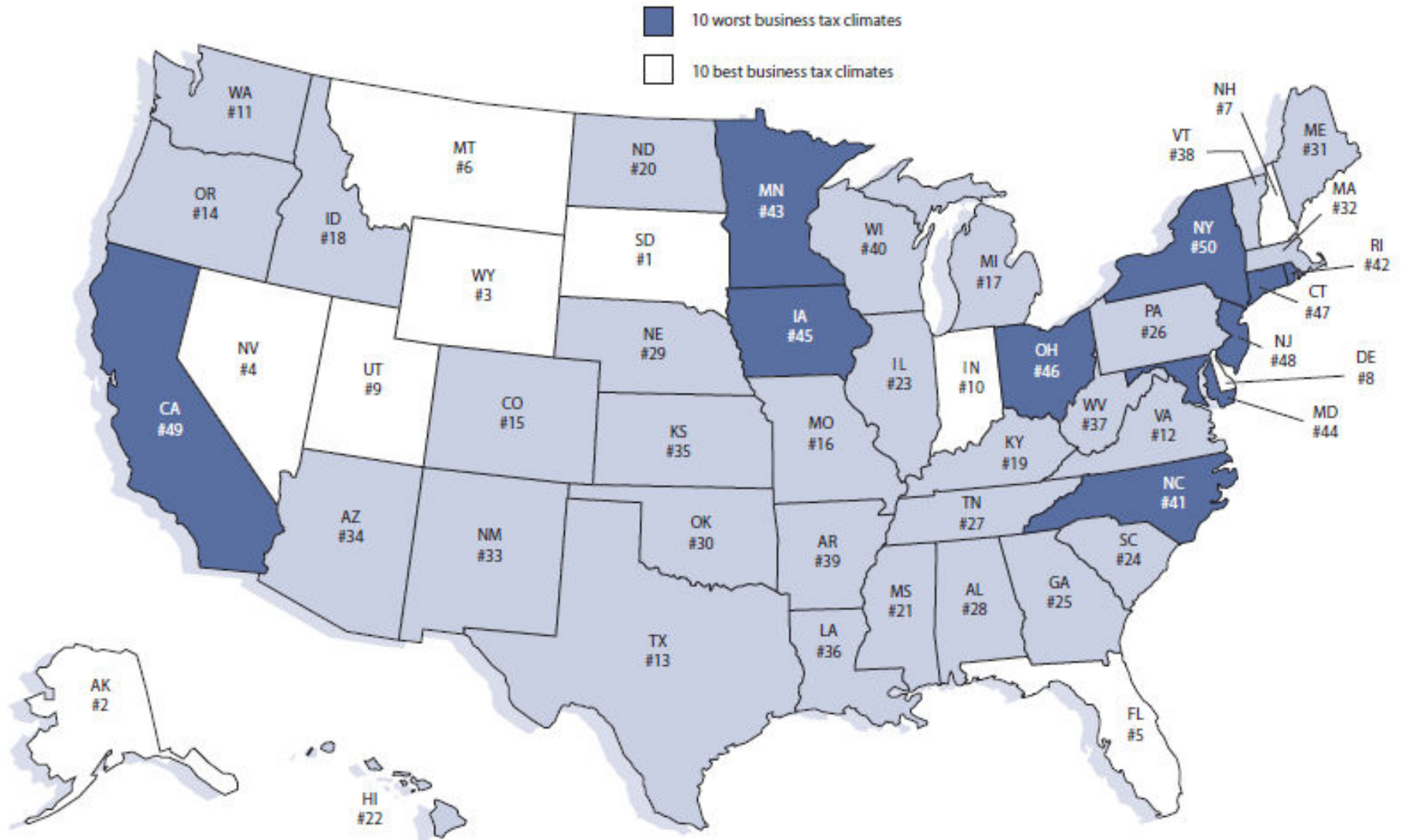
14,400 Fewer Jobs

-1.5%

# Oregon – 14<sup>th</sup> Best Business Tax Environment

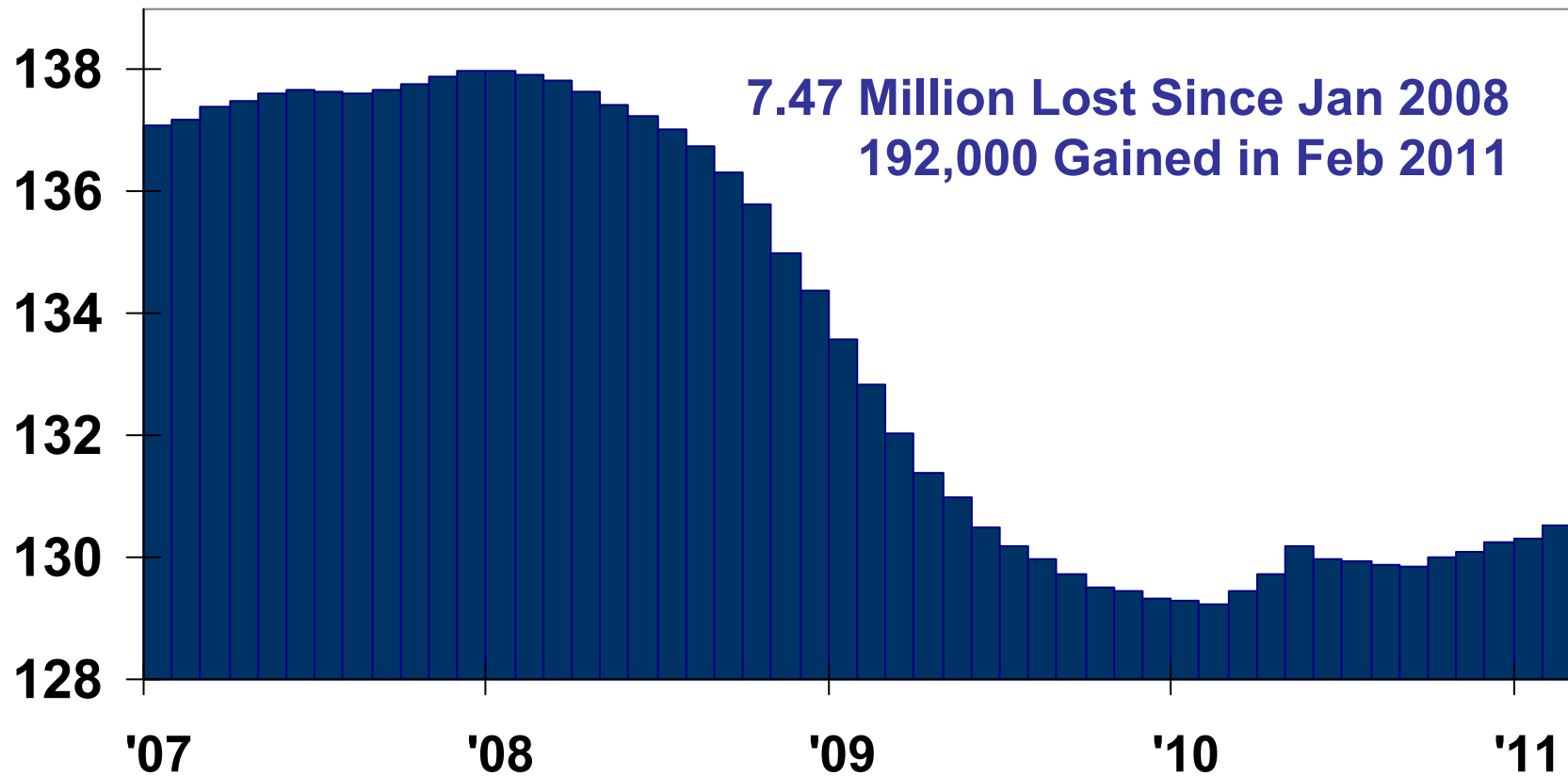
*State Business Tax Climate Index, Fiscal Year 2011*

<http://taxfoundation.org/files/bp60.pdf>



# U.S. Job Numbers

Jobs (Millions) *Seasonally Adjusted*



# Portland-Vancouver-Beaverton MSA *(Portland MSA)*

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## Oregon

Clackamas County

Columbia County

Multnomah County

Washington County

Yamhill County

## Washington

Clark County

Skamania County

**Metropolitan  
Statistical  
Area**

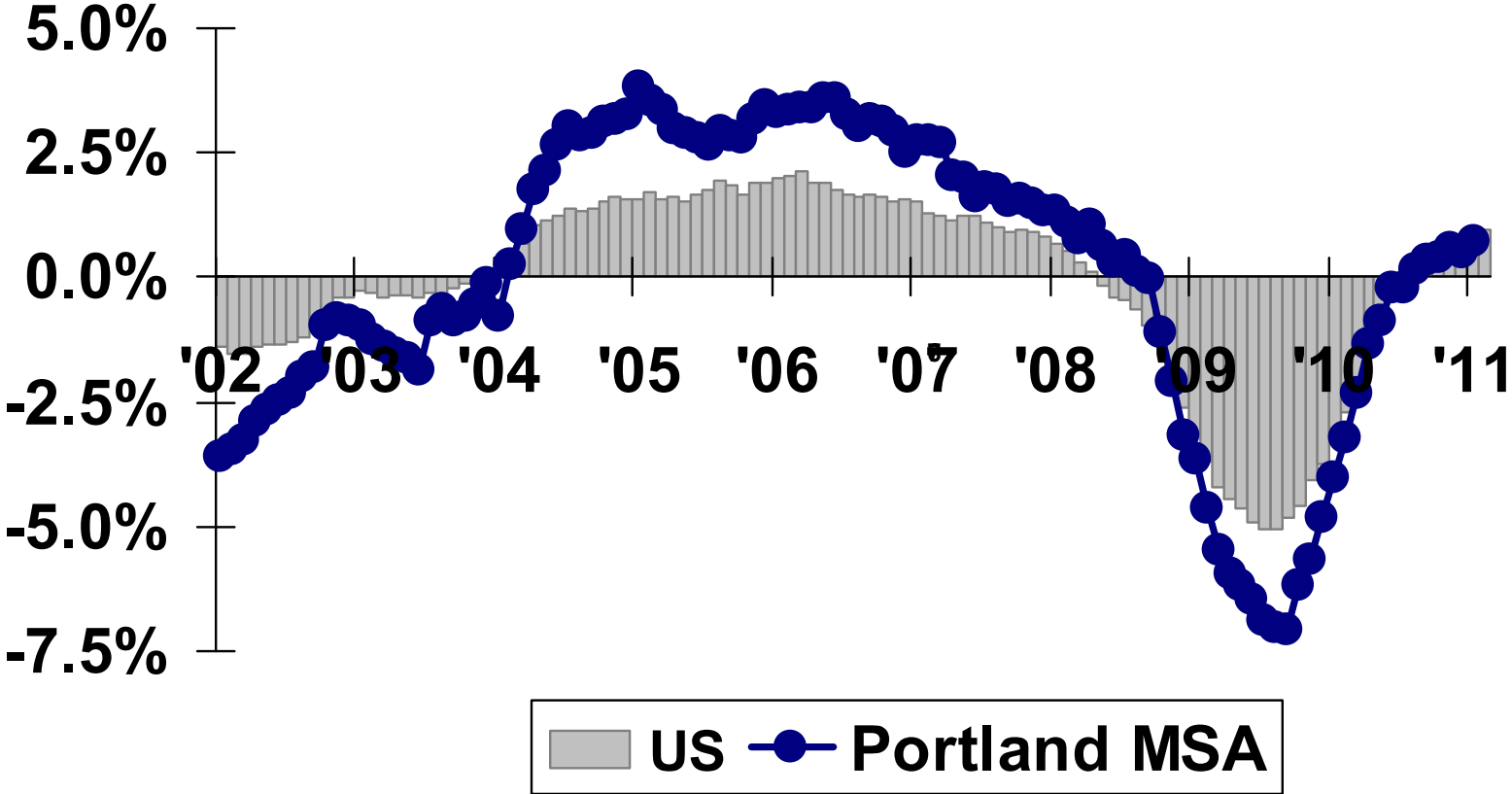
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# Portland MSA Jobs

## Percent Change from Same Month Prior Year

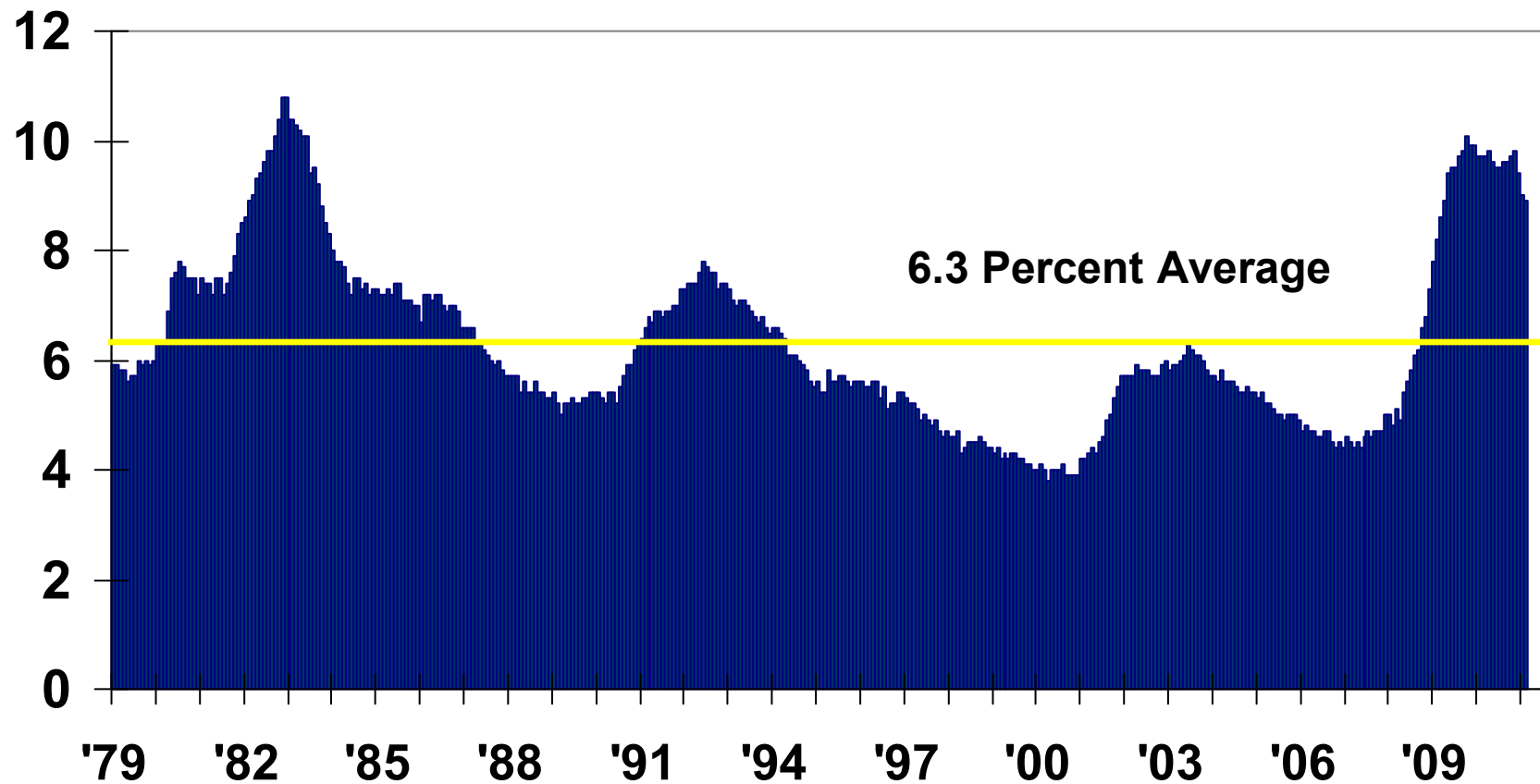
Not Seasonally Adjusted



**7,000 Net New Jobs in the Past 12 Months**

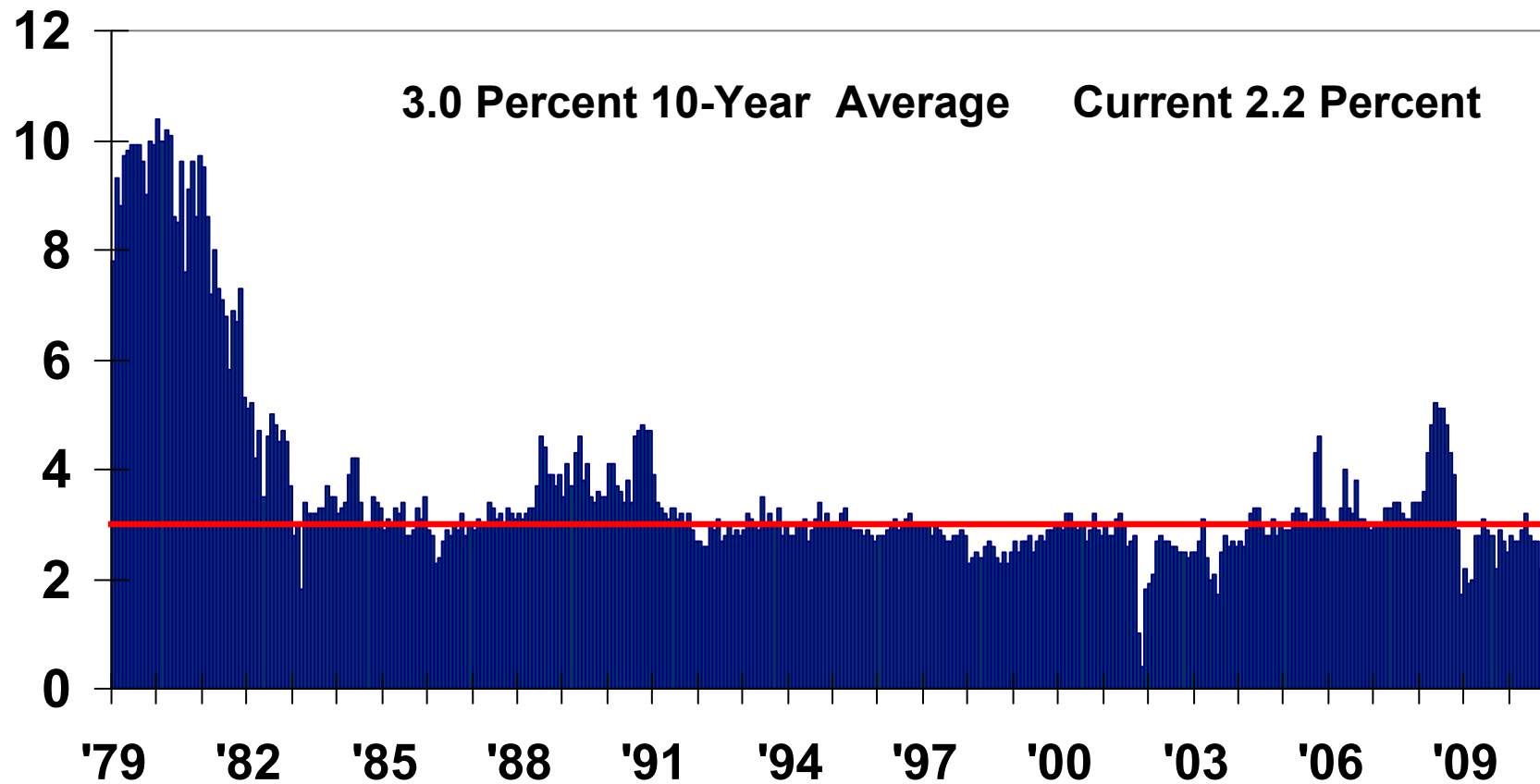
# U.S. Unemployment Rate

Percentage



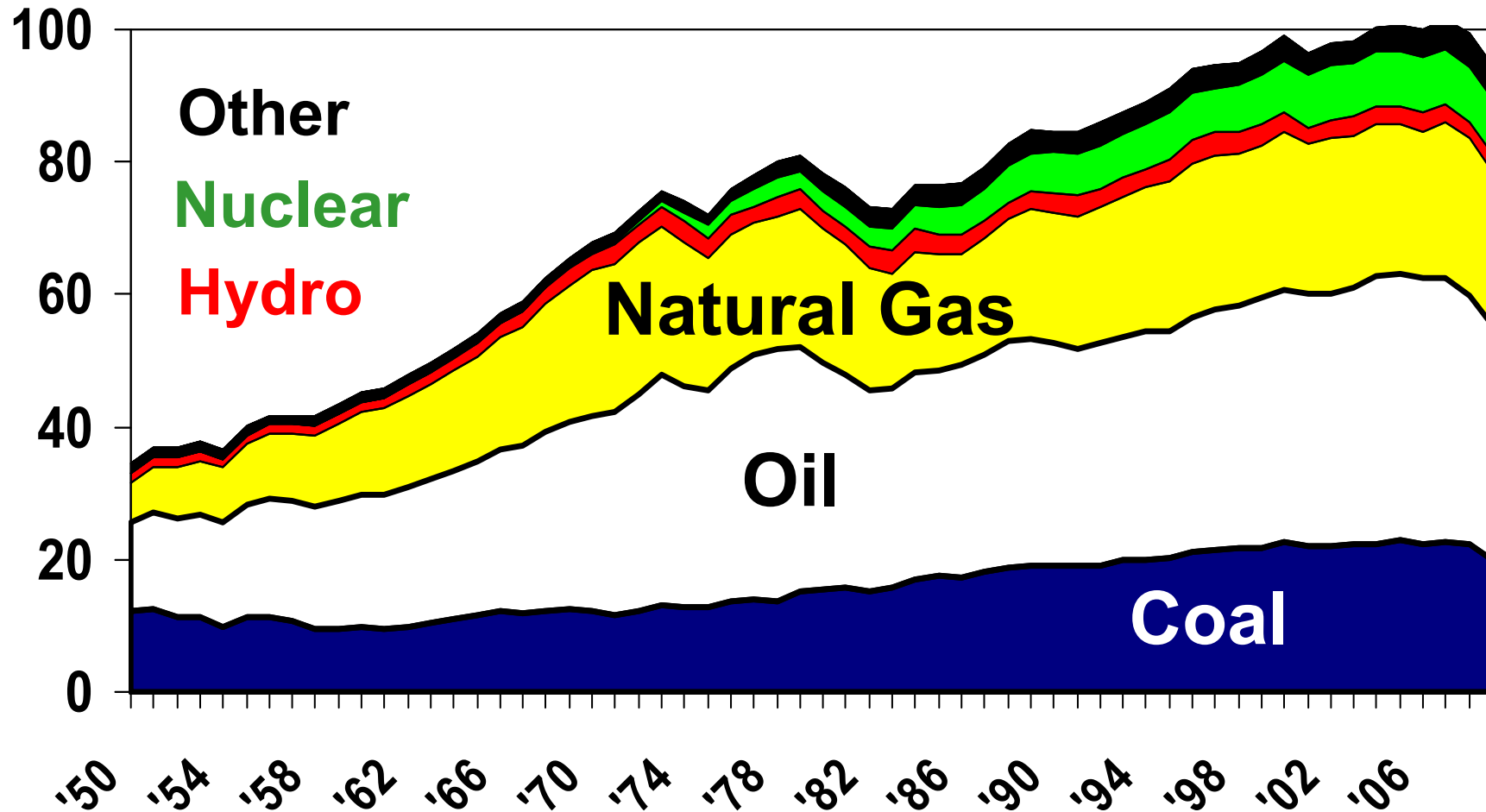
# Inflation Expectations

Percent



# US Energy Consumption

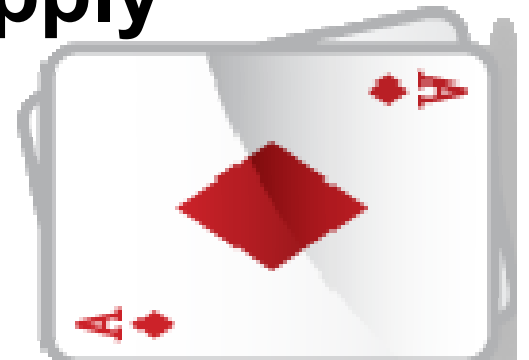
Consumption – *Quadrillion BTUs*



# Trans-Alaskan Pipeline

- 2 Million Barrels Per Day (20 Years Ago)
- 630,000 Barrels Per Day Now
- 7 Percent Annual Ongoing Reduction
- 90 Percent of State's Tax Revenue
- 2008 Oil Revenue \$11.3 Billion
- 2010 Oil Revenue \$6.2 Billion
- 2011 Oil Tax Revenue \$5.4 Billion
- 15 Percent of Daily U.S. Oil Supply

**ACES -- A Bad Hand For Alaska???**



## Trans-Alaska Pipeline

Barrels Per Day

7 Percent Decline

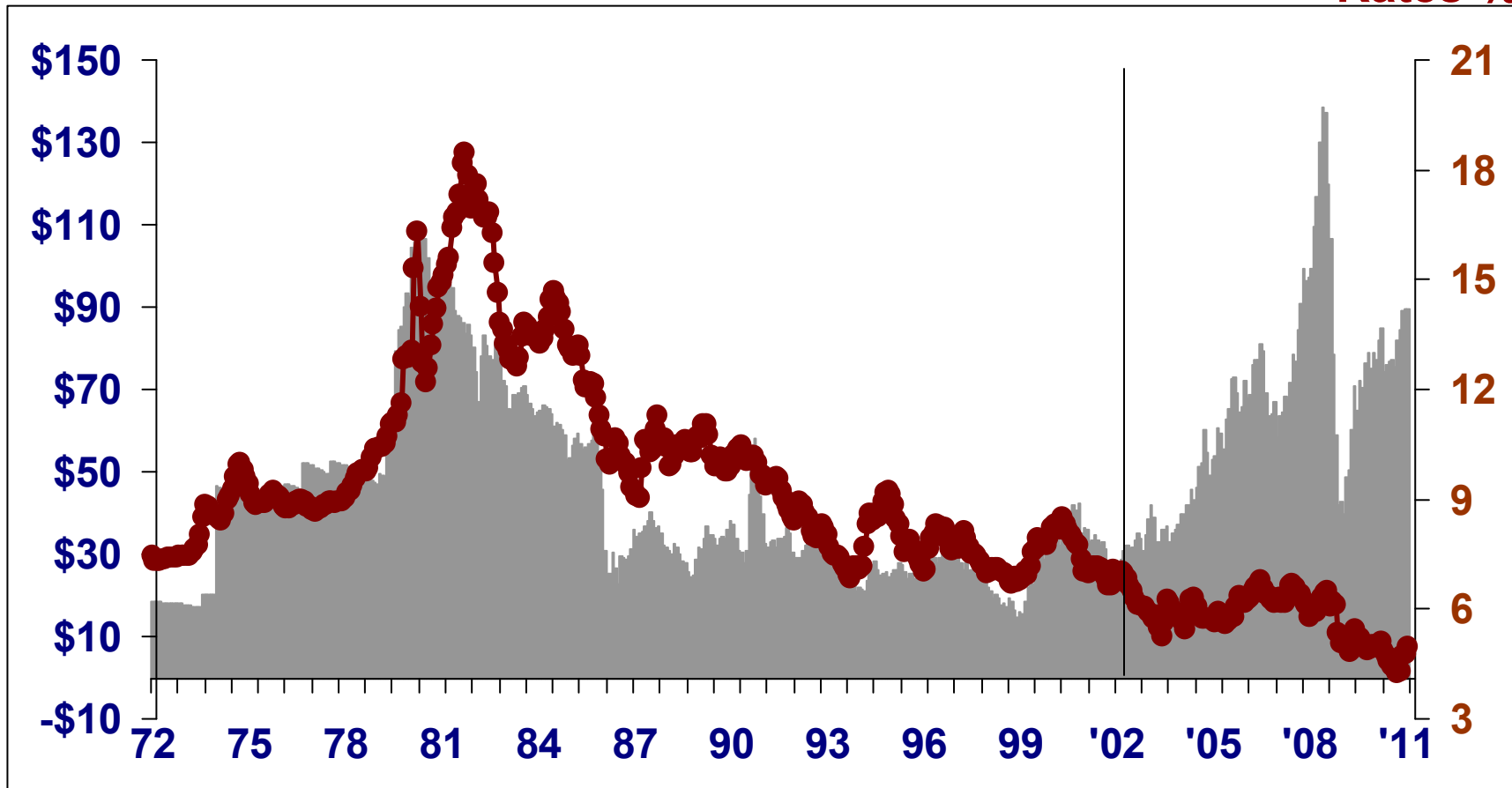
**Minimum  
Daily  
Flow  
300,000  
To  
500,000  
Barrels**

	Barrels
2011	630,000
2012	585,900
2013	544,887
2014	506,745
2015	471,273
2016	438,284
2017	407,604
2018	379,072
2019	352,537
2020	327,859
2021	304,909
2022	283,565

# Oil Prices & 10-Year Treasury Note Rates *February 2011 Dollars*

Oil Prices

10-Year  
Treasury  
Rates %

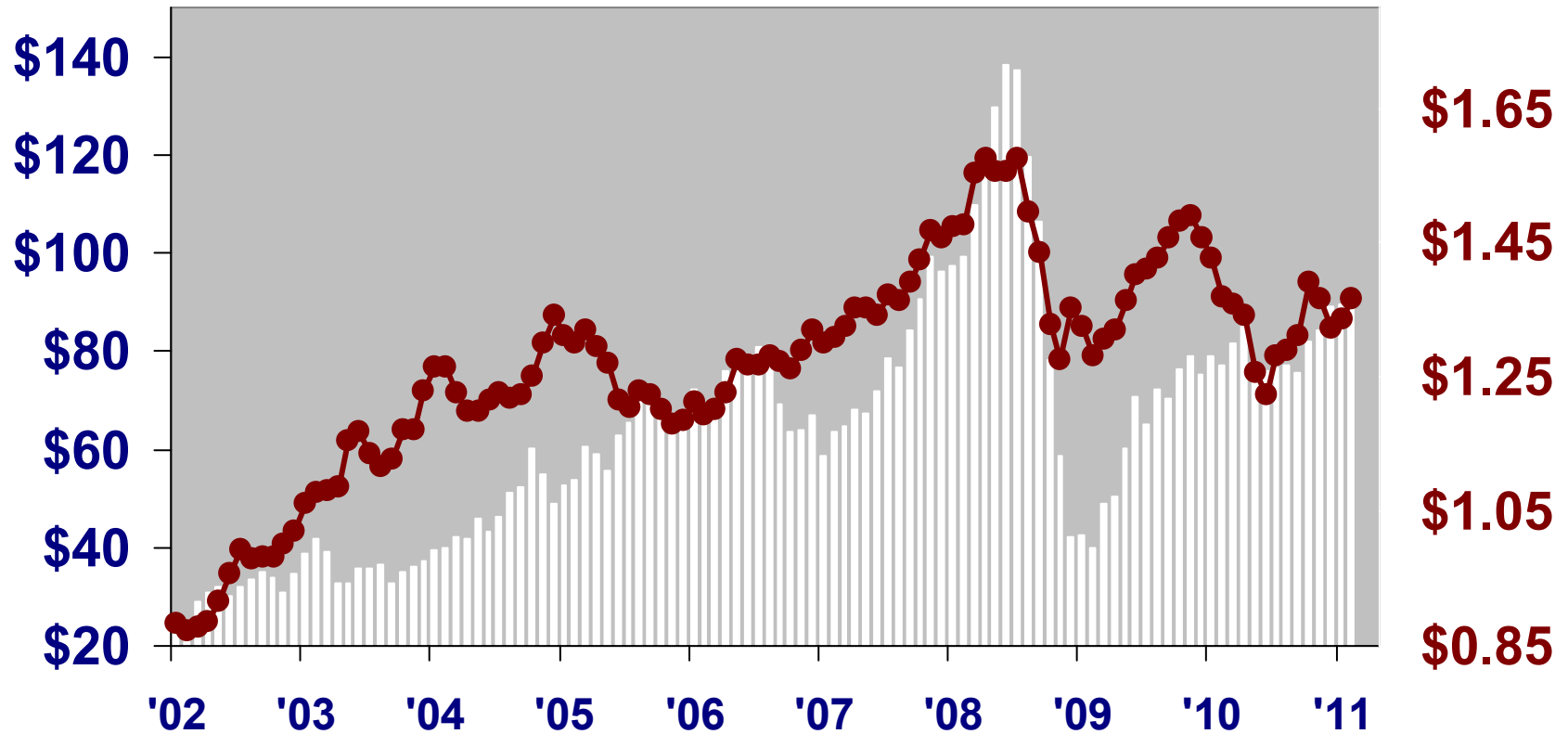


# Oil Prices & Exchange Rates \$US Per Euro

*Oil in February 2011 Dollars*

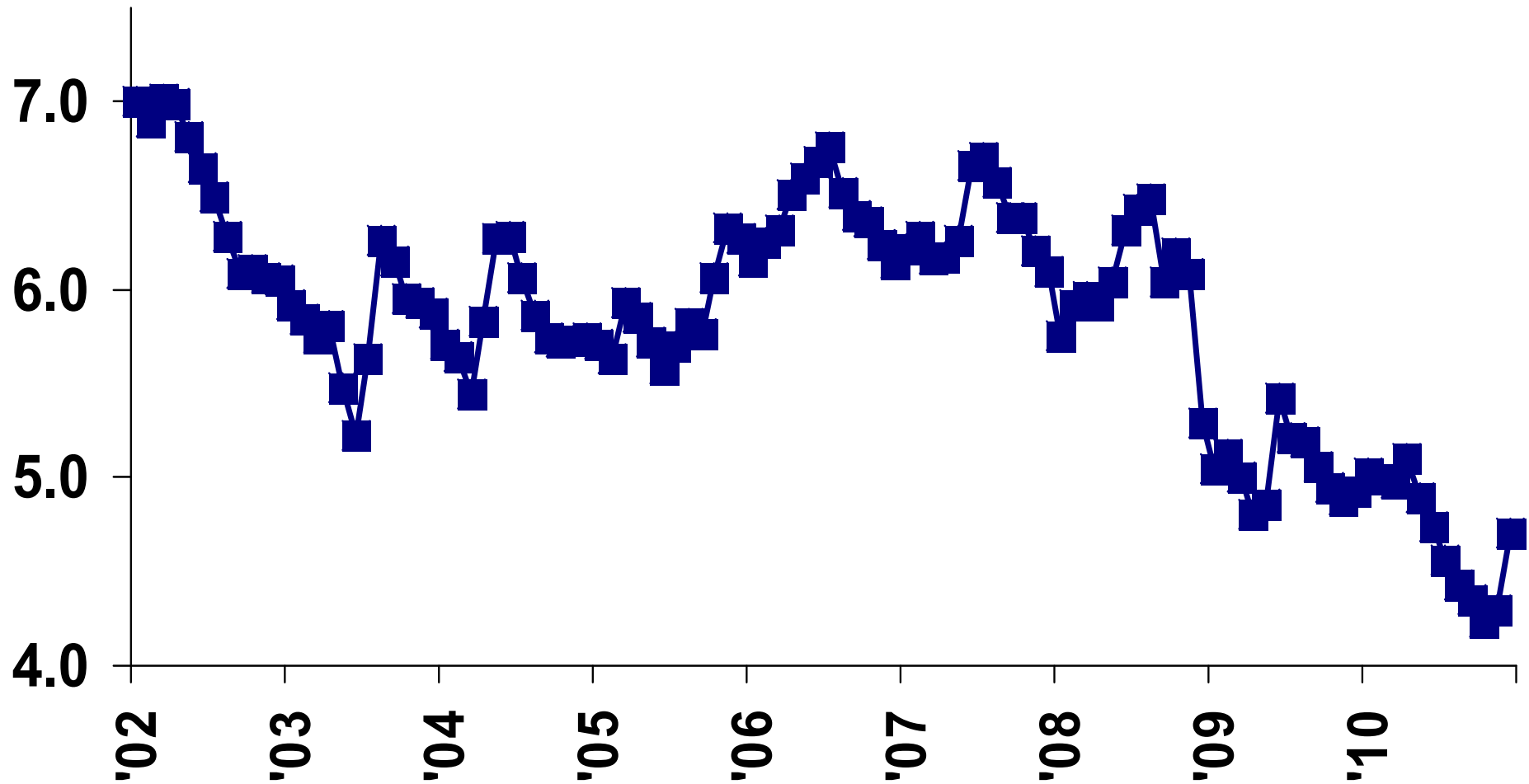
**Dollars  
Per  
Euro**

## Oil Price

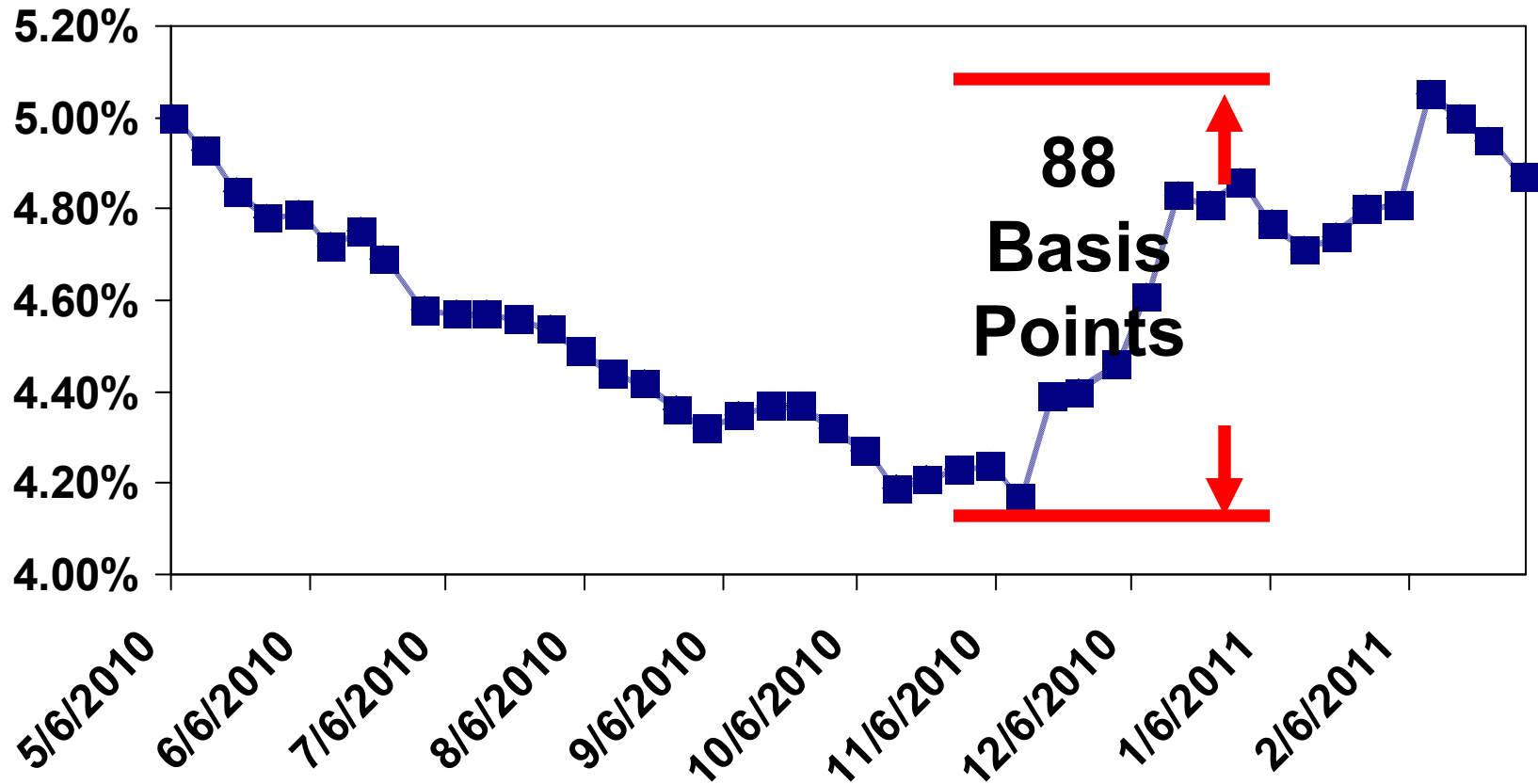


# 30-Year Residential Mortgage Rate

Percent



# 30-Year Residential Rate



# Ted's Forecast

11-4-2010 to 12-31-11

Since Nov 11  
30-Year Rates  
Up 88 bp



Big 2011  
Upside...

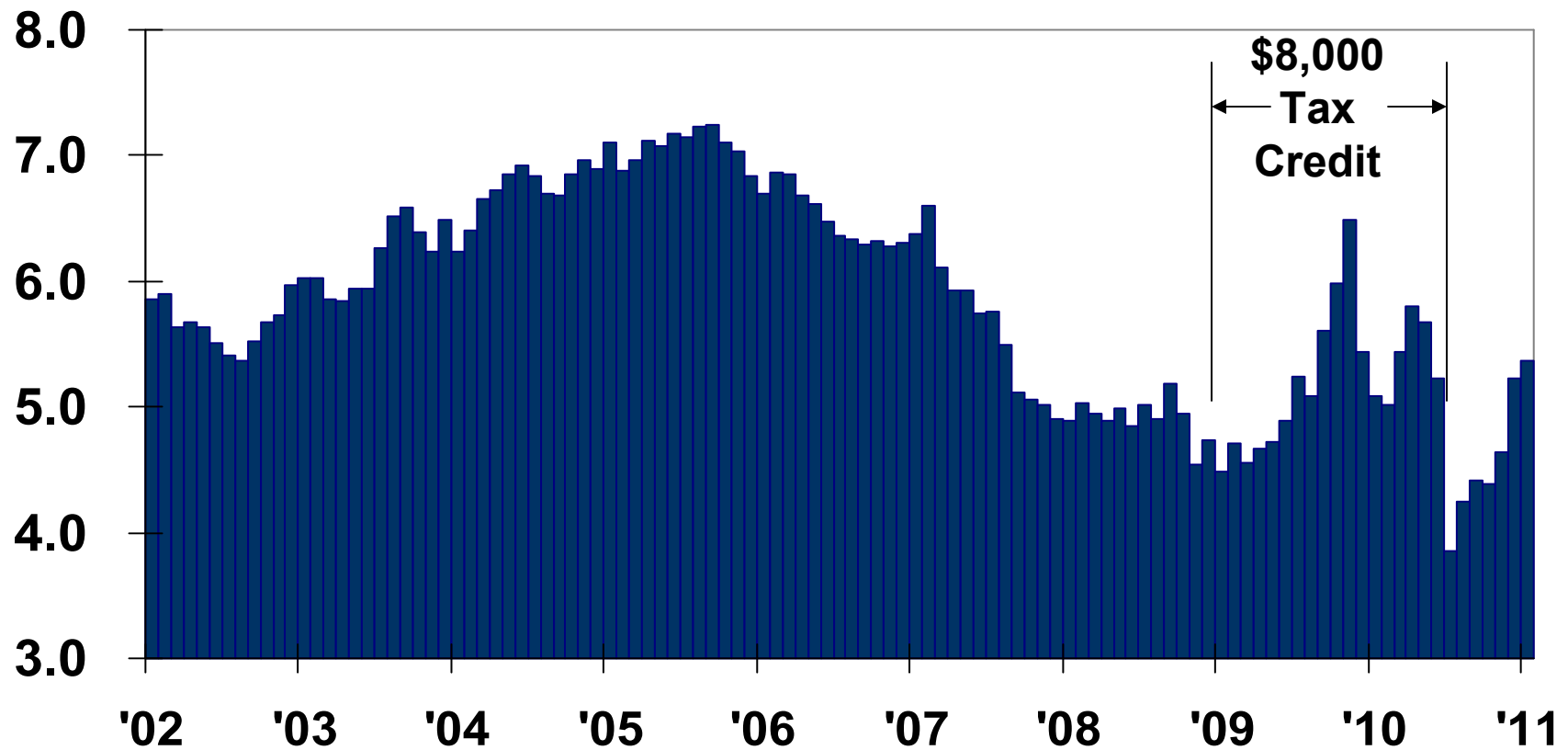
10-Year Treasurys

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**So Goes Jobs,  
So Goes  
Housing.....**

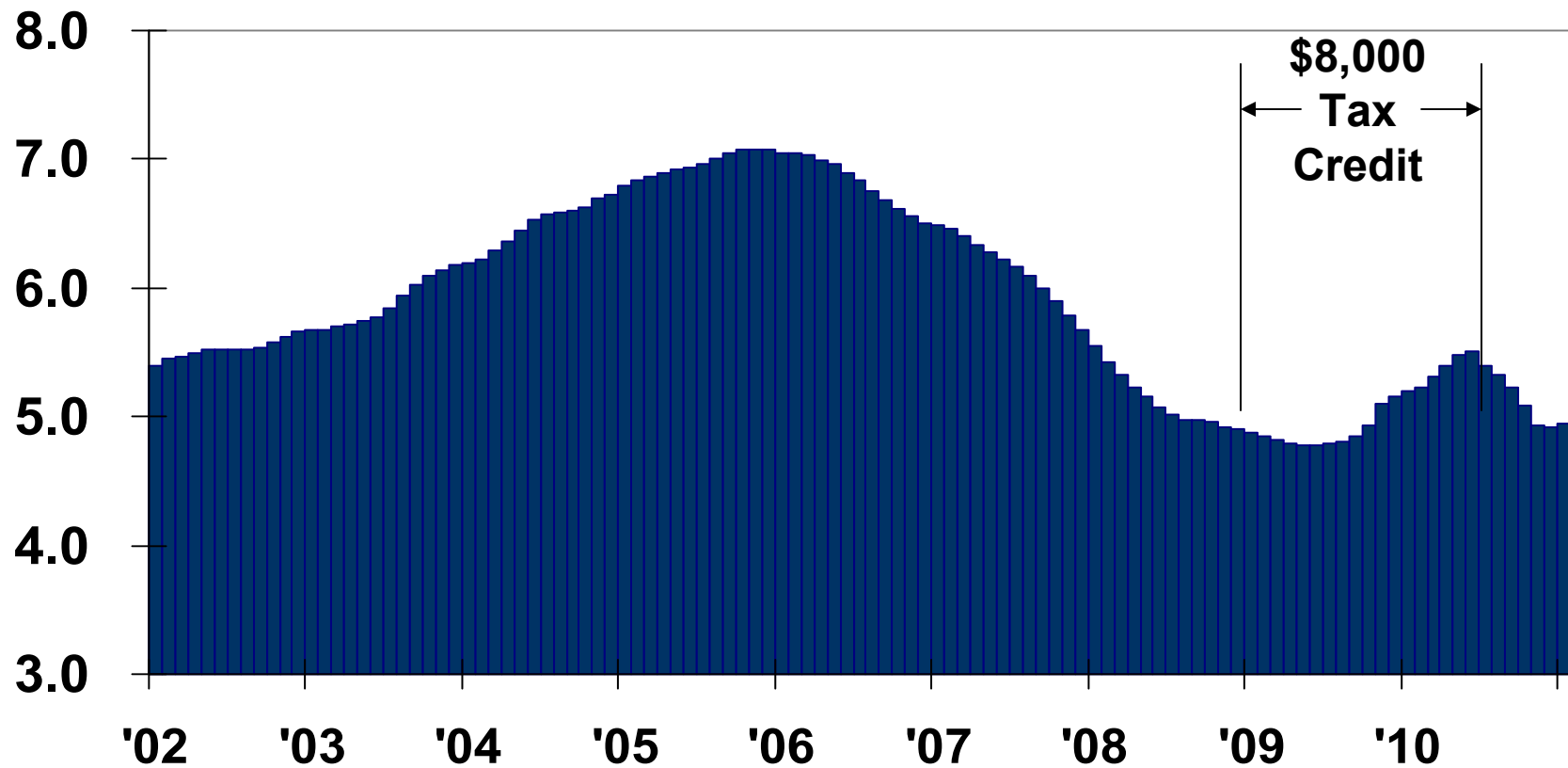
**stewart<sup>®</sup>**

# US Existing Home Sales Sold (Millions)



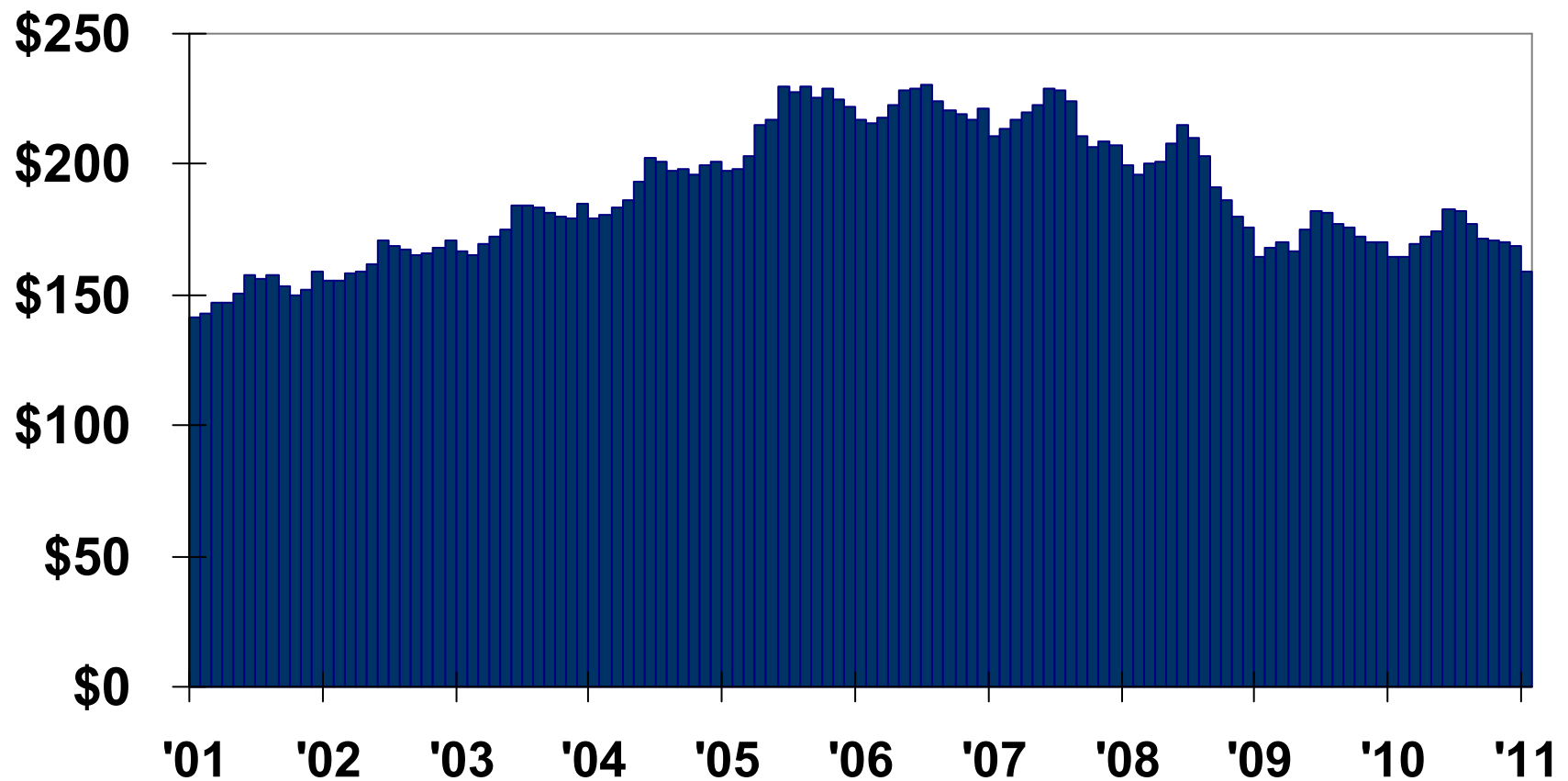
# US Existing Home Sales

**Sold (Millions)** *Average Per Month For Prior 12 Months*



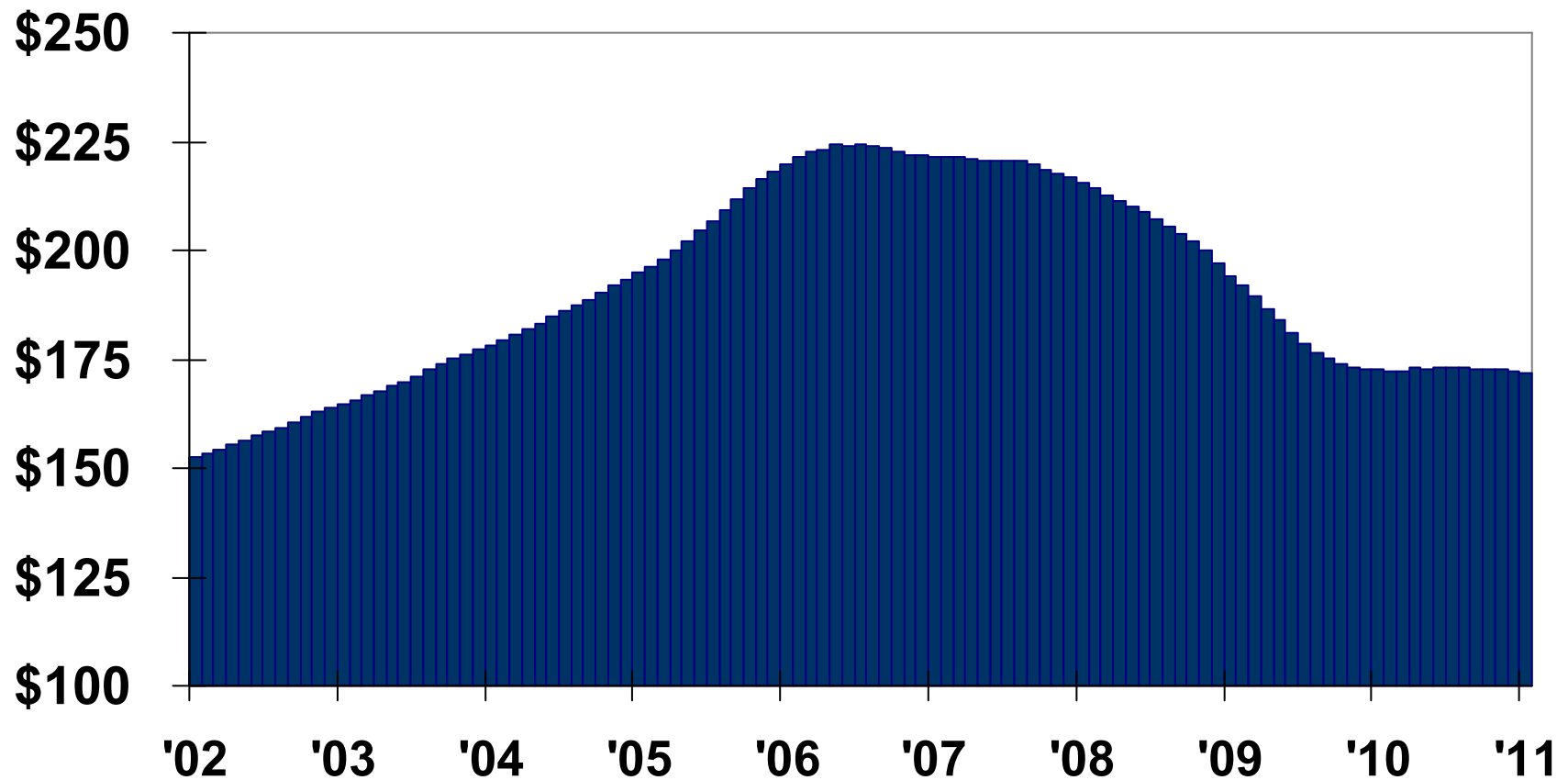
# U.S. Existing Home Sales

Median Price -- \$ *Thousands*



# U.S. Existing Home Sales

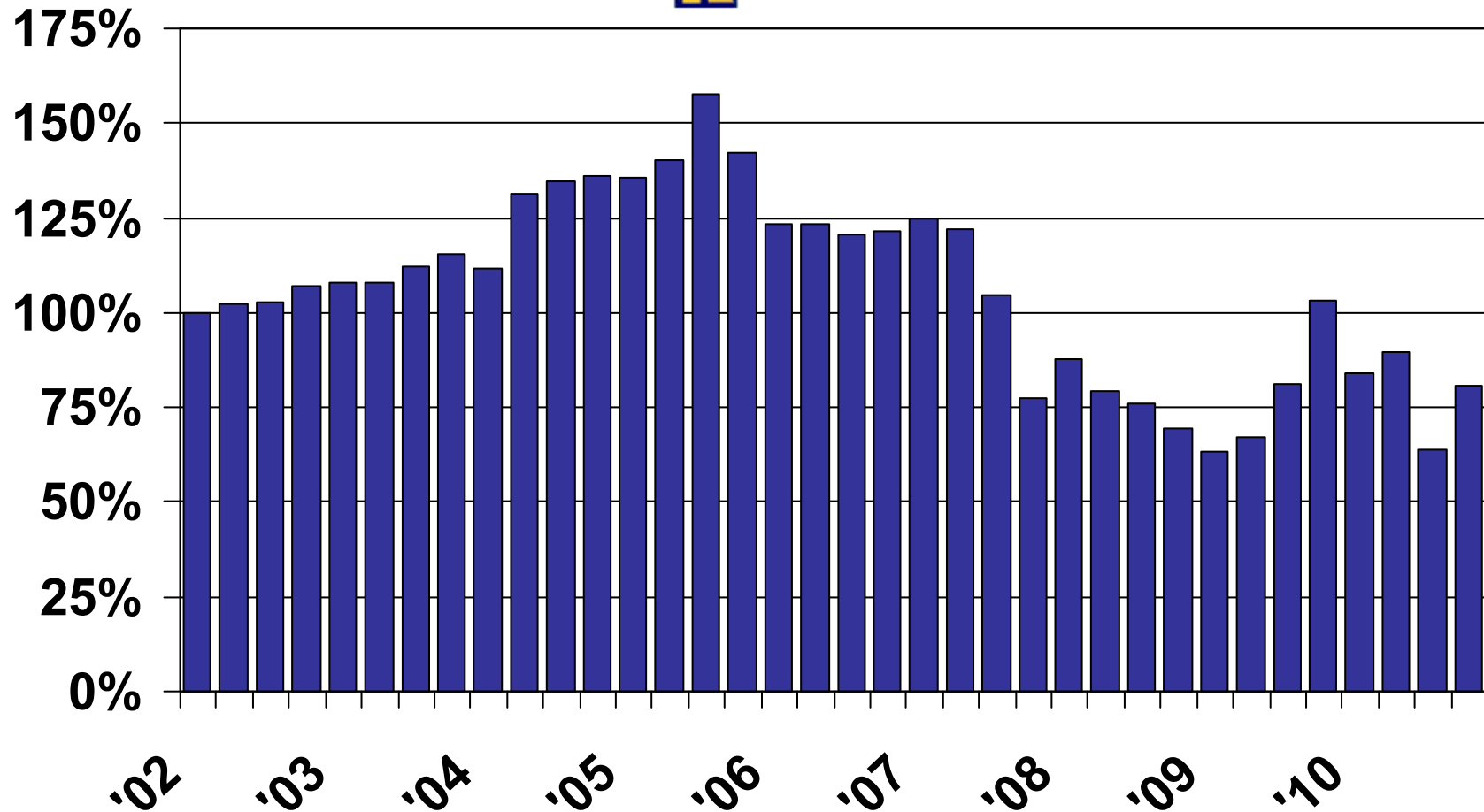
Median Price -- \$ *Thousands 12 Month Average*



# Oregon Housing Sales

2002 Q1 = 100 Percent

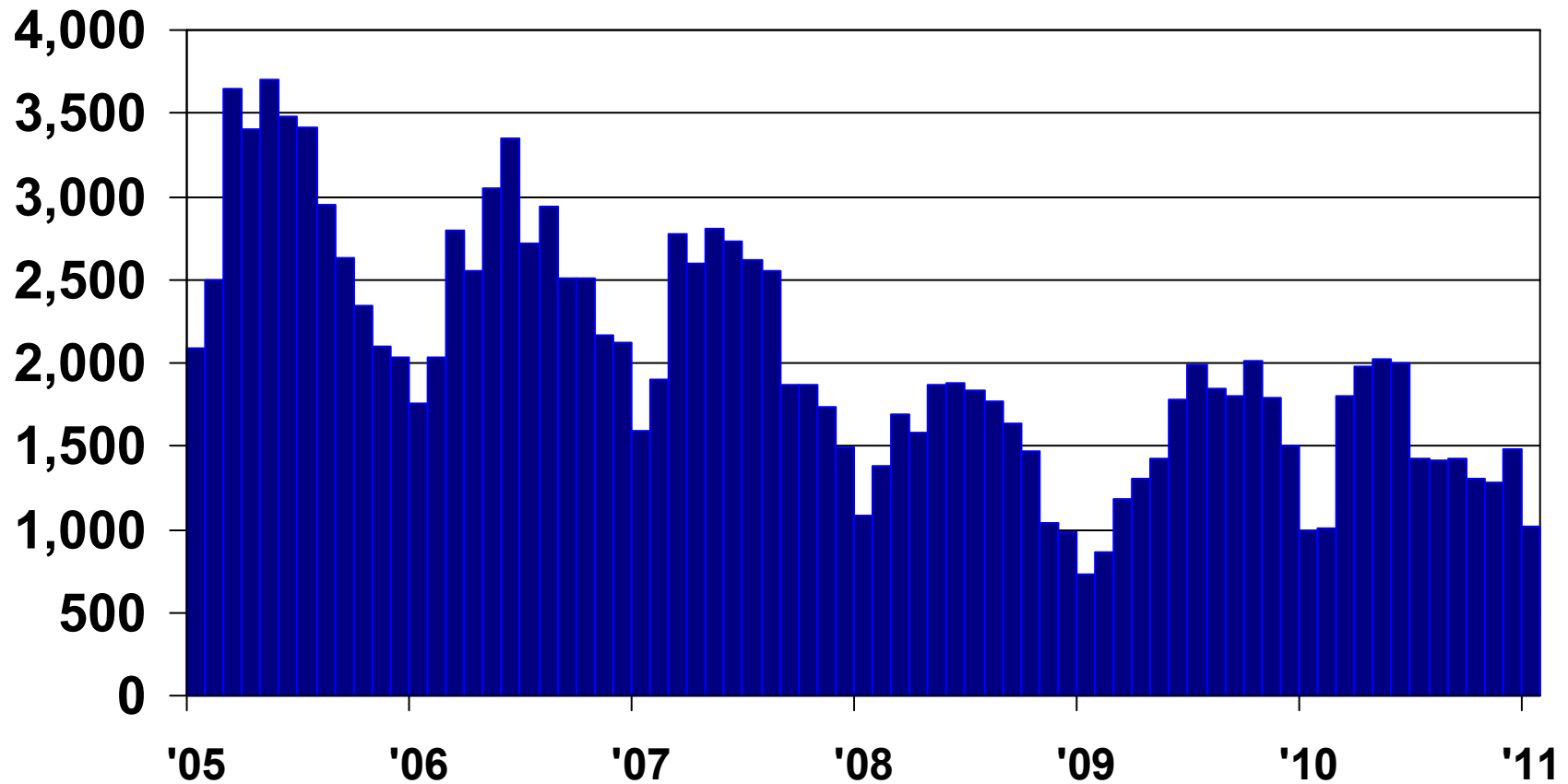
 National Association of REALTORS®



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# Portland Existing Home Sales

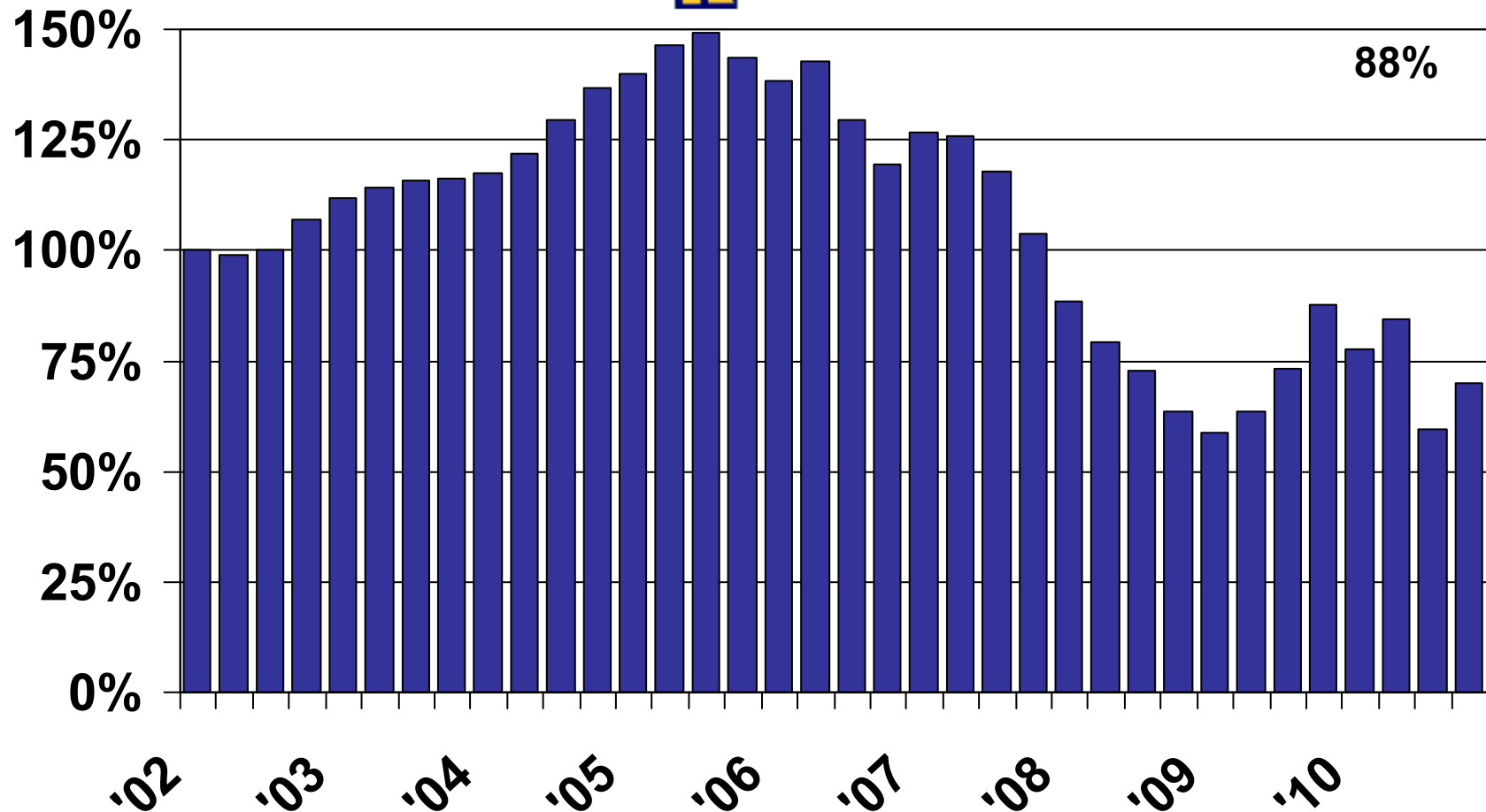
Number of Closings Per Month



# Washington Housing Sales

2002 Q1 = 100 Percent

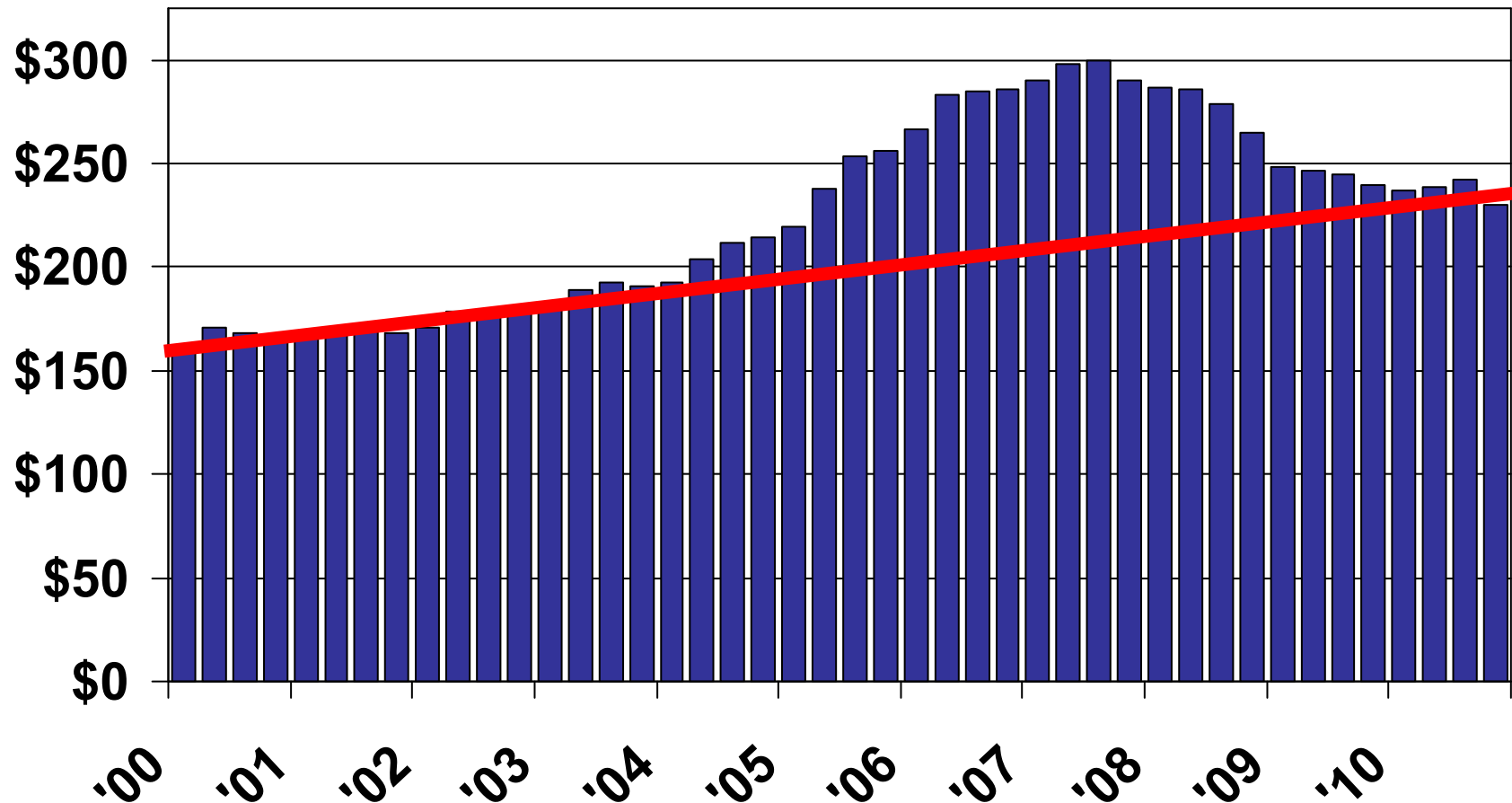
 National Association of REALTORS®



# Portland-Vancouver-Beaverton

## Median Price (\$ Thousands)

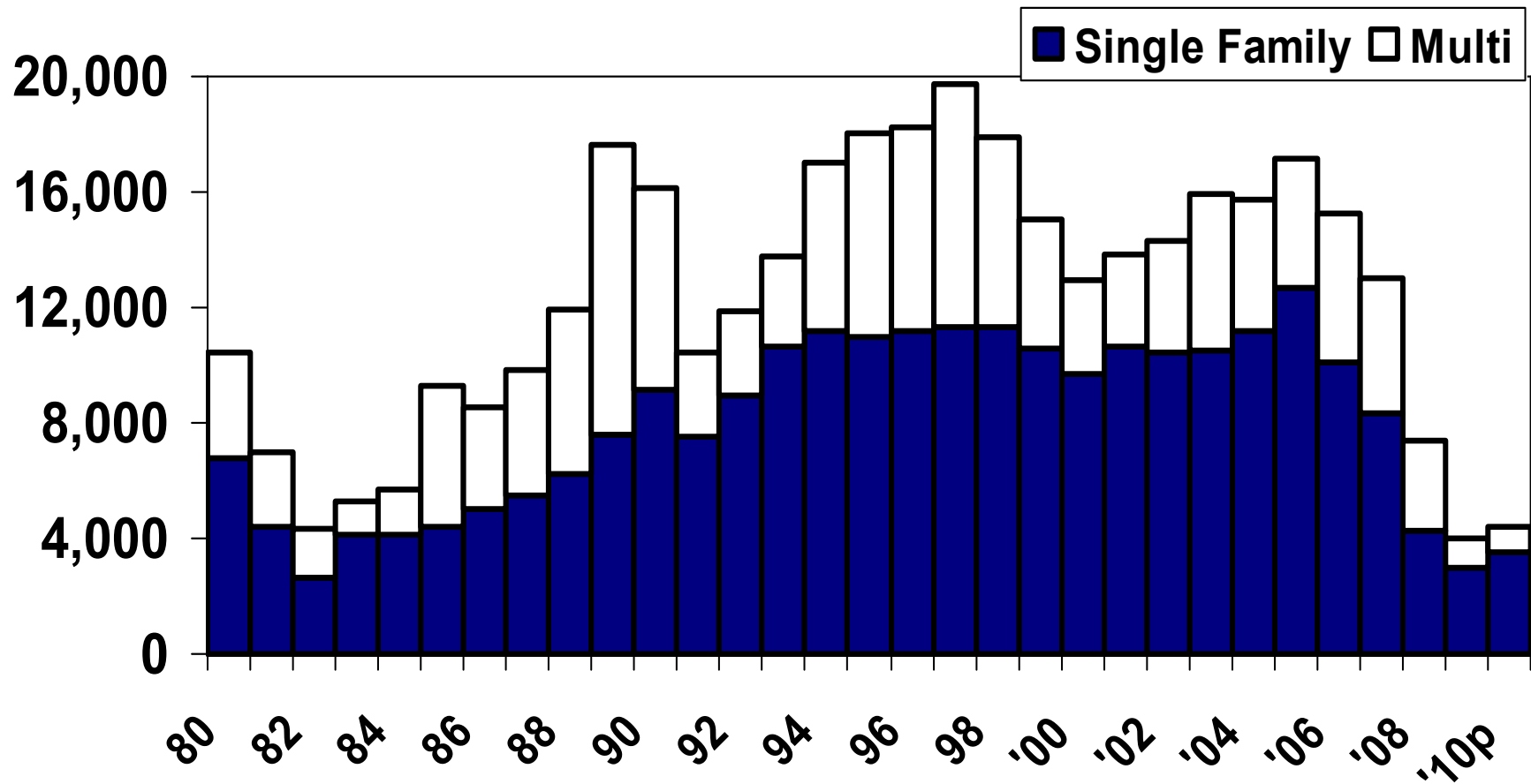
 National Association of REALTORS®



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# Portland MSA Residential Building Permits

## Number of Dwelling Units

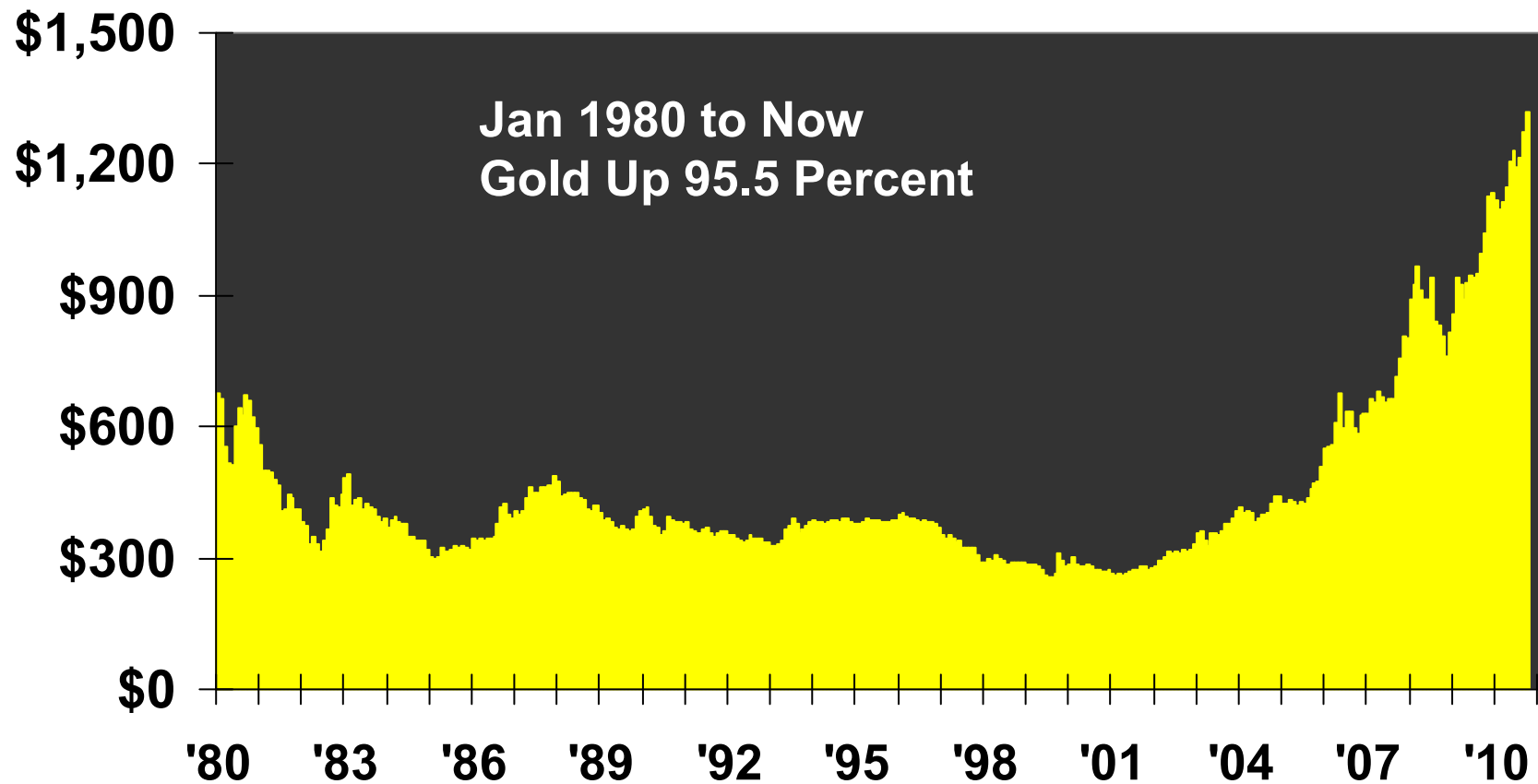


# Investments

????????????????????  
????????????????????  
????????????????????  
????????????????????

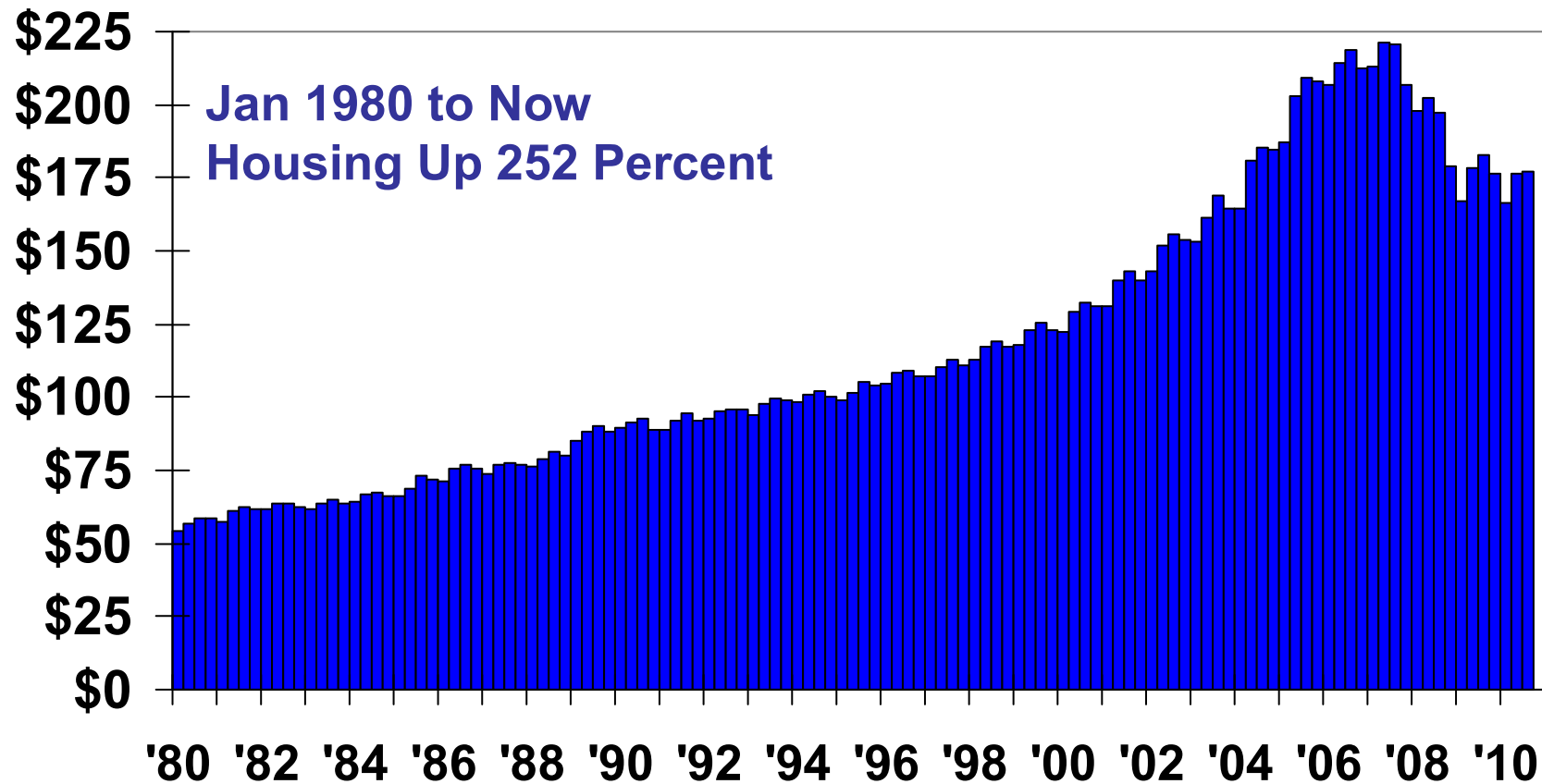
# Gold

Price Per Ounce – *Nominal (Not Inflation Adjusted)*



# Existing Home Prices

\$ Thousands --*Nominal* Average of MSA Medians



# Gold vs. U.S. Home Prices

January 1980 - October 2010

Percent Change

	Nominal*	Real**
Gold	95.5%	-30.2%
Housing	252.0%	18.6%

\* Not Adjusted for Inflation

\*\* Adjusted for Inflation

<http://blog.stewart.com/>

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# **\$3.4 Trillion in Total Commercial Loans**

**\$400 +/- Billion to  
Refinance**

**Per Year for Next  
10 Years**

# Commercial Loans

- \$400 Billion Due in Next 12 Months
- 9.2 Percent of CMBS Loans in Default
- 354 Loans Modified in First 11 Months of 2010 – Up from 216 in 2009
- \$15.6 Billion Modified in 2010 (less than 1/2 Percent)
- \$7.06 Billion Modified in 2009

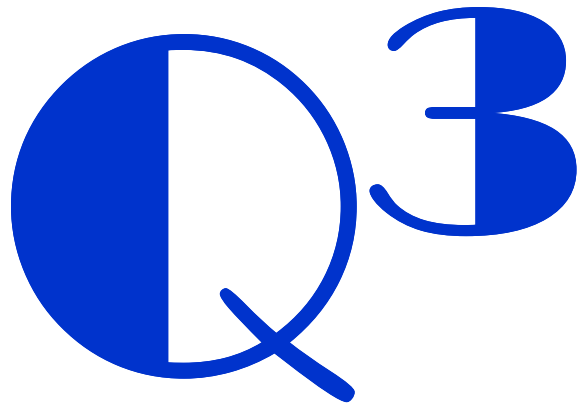
**A Rolling Loan Gathers No Loss**

## Real Estate

# Commercial Sales

	<b>\$ Billion</b>	<b>Percent Change</b>
<b>2007</b>	<b>\$ 557.8</b>	
<b>2008</b>	<b>\$ 181.6</b>	<b>-67.4%</b>
<b>2009</b>	<b>\$ 54.4</b>	<b>-70.0%</b>
<b>2010</b>	<b>\$ 112.5</b>	<b>106.8%</b>

**2011 \$180 Billion (Ted's Forecast)**



# Quality

- **Location**
- **Property**
- **Tenants**

# **Mortgage Bankers Association Office Building Washington, DC**

<b>Purchased 2007</b>	<b>\$79.0 Million</b>
<b>Sold Feb 2010</b>	<b>\$41.3 Million</b>

<b>Loss</b>	<b>\$37.7 Million</b>
	<b>47.7 Percent</b>

**Mortgage Bankers Association  
Office Building  
Washington, DC**

**Purchased 2010**

**\$41.3 Million**

**Sold Feb 2011**

**\$101.0 Million**

**Gain**

**\$59.7 Million**

**59.1 Percent**

MIT Real Estate Group

**NCREIF**

**Commercial Real Estate Property Value Indices**

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# Estimated Current Property Value Compared to Q4 2010

Acquisition Date	Property Type				
	Apartments	Industrial	Office	Retail	
2000	Q1	53.6%	37.2%	30.5%	36.7%
	Q2	47.6%	33.8%	27.3%	40.0%
	Q3	41.9%	29.7%	24.4%	40.3%
	Q4	40.5%	30.2%	23.8%	46.4%
2001	Q1	42.1%	25.5%	24.8%	49.5%
	Q2	32.1%	22.2%	27.8%	42.4%
	Q3	32.9%	23.7%	32.6%	39.5%
	Q4	33.1%	26.5%	36.6%	40.7%
2002	Q1	31.9%	32.8%	30.7%	37.1%
	Q2	35.9%	29.9%	35.4%	34.0%
	Q3	35.4%	28.2%	26.7%	28.7%
	Q4	31.0%	22.5%	28.9%	21.1%
2003	Q1	32.2%	27.1%	27.5%	22.2%
	Q2	32.9%	21.9%	29.4%	14.8%
	Q3	29.1%	15.1%	25.4%	25.3%
	Q4	28.3%	14.0%	25.0%	17.2%
2004	Q1	29.7%	12.5%	24.8%	12.5%
	Q2	24.7%	5.6%	20.1%	7.2%
	Q3	17.9%	6.5%	18.9%	1.2%
	Q4	15.5%	6.1%	14.4%	-2.8%
2005	Q1	6.3%	9.5%	11.3%	-1.4%
	Q2	6.1%	-12.0%	1.6%	-19.8%
	Q3	-9.9%	-13.0%	-4.9%	-22.6%
	Q4	-14.0%	-12.7%	-13.3%	-22.6%
2006	Q1	-17.2%	-21.1%	-17.0%	-23.7%
	Q2	-15.0%	-22.6%	-17.0%	-25.9%
	Q3	-14.3%	-20.8%	-22.2%	-27.5%
	Q4	-14.5%	-27.5%	-26.4%	-29.1%

# Estimated Current Property Value Compared to Q4 2010

Acquisition Date		Estimated Percent Change in Value Since Acquisition			
		Property Type			
		Apartments	Industrial	Office	Retail
2007	Q1	-12.6%	-29.1%	-28.7%	-30.1%
	Q2	-17.4%	-33.7%	-33.2%	-29.9%
	Q3	-21.4%	-31.6%	-33.7%	-29.0%
	Q4	-20.9%	-27.0%	-33.3%	-27.6%
2008	Q1	-20.4%	-27.2%	-31.7%	-23.8%
	Q2	-19.0%	-21.5%	-25.8%	-23.0%
	Q3	-17.9%	-19.8%	-24.4%	-23.3%
	Q4	-5.5%	-11.8%	-18.4%	-20.3%
2009	Q1	-0.3%	11.0%	-14.8%	-17.0%
	Q2	7.2%	11.1%	-3.3%	-7.9%
	Q3	7.5%	12.6%	2.5%	-3.7%
	Q4	17.5%	15.0%	12.5%	1.7%
2010	Q1	12.4%	16.5%	6.6%	0.1%
	Q2	6.2%	9.2%	1.7%	-3.4%
	Q3	1.7%	11.5%	4.4%	0.6%
	Q4	0.0%	0.0%	0.0%	0.0%

Cells this color indicate market peak price

<http://blog.stewart.com/?p=332>

# Commercial Connections



Volume 11, Issue 2

Spring 2010

## History May Not Repeat Itself, But It Certainly Does Rhyme

### *A Lesson in Commercial Real Estate Values*

**T**he infamous author and humorist Mark Twain once said, "History may not repeat itself, but it certainly does rhyme." Twain may not have been directly referring to commercial real estate cycles when making that statement, but it suitably applies to commercial real estate markets and property values today.

Property values have declined precipitously since the peak in 2007, just as they did in the late 1980s, but this time the driver

Today's market is different. Current depreciation schedules run 27.5 years for residential rental property and 39 years for non-residential real estate (versus 15 years in the 1980s). Marginal tax rates are much lower. Rather than

and expenses have not changed.

This table is not just for buyers and sellers, but also is a key tool in one of the most important issues facing property owners today: analyzing the potential to appeal and reduce ad valorem

property taxes. Every owner should aggressively pursue assessed values reflective of lower property values seen in today's market.

Are these indications of value declines in the table at all reflective of the market? Unfortunately, yes.

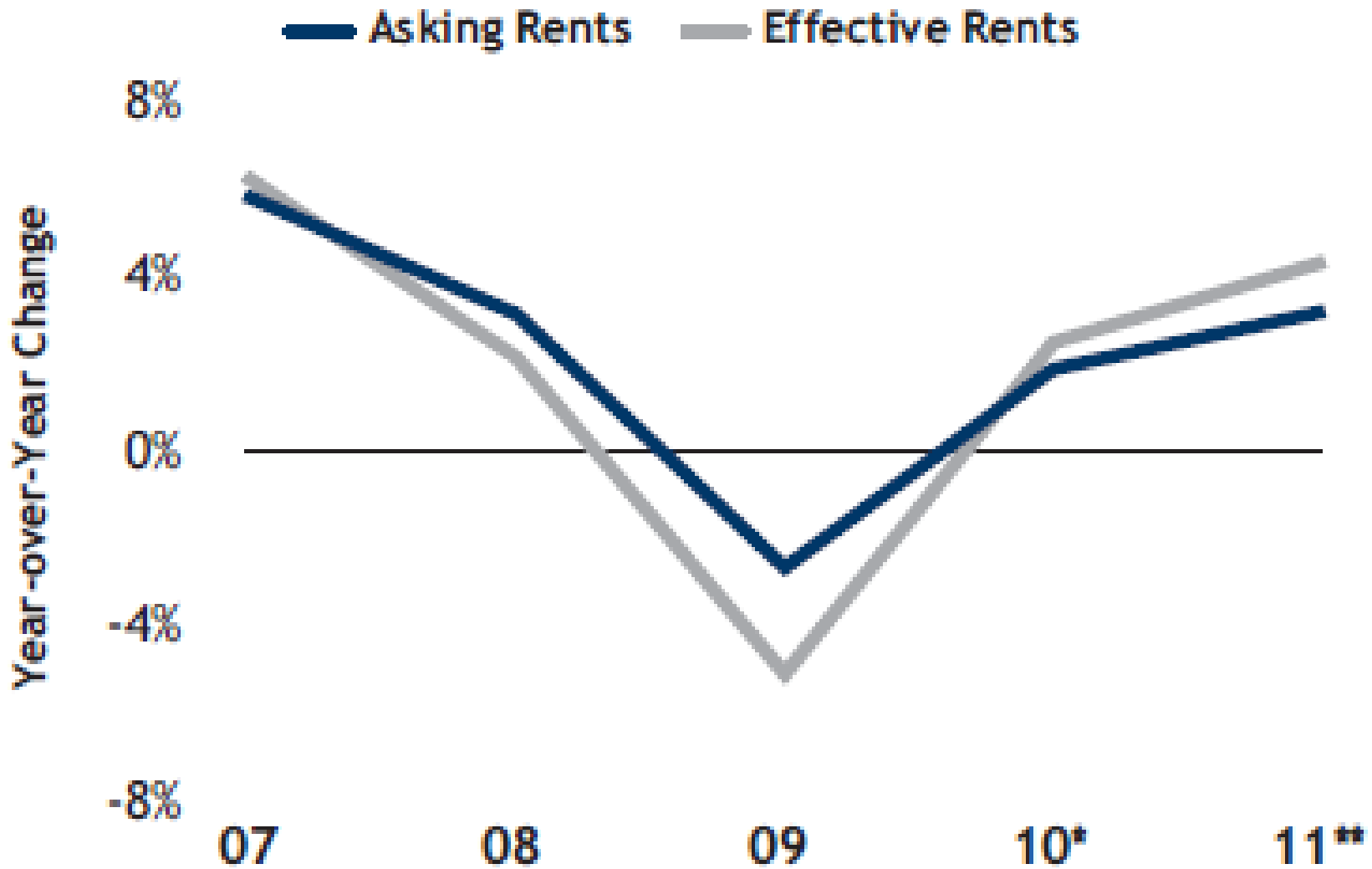
*No matter which data source you examine, commercial real estate values appear to be off 30 to 40-plus percent from the market peak of 2007.*

## Capitalization Rate Impact — Percent Change in Property Value as Cap Rates Increase

New Rate	Original Rate									
	5.0%	5.5%	6.0%	6.5%	7.0%	7.5%	8.0%	8.5%	9.0%	9.5%
5.0%										
5.5%	-9.1%									
6.0%	-16.7%	-8.3%								
6.5%	-23.1%	-15.4%	-7.7%							
7.0%	-28.6%	-21.4%	-14.3%	-7.1%						
7.5%	-33.3%	-26.7%	-20.0%	-13.3%	-6.7%					
8.0%	-37.5%	-31.3%	-25.0%	-18.8%	-12.5%	-6.3%				
8.5%	-41.2%	-35.3%	-29.4%	-23.5%	-17.6%	-11.8%	-5.9%			
9.0%	-44.4%	-38.9%	-33.3%	-27.8%	-22.2%	-16.7%	-11.1%	-5.6%		
9.5%	-47.4%	-42.1%	-36.8%	-31.6%	-26.3%	-21.1%	-15.8%	-10.5%	-5.3%	
10.0%	-50.0%	-45.0%	-40.0%	-35.0%	-30.0%	-25.0%	-20.0%	-15.0%	-10.0%	-5.0%
10.5%	-52.4%	-47.6%	-42.9%	-38.1%	-33.3%	-28.6%	-23.8%	-19.0%	-14.3%	-9.5%
11.0%	-54.5%	-50.0%	-45.5%	-40.9%	-36.4%	-31.8%	-27.3%	-22.7%	-18.2%	-13.6%
11.5%	-56.5%	-52.2%	-47.8%	-43.5%	-39.1%	-34.8%	-30.4%	-26.1%	-21.7%	-17.4%
12.0%	-58.3%	-54.2%	-50.0%	-45.8%	-41.7%	-37.5%	-33.3%	-29.2%	-25.0%	-20.8%

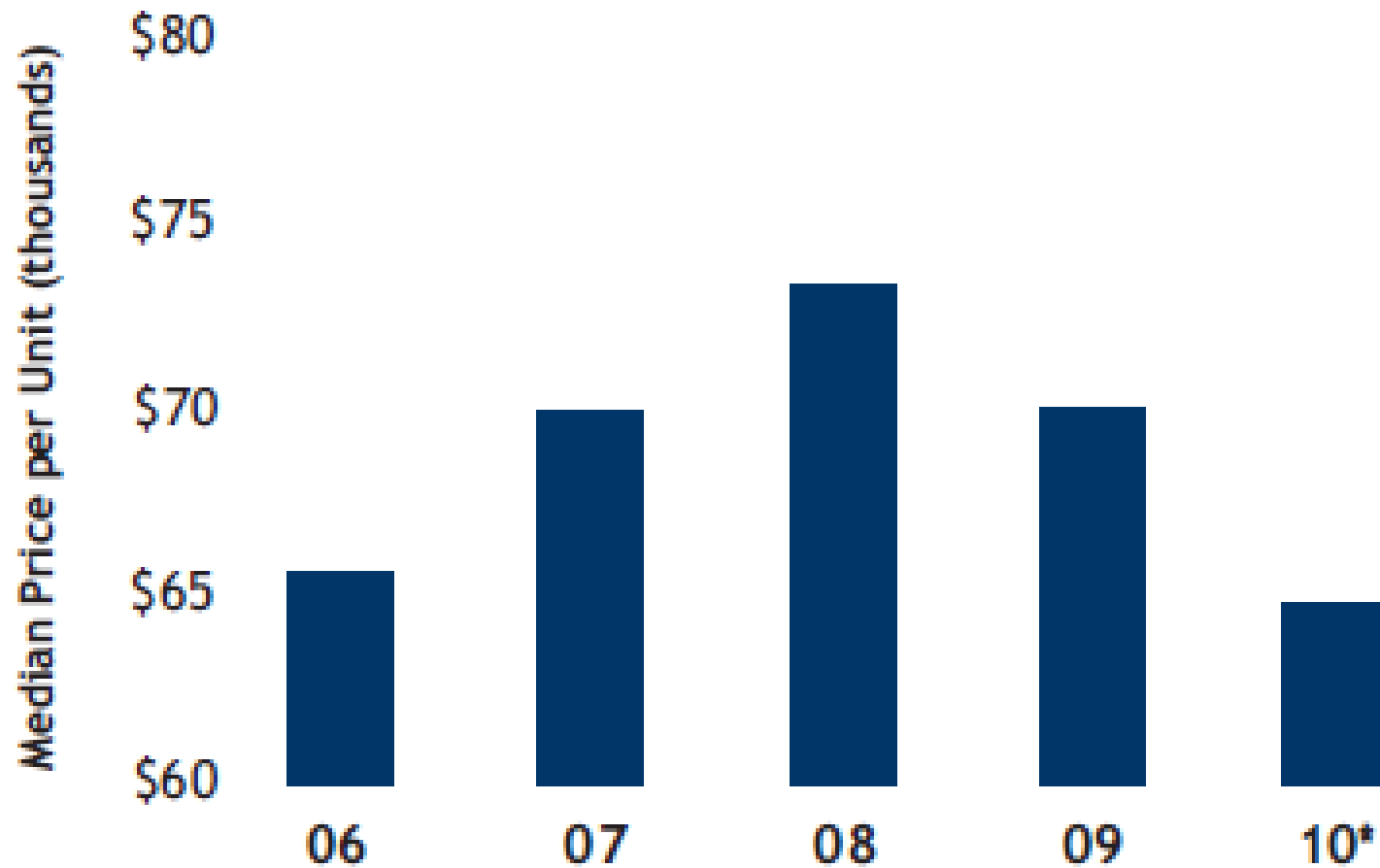
Source: Ted C. Jones, PhD Chief Economist

# Rent Trends



# Apartment

## Sales Trends



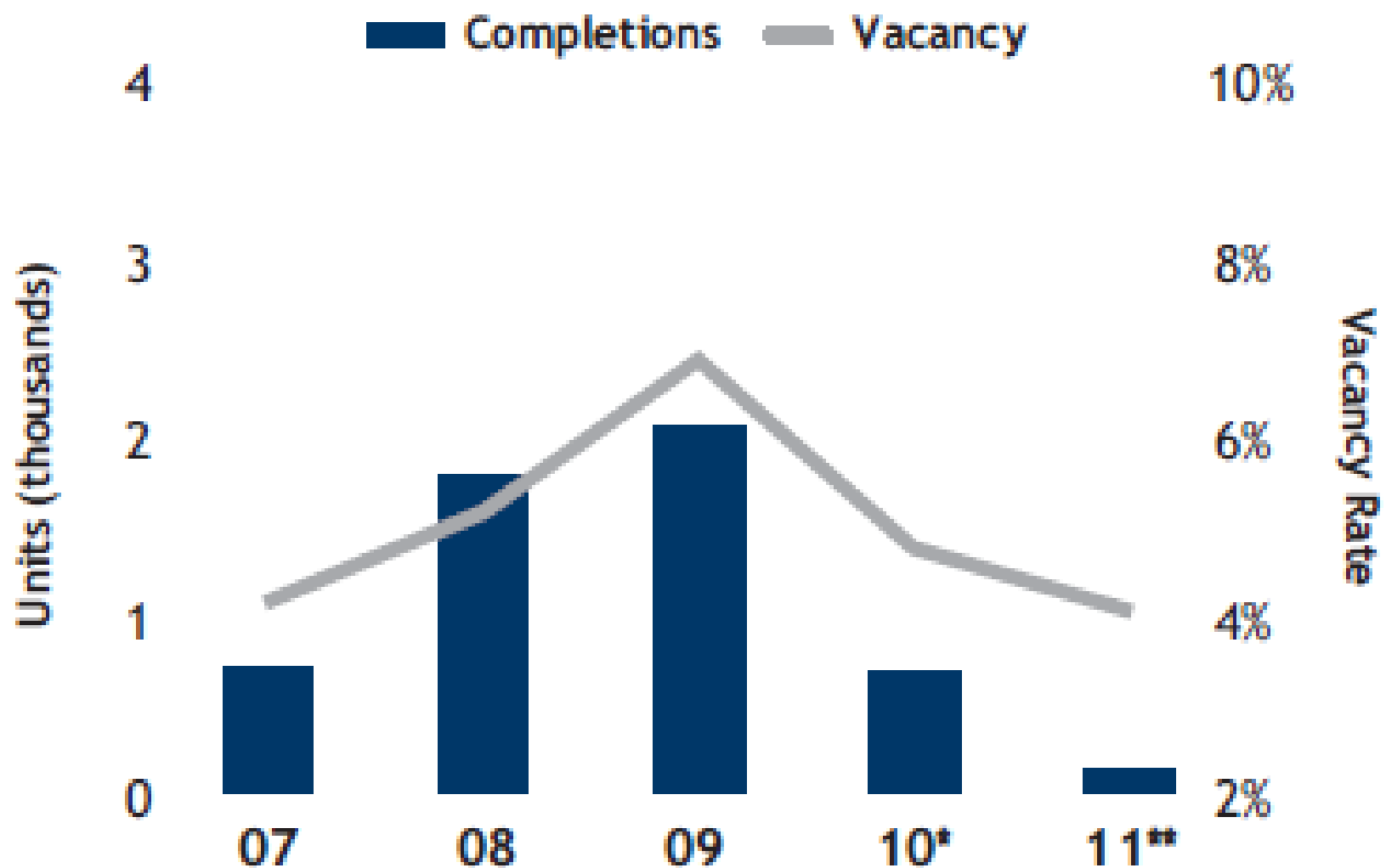
\* Estimate    \*\* Forecast

Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

# Apartment

Marcus & Millichap

# Supply and Demand



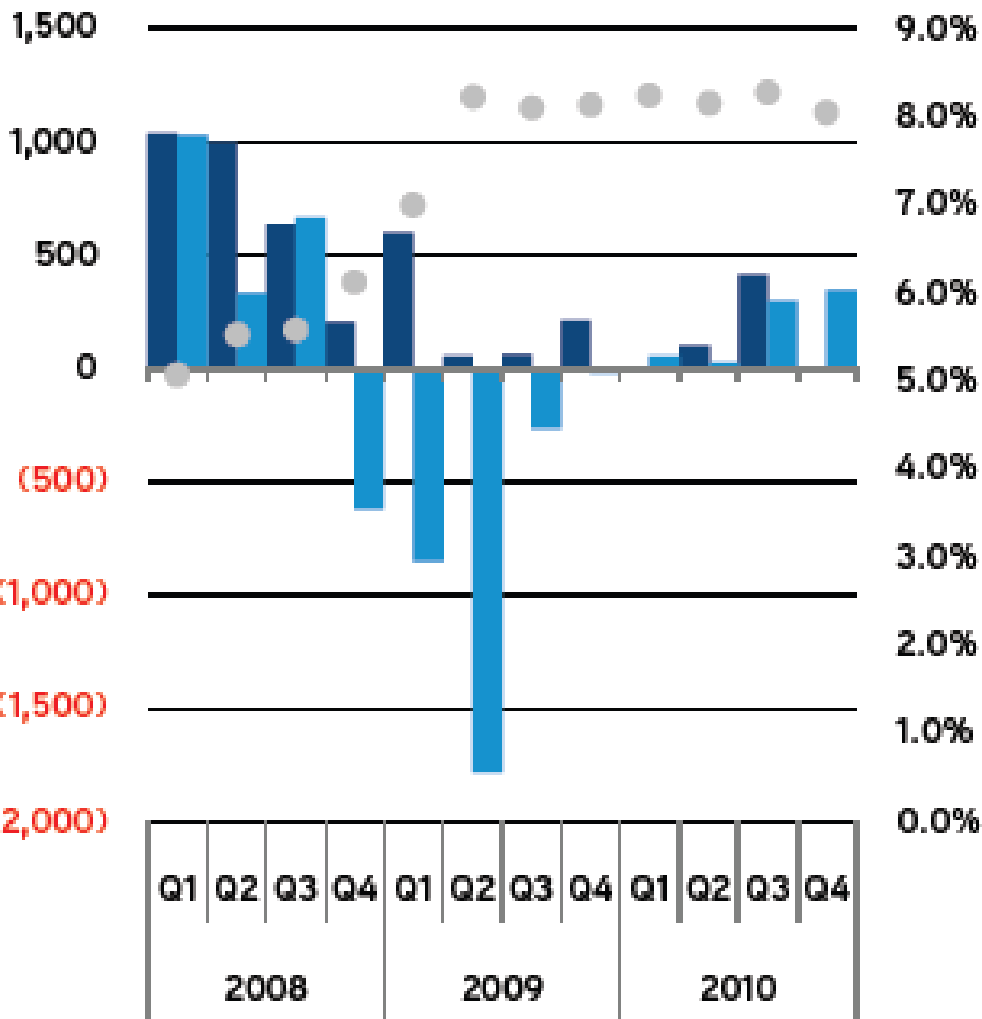
# Apartment



# UPDATE

## New Supply, Absorption and Vacancy Rates

Thousands



■ New Supply    ■ Absorption    ● Vacancy Rates

**Q4 2010 | INDUSTRIAL**

# Office Trends Report—Fourth Quarter 2010

## Portland, OR



By Submarket	Total SF	Vacant SF	Vacant %	NET ABSORPTION		Under Construction SF	ASKING RENT	
				Current	Year-To-Date		Class A	Class B
<b>CBD</b>	19,508,628	1,827,919	9.4%	258,101	551,358	195,458	\$26.11	\$20.56
<b>CBD Total</b>	<b>19,508,628</b>	<b>1,827,919</b>	<b>9.4%</b>	<b>258,101</b>	<b>551,358</b>	<b>195,458</b>	<b>\$26.11</b>	<b>\$20.56</b>
Clackamas/Sunnyside	1,457,463	262,732	18.0%	(46,900)	(101,536)	-	\$23.38	\$18.46
Columbia Corridor	779,953	188,357	24.1%	987	(8,582)	135,000	\$24.37	\$15.29
Eastside	2,735,967	235,359	8.6%	(11,135)	10,994	-	\$19.97	\$16.29
Johns Landing/Barbur Blvd	1,758,613	310,591	17.7%	(15,365)	(45,132)	-	\$22.30	\$18.27
Lloyd District	2,483,901	237,871	9.6%	(80,179)	(58,238)	-	\$23.81	\$16.82
Northwest	1,498,931	160,441	10.7%	20,004	(7,367)	-	-	\$18.00
Sunset Corridor	4,213,984	1,076,070	25.5%	158,706	100,402	14,431	\$20.44	\$16.74
SW/Beaverton/Sylvan	3,530,939	600,950	17.0%	(1,192)	(22,234)	-	\$20.47	\$16.40
Tualatin/Wilsonville	1,665,195	532,306	32.0%	33,484	(8,592)	36,000	\$21.62	\$19.34
Washington Sq/Kruse Way	6,147,968	1,210,399	19.7%	92,632	103,239	-	\$23.44	\$20.02
<b>Portland Suburban Total</b>	<b>26,272,914</b>	<b>4,815,076</b>	<b>18.3%</b>	<b>151,042</b>	<b>(37,046)</b>	<b>185,431</b>	<b>\$22.41</b>	<b>\$17.68</b>
Camas/Washougal	161,062	65,401	40.6%	-	5,726	-	\$20.00	\$18.00
Cascade Park	1,713,182	415,790	24.3%	39,392	16,703	-	\$21.42	\$16.86
CBD/West Vancouver	2,021,760	226,261	11.2%	(1,884)	83,702	-	\$23.79	\$19.39
Clark County Outlying	17,475	-	-	-	2,461	-	-	-
Hazel Dell/Salmon Creek	536,016	41,140	7.7%	(3,222)	(2,168)	-	\$23.99	\$20.85
Orchards	186,504	33,956	18.2%	3,636	3,826	-	-	\$13.57
St. Johns/Central Vancouver	586,010	70,830	12.1%	(250)	(7,907)	-	\$20.20	\$24.05
Vancouver Mall	759,284	63,218	8.3%	6,006	18,963	-	\$22.23	\$17.22
<b>Vancouver Suburban Total</b>	<b>5,981,293</b>	<b>916,596</b>	<b>15.3%</b>	<b>43,678</b>	<b>121,306</b>	<b>-</b>	<b>\$22.32</b>	<b>\$17.76</b>
<b>Suburban Total</b>	<b>32,254,207</b>	<b>5,731,672</b>	<b>17.8%</b>	<b>194,720</b>	<b>84,260</b>	<b>185,431</b>	<b>\$22.40</b>	<b>\$17.70</b>
<b>Totals</b>	<b>51,762,835</b>	<b>7,559,591</b>	<b>14.6%</b>	<b>452,821</b>	<b>635,618</b>	<b>380,889</b>	<b>\$23.16</b>	<b>\$18.25</b>



# Commercial Market Research Reports

<http://www.colliers.com/country/unitedstates/reports>

<http://www.grubb-ellis.com/research/reports.aspx>

<http://www.naiglobal.com/mr.aspx>

<http://www.cbre.com/USA/Research/Local+Reports+Worldwide/globalresearch.htm>

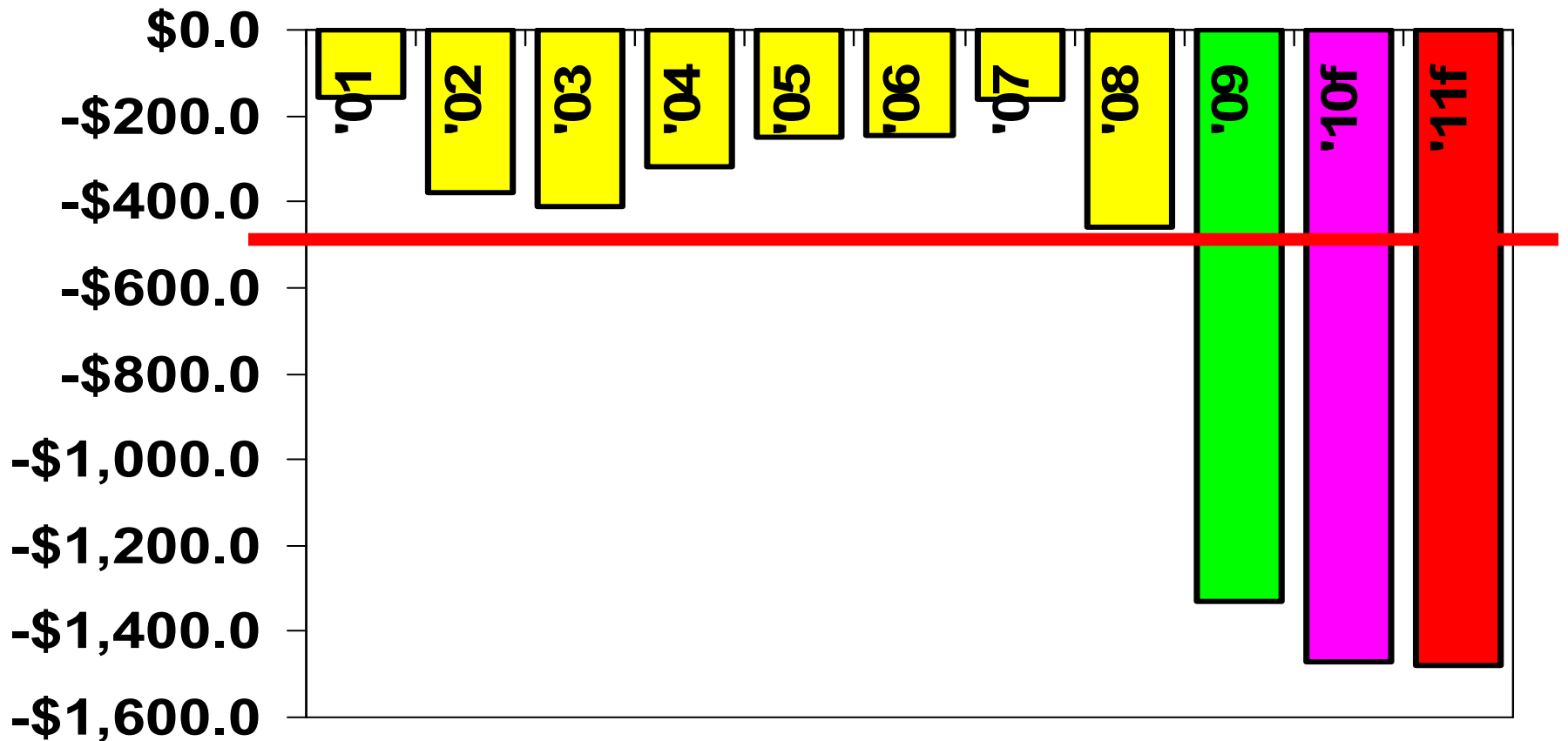
<http://www.marcusmillichap.com/Services/Research/>

<http://www.transwestern.net/market-research.asp>

[http://www.cushwake.com/cwglobal/jsp/kcLocalReportLanding.jsp?  
Country=GLOBAL&Language=EN&catId=100004](http://www.cushwake.com/cwglobal/jsp/kcLocalReportLanding.jsp?Country=GLOBAL&Language=EN&catId=100004)

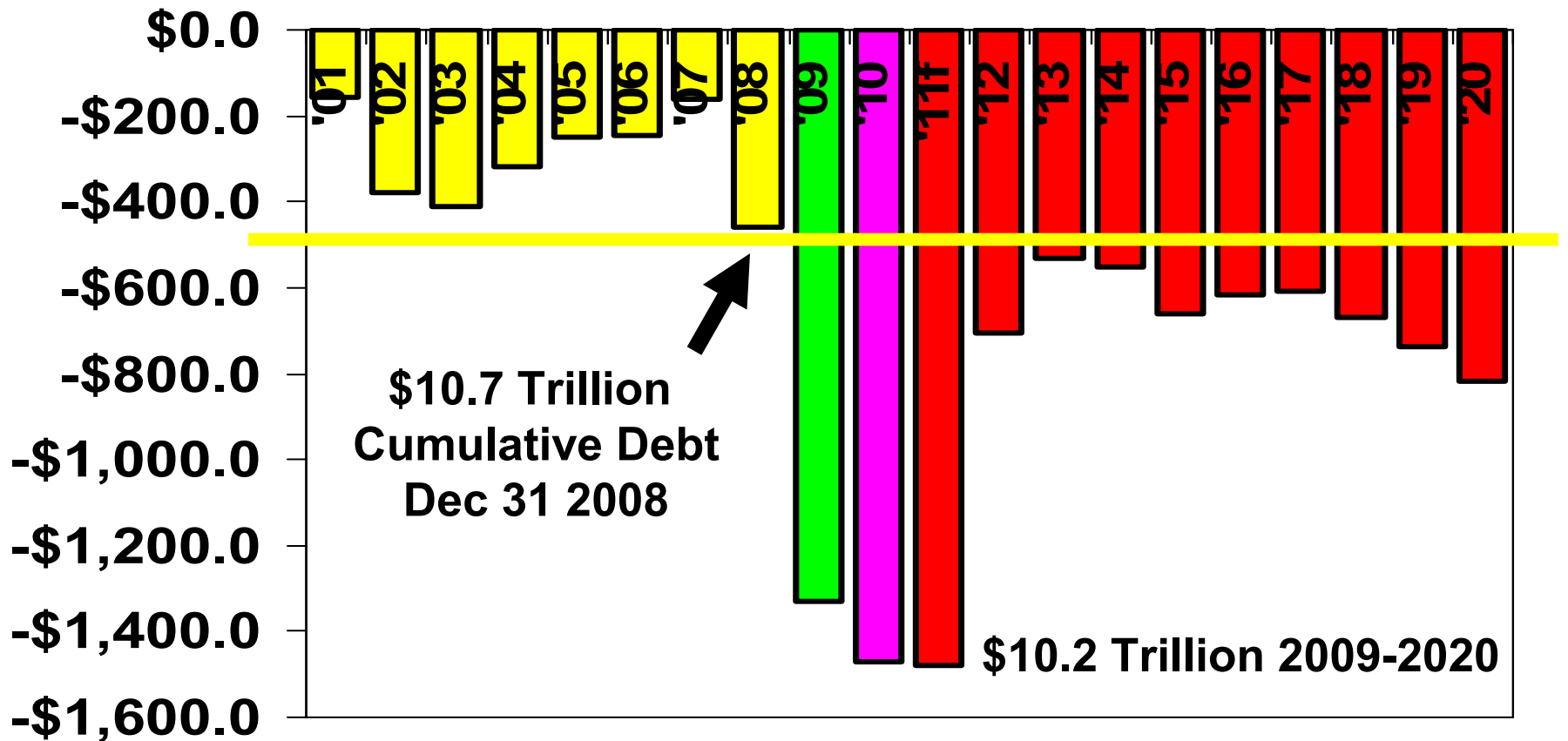
# Federal Budget Surplus (Deficit)

\$ Billions



# Federal On-Budget Deficit Forecast

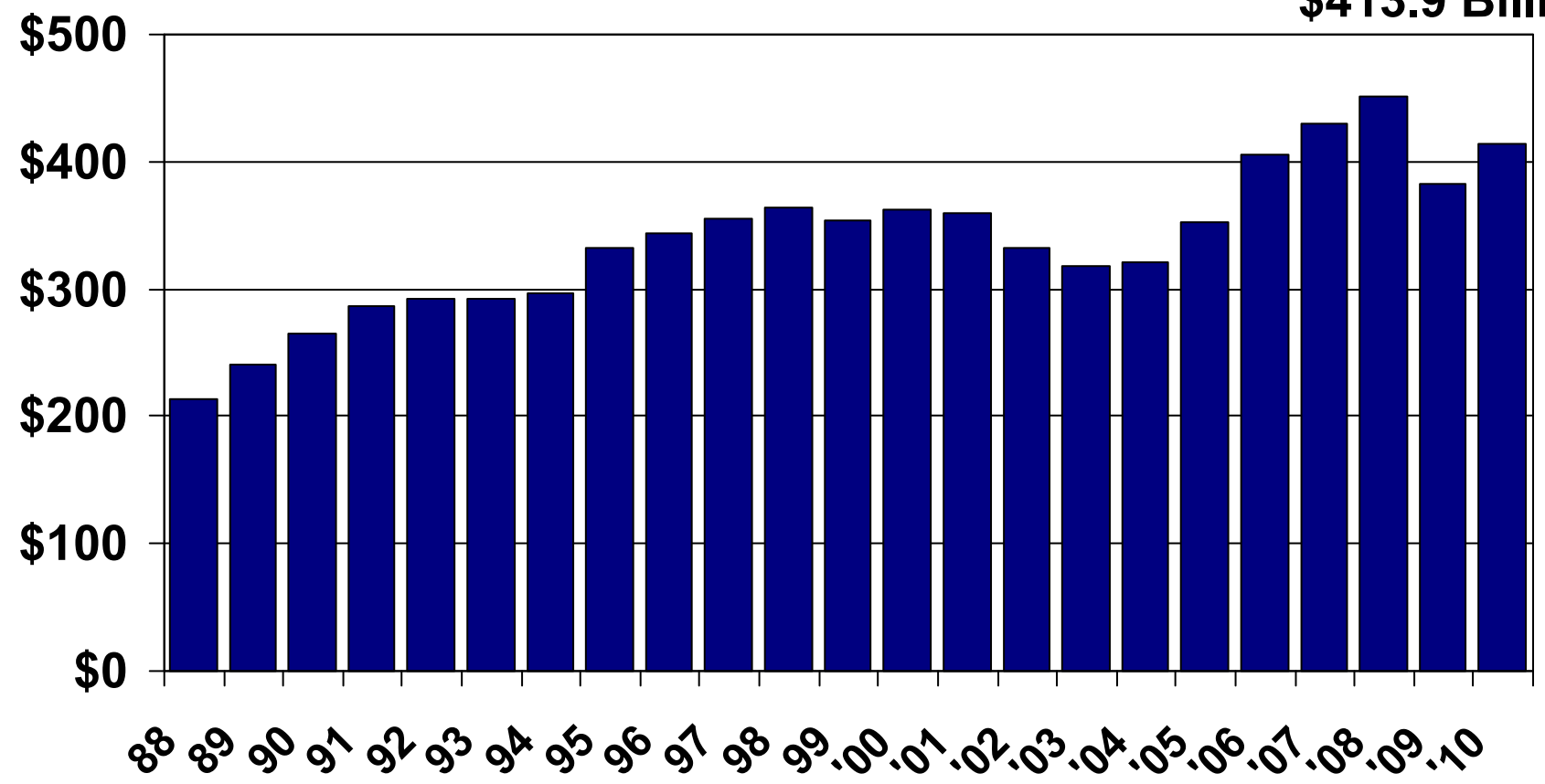
\$ Billions – *Baseline (\$10.7 Trillion Total Debt 12-31-08)*



# Interest Expense on Debt Outstanding

\$ Billions

2010  
\$413.9 Billion



# Federal Debt Interest Payments

## 2010 Average Rates

<b>1-Year T-Bill</b>	<b>0.318 Percent</b>
<b>2-Year T-Note</b>	<b>0.703 Percent</b>

**If 1-Year Rates Rise to 1 Percent, Then Annual Interest Payments Triple to \$1.23 Trillion**

**If the Debt Doubles (as projected)  
Then Annual Interest Payments Rise  
to \$2.46 Trillion**



# 2011 Economic Concerns

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- Wall Street—Washington DC—Liquidity
- Jobs – *Stimulus Not Working*      **GDP=C+I+G**
- Time Bomb Loans *Now Commercial*
- Cold War II—Terrorists
- Inflation (and Cap Rates)--*Recession*
- Energy: US Imports 70+ Percent of Oil
- Real Estate-Autos-Credit Cards-Banks



**Ted C. Jones, PhD Chief Economist**  
**Stewart Title Guaranty Co.**

**<http://blog.stewart.com/>**