

Multnomah County Courthouse

Rehabilitation Report and Feasibility Study

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Table of Contents

I.	Executive Summary	
II.	Preservation Approach	
III.	Development Scenarios	
	A. Multifamily Residential	
	B. Class B Offices	
	C. First Floor Retail/Commercial	
IV.	Objectives of Participants	
	A. Owner Objectives	
	(Multnomah County)	
	B. Developer Objectives	
	C. Third Party Objectives	
V.	Physical and Technical Constraints	
	A. Systems	
	B. Accessibility	
	C. Entrances	
	D. Evacuation Routes	
	E. Parking	
	F. Seismic and Life Safety	
VI.	Legal Limitations	
	A. Property Restrictions	
	B. Land Use	
	1. City of Portland	
	Master Plan	
	2. Zoning	
	3. Historic Preservation	
	Ordinances	
	4. Building Code	
	5. Other	
VII.	National, Regional, and Local Factors	
	A. National Factors	
	1. Public Policy	
	2. Social Trends	
	3. Economic Conditions	
	B. Local and Regional Factors	
VIII.	Political Factors	
	A. Local Trends	
	B. City and State Law	
	C. Boards and Commissions	
	D. Advocacy Groups	
	E. Potential Impacts	
IX.	Financial Sources and Property Disposition	
	A. Purchase Price	
	B. Public-Private Partnership	
	C. Ground Lease Payments	
	D. Federal Tax Credit	
X.	Financial Interventions	
	A. Grant money for Acquisition	
	B. Grants for Construction or Rehabilitation	
	C. Favorable Financing	
	D. Reinvestment of Development Fees in Project Area	
	E. Regulatory relief	
	F. State Assessment Program	
	G. Multiple-Unit Limited Tax Exemption Program	
	H. Preservation Easements	
	I. Low-Income Housing Tax Credits	
	J. Energy Incentives	
	K. Tax Increment Financing	
	L. Transfer Development/Air Rights (TDR)	
XI.	Residential Development Scenario	
	A. Multifamily Rental Market Factors	
	1. Rent Levels	
	2. Vacancy Levels	
	3. Capture and Absorption Rates	
	4. Operating Costs	
	5. Sales Comparables	
	B. Multifamily Rental Financial Synthesis	
	1. Development Costs	
	2. Operating Statement	
	3. Return on Investment - Up Front Sale	
	4. Return on Investment - Ground Lease	
	C. Condominium Market Factors	
	1. Rent Levels	

	2. Vacancy Levels		B. Financial Synthesis
	3. Capture and Absorption Rates		1. Development Costs
	4. Sales Comparables		2. Stabilized Year
	5. Retail Sales Comparables		3. Return on Investment
	D. Condominium Financial Synthesis	XIII.	Retail
	1. Development Costs		A. Market Factors
	2. Return on Investment		1. Rent Levels
XII.	Office Development Scenario		2. Vacancy Levels
	A. Market Factors		3. Capture and Absorption Rates
	1. Rent Levels		4. Operating Costs
	2. Vacancy Levels		B. Financial Synthesis
	3. Capture and Absorption Rates		1. Development Costs
	4. Operating Costs	XIV.	2. Stabilized Year
	5. Sales Comparables	XV.	
		XVI.	Conclusion
		XVII.	Epilogue
			Appendices
			Bibliography

I. Executive Summary

This rehabilitation report and feasibility assessment examines the adaptive reuse of the Multnomah County Courthouse located in Portland, Oregon. Within is the comparison of two development scenarios: multi-family residential units and Class B offices. Both scenarios include a first floor commercial retail development. The areas of historic value within the building are included in the design scenarios. The levels of historic significance are defined by a relocation assessment created by Architectural Resource Group (ARG) in February 2016. The areas identified in ARG's report as Zone 1, those of the highest historic integrity, have all been preserved in the included designs. Zones identified as 2 through 4 have varied levels of preservation in each development scenario. Our group suggests the removal of the central annex as it is not historically significant and would restore the original central courtyard. The overall preservation perspective for this assessment was informed by the "Secretary of the Interior's Standards for the Rehabilitation of Historic Structures" to conform to accepted standards of preserving the historic materials.

An emphasis on maintaining public access to key historic areas of the building ensures the building's legacy as a publicly owned building. Zone 1 areas, such as the lobby and grand staircase, are reserved as public spaces in all development scenarios. The seventh floor jail is also proposed as a civil rights museum to further emphasize the courthouse's historical significance.

The report begins with a Class B office with first floor retail development scenario. This design offers office units from 1,000 to 25,000 square feet. The four Zone 1 courtrooms are all secured as high priority preservation zones with minimal intervention. Significant historic materials in other zones are also given priority to ensure the integrity of the building as a whole.

The second development scenario explores options of a residential program and includes the same retail design as the office scenario. A mixture of residential units, from economy studios to three bedroom apartments, are presented and the design maintains the same general preservation goals as the first scenario. Low-income housing is included in the residential program and includes amenities, such as bike storage and laundry, in the basement. A condominium program is briefly discussed but the assessment showed a rental unit design to be more feasible based on research conducted during the project.

The first floor retail program included in both scenarios provides a flexible layout for many commercial units. The Zone 1 lobby and corridors, as well as the Zone 2 bathrooms and stairwells are given primacy in the overall first floor rehabilitation. A focus on locally owned businesses and locally sourced goods is suggested as a retail business design goal for the first floor. This program also suggests the alteration of some of the south facade windows into street level entryways to provide dedicated access points to potential commercial spaces.

Further assessment is given to the physical and technical limitations of the building itself, including the necessary seismic upgrades, as well as legal and political factors. Building code, zoning, city planning, and current political trends are all discussed and potential effects examined. Current economics, demographics and changes to legal code provides a perspective on the potential success of this adaptive reuse project.

The financing strategies provided in this assessment explore two options to fund the development of the courthouse property. An up-front sale to a private developer is compared to a ground lease held by Multnomah County with a public-private partnership with a developer. Both programs determine the ratio of equity to debt needed for the project to be financially feasible. Additional financing sources, such as tax credits and grants, are also explored.

Each development scenario is analyzed for feasibility based on current market factors. Vacancy level, rental rate, and absorption rate data was collected and used to address the potential impact on an adaptive reuse development of the courthouse. A pro forma evaluation using the current market factors, local real estate comparables, development and operation costs, and estimated financing sources deliver a return on investment (ROI) and net operating income (NOI). After the completion of this assessment it was determined that Class B Offices offers a higher income potential and a ground lease scenario provided a higher return on investment. The report will conclude with recommendations for the future development of this adaptive reuse plan.

II. Preservation Approach

As we consider a plan to adaptively reuse the historic Multnomah County Courthouse, this report has identified several topics that relate to how the building's historic integrity and significance should be maintained for future generations.

Many of the building's high-priority preservation zones, as identified by Architectural Resources Group (February 2016) are the exterior, hallways, and courtrooms.¹ We have preserved all Zone 1 areas in all proposed renovation strategies, and encourage the county to make them a priority moving forward. It would be difficult to maintain Zones 2-4 in a feasible renovation project but careful consideration should be given to altering any historic materials. The three-story annex, which was constructed in 1942, is not a historically significant addition and it can be removed to restore the original courtyard. If the courtyard is enclosed with a canopy, or otherwise redeveloped to facilitate new retail programs on the first floor, all added features should be reversible.

Future development of the Multnomah County Courthouse should follow the "[Secretary Of The Interior's Standards for Rehabilitation of Historic Structures](#)." The proposed development project must meet the Standards, as interpreted by the National Park Service, to qualify as a "certified

¹ Architectural Resource Group, Inc. *Multnomah County Courthouse Relocation Assessment*. February 2016.

rehabilitation” eligible for the 20% rehabilitation tax credit. The Standards apply to both the exterior and the interior of historic buildings, and they are applied to projects in a reasonable manner, taking into consideration economic and technical feasibility. Additionally, the National Park Service offers [Guidelines for Rehabilitating Historic Buildings](#), which expand the discussion of what treatments are most beneficial to adaptive reuse projects, and the [Guidelines on Sustainability for Rehabilitating Historic Buildings](#), which describe the inherent and potential sustainability of historic buildings. Our proposal for the courthouse’s redevelopment has been informed by the Standards, Guidelines, and other professional expertise from the National Park Service and we encourage the county to continue to pursue this project in a manner that respects the courthouse's historic significance.

In order to benefit from federal tax credits, we recommend that the building be income producing, meaning that the retail, office, and residential spaces are rented and provide income for the developer or the county. However, the County could also consider selling the units as condominiums, though this would disqualify the use of federal tax credit incentives. From a preservation perspective, the building will be best maintained and preserved if the entirety is owned by a single party. Dividing ownership among dozens of residents may undermine the benefits of tax credits, and public ownership. Furthermore, public ownership ensures that this building, which was originally built by the people of Multnomah County for a public use, will continue to belong to the public.

This building, which was originally built by the people of Multnomah County for a public use, should continue to allow public access, particularly to the spaces that have the highest physical integrity. Its fine interiors have always been open to the public, and this historic use should continue in some form, if possible. The lobby, grand staircase, hallways, and four courtrooms are preserved and made available to the public in this proposal. In addition, the jail cells on the seventh floor are particularly significant and the people of Multnomah County should have access to them.

Regardless of whether the county and their development partners pursue a residential or a commercial program, this report recommends that approximately 50% of the seventh floor be allocated for a museum of Civil Rights in Oregon, or similar exhibition space for the history of the building. The presence of 18th century jail cells provides a rare opportunity for foster public conversations and interpret the history of law and civil rights. Minoru Yasui’s cell is just one example of the history that can be shared through this place.

III. Development Scenarios

A. Multi-Family Residential

The second scenario is a mixed-use building with retail space on the ground floor and rented apartments most other floors. The residential floors will need to be restricted from public access at the elevators, stairwells, and the main grand staircase. These restrictions will need to have a minimal impact on the priority preservation zones and will need to be fully supportive of egress in an emergency situation. The apartments will be situated on each level corresponding with the building structural elements that are in place as well as window openings. The proposed design for the residential program includes the restoration of the main original circulation patterns and minor additions to circulations at the corners of the building on nearly floors 2-8. The only level in which window opening changes are proposed is on the eighth floor, where windows will need to be created on the north and south elevations.

The Courthouse's new residential program will need to provide low-income housing to a standard that is specified for buildings in the Central City Plan District. The Portland City Code includes a regulation for Inclusionary Housing (33.245.020.B), which is triggered by alteration projects that add 20 or more dwelling units. Either 10% of total units must be affordable to people earning no more than 60% of the area median family income (AMFI) or 20% of total units must be affordable to people earning no more than 80% of AMFI. According to US Census data, AMFI for residents of Portland was \$55,003 from 2011-2015. In our residential program, 80% of rentable apartment units are priced to meet the market rate for units in the Central Business District, while 20% of units are priced at 60% of the market rate.

Most complementary services will be located in the basement including secure bike parking, laundry rooms, physical fitness rooms, storage units, mail delivery, and waste disposal. Businesses that rent space on the first floor would also have access to the basement for limited inventory storage, bike parking, deliveries, and waste disposal.

In this plan, the annex is removed to restore a central courtyard which is enclosed with either a glass ceiling above the first floor or an enclosure above the eighth floor. The courtyard is partially used by a restaurant for sun-lit seating and partially used for a children's playground and/or resident's raised garden beds.

If the residential program is manifested through condominiums, we expect the residential description above to apply to the condominium use in terms of the mixed-use nature, layout, supply of affordable units, and other programmatic descriptions. Where the condominium use proposal differs is that we are anticipating that both the residential units and the retail spaces on the first floor will be sold separately and immediately after rehabilitation is completed. For ease of calculation, and as will be further described in the condominium financial synthesis section, we are assuming that all construction and sale of the separate units will occur within one year.

Because the condominium use includes a high number of individual owners, we foresee a need for each condominium owner to be responsible for adhering to clear and concise preservation standards established and enforced by a strong homeowners association to ensure the proper stewardship of the building is prioritized.

B. Class B Offices

This scenario envisions floors two through eight respectfully reusing existing spaces to create multiple types of office spaces. From formal offices, to open plan spaces, to co-operative working spaces, the Multnomah County Courthouse as a whole will be reused as up-to-date, stylish offices ranging from 1,000 square feet (SF) to 25,000 SF (entire floor) to meet any company size needs. Four of the most historically intact courtrooms will be preserved as-is. These dignified, clerestory spaces are one of the keys to a sensitive preservation approach while providing stately offices and larger imaginative spaces. Other courtrooms will have some of their historic elements preserved, such as marble and wood wainscoting, tall ceilings, and quarter-sawn oak doors but still adapted to the needs of lessees. Hallways and the original circulation pattern of the building is easily restored and will create a more harmonious and spacious layout. The conversion from courthouse to commercial office space requires minimal intervention into the existing spaces that have high historical integrity.

The office scenario does not anticipate retaining the courthouse annex. This three-story annex structure was added to the Courthouse between 1942 and 1951. Though old enough to be considered historic itself, the annex is not included in the 1909-1914 period of significance listed in the building's National Register for Historic Places (NRHP) nomination and is not a contributing feature to the courthouse as a whole. In fact, the annex does detract somewhat from the original planned layout, circulation pattern, and systems of the building as it blocks light and air for the first three levels. Though it may not have been removed from the Courthouse at the time of its NRHP nomination out of necessity, now is the opportunity to remove the structure to return the space to an air-well, bringing light to the inner ring of offices that face the courtyard. This space also may be used by first floor retailers as dining or retail space.

Any future potential partners should be committed to increasing city walkability and incorporation of public transportation and choose to have lessee employees park elsewhere. Fortunately, the culture of Portland dovetails well with the goals for reuse of this building without providing individual employee parking. Tenants who choose to drive may enjoy parking at any of the already existing parking structures in the Central Business District (CBD).

C. First Floor Retail/Commercial

The first floor of the Multnomah County Courthouse will provide approximately 28,400 square feet of viable retail/commercial space. The floor plan is relatively flexible in layout and many configurations are possible. This floor contains essential historic Zone 1 and Zone 2 areas that

will be preserved predominantly in circulation spaces including the entry lobby with large, central staircase, and stone interior finishes.

On the exterior, the current west facade entries will remain as is; one of two entries on this facade is ADA accessible and is the only wheelchair accessible entrance in the building. The closed-off, central two-floor entry on the west facade, with stone hood, brackets and decorative parapet, will be restored. This grand entry will revive a historic building entry and provide additional access to retail space. The south facade will see the most change as this design proposes altering the ground level windows into entryways for a retail layout. This will minimize damage to the masonry exterior since the windows are nearly at grade. The window size is also conducive to a comfortable, ADA accessible door conversion. The main, east-side entry will remain the predominant way to enter the building. It will lead into the historic entry lobby with original staircase, floor mosaic.

The east wing historic staircase and entry atrium will remain intact as they are of a high level of historic integrity.² The tile flooring, stone wall finish and coffered ceilings are all largely unaltered from the original construction. These are essential Zone 1 areas of preservation as they create the grand entry experience of the historic County Courthouse. Two bathrooms that flank the large staircase will remain as shared, public toilets as they are Zone 2 and retain enough integrity to warrant preservation. Other areas that will be preserved are the corridor leading from the west-side entries that has a similar quality of finishes to the main entry atrium, and two stairwells in the west wing at the north and south corners of the central courtyard. The west wing stairwells are Zone 2, the same level as the east wing bathrooms. These corridors will provide the circulation space needed for the first floor units, and access to upper floors, while preserving the intact historic materials in Zone 1 and 2 designated areas. Existing elevators that flank the main staircase will continue to be used as ADA accessible options to access upper floors.

The remaining areas on the first floor are not considered to have as high of historic integrity and have experienced a greater amount of alteration throughout the courthouse's history. These areas will be subject to renovation to create the first floor retail/commercial units. On the north and south ends of the building there are two areas of approximately 12,000 SF of rentable space on each side. These areas can remain as a large retail/restaurant space, or be divided into smaller units. On the north wing the space is, however, limited to the existing entryways on that side (northwest ADA entrance and main east facade entrance). The height of windows on this facade is prohibitive to alteration and would cause significant damage to the masonry exterior. The space in the south end of the building can be divided much easier as the windows here are at ground level and can be converted to multiple entries. There are five potential window conversions on this facade which could create five equal units of 2,400 square feet, however the flexibility of division in this wing would allow for multiple layouts and could be adapted to lessor designs. Additional rental space in the west wing exists between the two existing entries on the west facade of approximately 3,000 SF. This would be the retail space

² Architectural Resource Group, Inc. *Multnomah County Courthouse Relocation Assessment*. February 2016.

that the restored two-floor entry would lead to. There is also a space of approximately 1,400 SF between the two west wing stairwells along the interior courtyard space. In this space is a historical prisoner elevator. It would be difficult to combine the two spaces in the west wing as they are separated by a Zone 1 corridor, so it suggested they remain as separate rentable units.

This design entirely removes the annex building located in the central courtyard. This space will be restored into open, outdoor courtyard space. The 6,400 SF area can be utilized by restaurant and cafe lessors as outdoor seating for customers or potential building residents. For year round use, a glass atrium could be installed which will also provide a sound barrier for residential or office space above. It is also possible to expand into this courtyard space for additional rental square footage on the first floor.

It is suggested that the retail spaces of this historic building focus on local business owners and local companies as this building is a significant local landmark unique to Portland. Oregon based businesses should be given priority as this would stimulate the local economy and encourage a reinvestment into the community. The layout could potentially house a large-scale retailer in the north or south wing 12,000 SF areas. The large floor space options would also lend well to a local foods market, similar to the James Beard Market concept.³ An indoor market with vendor booths would provide specialty grocery services to the surrounding area and create a social hub for residents and employees of the area. There are few grocery options in the immediate surrounding area with one Safeway store approximately half a mile to the west. Another suggested retail lessor is a local restaurant or brewery. There are several restaurants in the downtown area, so a unique, local company would stand out much more in the market. A multi-vendor cafeteria style model, like Pine Street market, is also a potential design for the space.⁴ In the case of a brewery, Portland city code does limit the square footage that can be dedicated to manufacturing the beer to 10,000 SF.⁵ Due to the large, flexible layout of the first floor this should not be an issue to implement. Alternatively, the manufacturing could exist off-site and a brewpub or tap-room installed into the county courthouse. A few other options this projects suggest is a fitness studio or gym, convenience store, artist gallery or studio, and local goods retailer such as a clothing boutique or bookstore.

IV. Objectives of the Participants

The various stakeholders in this project have both financial and non-financial objectives that help shape and define the ultimate goals of this project. It is imperative to continue to consider all objectives while this project moves further along in the development process. While some compromise is necessary, this feasibility analysis strives to meet all objectives outlined below.

³ <https://jamesbeardmarket.com/>

⁴ <http://www.pinestreetpdx.com/>

⁵ Per Portland City Code.

A. Owner Objectives (Multnomah County)

As the owner of the building, Multnomah County has the potential to generate funds through the sale or lease of the Courthouse that could then be used for the construction or preservation of other county-owned buildings that have been identified for county purposes. Multnomah County also has an interest in the long-term preservation and use of this building, even if it does not fit into the current county program. These non-financial objectives include generally maintaining Portland heritage by ensuring that this National Register-listed property is appropriately rehabilitated and used following the “Secretary of the Interior’s Standards for the Treatment of Historic Properties.” The county also requires that this project satisfies the city’s “Historic Resource Review” by preserving the special characteristics, historic integrity, and architectural character of the historic courthouse. This project will also relieve Multnomah County from the ownership/management burden of this soon to be surplus property once the county moves all courthouse services to the new location in 2018.

B. Developer Objectives

The potential developer and associated investors will also have a few different objectives they hope to accomplish with their participation in this project. Primarily, developers and investors will be interested in making a financial profit. They hope to make an investment that provides reasonable cash flow, an appreciation rate greater than inflation rate, and take advantage of significant tax benefits.⁶ Beyond the money however, potential developers may be interested in this project to assert participation in the Portland community and development related to historic properties. This project can help a developer establish their company’s reputation in the local market as a company that can successfully rehabilitate historic buildings in a sensitive and cost-effective way. There is a great opportunity for the Developer to create unique business branding and marketing in Portland with this project.

C. Third Party Objectives

Third-parties, including local advocacy groups, the Oregon State Historic Preservation Office, and the City of Portland Historic Resources and Preservation Office are first and foremost interested in saving this significant Portland landmark and ensuring the project’s success. These groups are potentially available to provide assistance and understanding of local, state, and federal processes that will move this project through the development phase as a historic project pursuing federal historic tax credits and other possible incentives related to historic preservation and adaptive reuse.

⁶ Donovan Rypkema, “Feasibility Assessment Manual for Reusing Historic Buildings,” 2000.f

V. Physical and Technical Constraints

The building is 200 x 200 feet wide and occupies a full city block. It is 122 feet tall with eight stories above grade and one, single story basement below grade. A central courtyard is 64 x 100 feet and currently contains a three-story annex. In this report, the total square footage is an estimate based on information provided by Multnomah County, and the building's overall dimensions. Further investigation and detailed measured drawings are required to move forward with either of the proposed schematic designs.

Structurally, the courthouse has a concrete spread footing, a frame of riveted structural steel clad in concrete, walls built from unreinforced hollow clay tiles. Neither the roof or walls are insulated. The exterior is clad in granite, limestone, terra cotta, and cement plaster. Its windows are single pane 1/4" with metal sash. Interior surfaces are primarily finished with marble, asbestos tile, concrete, ceramic tile, wood, gyp board and plaster.⁷

According to Donovan Rypkema's checklist of features that contribute to the success of adaptive reuse projects the Courthouse has several important strengths, namely a corner lot, well preserved exterior, masonry exterior, iron/steel frame, tall ceilings (10 feet or higher), age (more than 50 years old), and a located near public transportation stops.⁸ The courthouse scores 15 points out of 20 points. The remaining 5 points were absent because the site cannot be developed in tandem with adjacent sites (as far as we know). It uses most of the lot's foot print but does not maximize the potential height. Based on this rubric, the building's physical features and marketing potential are high. Its potential for additions or expansions is not high.

A. Systems

Multiple reports assert that most systems have outlived their lifetimes. The HVAC system was upgraded in 2007-2008. The jail elevator was updated in 2007-08, while the other elevators were upgraded in 1988. Fire systems were upgraded in 2007-2008, 1992-1994, and 1977 when sprinklers were first installed. The roof may have been replaced in 2008. Condition assessments were beyond the scope of this proposal and more investigations are needed.

B. Accessibility

The courthouse renovation will need to improve internal spaces to ensure that they all comply with the Americans with Disabilities Act (ADA). Its design should surpass minimum requirements and provide accommodations for all people who may work, visit, or live at the courthouse. The old jail and basement may be particularly difficult to renovate for accessibility, but all efforts should be made in these areas as well.

⁷ Multnomah County Facilities Management, "Multnomah County Courthouse 1909-2008," 2008.

⁸ Donovan Rypkema, "Feasibility Assessment Manual for Reusing Historic Buildings," 2000.

C. Entrances

In its current state the Courthouse has just one ADA accessible entrance. We propose to open at least one additional ADA entrance in order to provide greater access and to improve evacuation options in the case of an emergency. The main entrance cannot be altered because it is a high priority preservation area. A better site would be the southeast corner, on either elevation, where large windows are positioned at the level of the street and could become new entrances.

D. Evacuation Routes

Evacuation routes are minimal at present. The Courthouse evacuation routes are limited to two enclosed staircases in the west wing, and an enclosed staircase between the 7th and 8th floor in the east wing. The main staircase in the east wing and the elevators are major circulation routes during normal, daily operations but they are not safe evacuation routes.

E. Parking

There are no dedicated parking areas associated with the property. This will continue in the proposed Residential or Commercial use. Converting the basement to parking was considered but determined not feasible because of limited access, modifications required, effect on historic character and cost. Ideally, any future development partners will be committed to increasing city walkability and incorporating public transportation into their business practices. Day-use tenants who choose to drive will be able to park at any of the already existing parking structures in the Central Business District. Residents will have access to a multitude of transportation alternatives including bikes, TriMet, and ride-share programs. Three TriMet stations are located within one block from the courthouse.

For residential developments, code requirements outline that minimum parking standards for 51 or more residential units require .33 spaces per unit. However, as required by the Portland City Code regulation for Inclusionary Housing (33.245.020.B), if low-income housing units are incorporated at the rate of at least 10% of units being affordable for those making 60% of the Area Median Family Income, the parking requirements are waived. Because the residential proposal meets the low-income housing requirements, we assume there will be no need to provide parking.

F. Seismic and Life Safety

The courthouse is an unreinforced masonry structure (URM) and therefore any change of use will require a seismic upgrade as per Title 24.85 of the Portland City Code. After a Life/Safety retrofit, the structure must allow occupants to survive a quake and to exit a building. A study of

seismic retrofits in Portland found that such projects typically cost \$35-\$45 per square foot. The courthouse floorplan allows approximately 400,000 SF, so the cost of a Life/Safety upgrade may be \$14 to \$18 million.⁹

Portland has been slow to upgrade its URMs so a new mandatory system has been proposed. It will replace a more lenient system what seemed feasible according to the Goettel Study (1995), which stated that retrofitting costs less than the benefits in terms of lives saved and economic losses avoided in an earthquake. Looking at seismic upgrading on a payback basis, URM Life/Safety upgrades in Portland are marginally cost effective because it typically takes 20 - 25 years to payback the owner's investment through higher rents and lower expenses (such as reduced earthquake insurance and mortgage funds). The city has considered making changes to the code in order to make upgrading easier for some properties. However, due to its height and occupancy level, the Courthouse will require a full Life/Safety Retrofit to ensure that building occupants survive and can exit the building safely in the event of an earthquake.

VI. Legal Limitations

A. Property Restrictions

The Multnomah County Courthouse is owned by Multnomah County, a public entity. There are no currently known deed restrictions, covenants, or easements applied to the property.

B. Land Use

1. Master Plan

The City of Portland adopted a new Master Plan in April 2012, "The Portland Plan." The Plan sets 25-year policies with 5-year action plans. Portland's vision for the Central City, the district in which the Courthouse is located, aims to build on recent trends in population and businesses growth within the downtown core and attributes the ongoing expansion to access to mass transit and general livability.¹⁰ Renovation and reuse of older buildings is also strongly encouraged in the Central City.

2. Zoning

The City of Portland's zoning regulations are found in Title 33 Planning and Zoning of the Portland City Code. Outlined below are chapters and sections deemed particularly relevant to the Development Scenarios. However, this list is likely not comprehensive and further assessment of Title 33 may be necessary to ensure that all relevant zoning regulations are met by a development project.

⁹ McMonies, Wal. "Portland's Unreinforced Masonry Seismic Retrofit Project," Center for Real Estate Quarterly Report, vol. 10, no. 2. Spring 2016

¹⁰ City of Portland, "The Portland Plan," adopted by Resolution #36918, April 25, 2012, 58.

Chapter 130 Commercial Zones

Chapter 130 Commercial Zones (33.130) contains regulations for those zones. The Courthouse is located within the Central Commercial Zone (CX). Subsection H of Section 030 (33.130.030.H) of this chapter describes the characteristics of the CX Zone as,

“intended to provide for commercial development with Portland’s most urban and intense areas. A broad range of uses is allowed to reflect Portland’s role as a commercial, cultural, and governmental center. Development is intended to be very intense with high building coverage, large buildings, and buildings placed close together. Development is intended to be pedestrian oriented with a strong emphasis on a safe and attractive streetscape.”

The primary uses for a property in the CX Zone are outlined in Section 100 (33.130.100). Table 130-1 (*May want to include this table in final report*) of this Section provides a useful overview of allowed and prohibited primary uses described below. The two development scenarios, combination residential and retail and combination office and retail, are allowed primary uses in the CX Zone. Other primary uses that are allowed within the CX zone include:

- Commercial Outdoor Recreation
- Major Event Entertainment
- Parks and Open Areas
- Schools
- Colleges
- Medical Centers
- Religious Institutions
- Daycare

A number of other primary uses are allowed with limits or conditions. These limits and conditions require the satisfaction of additional regulations pertinent to those uses, whose location within the code is indicated here by parenthetical references. These limited or conditional uses include:

- Group Living (33.329.030.C)
- Quick Vehicle Servicing (33.130.260)
- Commercial Parking (33.130.260)
- Self-Service Storage (33.284)
- Manufacturing and Production (33.130.100.B.5 and 33.262)
- Wholesale Sales (33.130.100.B.5 and 33.262)
- Industrial Service (33.130.100.B.5 and 33.262)
- Basic Utilities (33.130.100.B.10)
- Community Service (33.130.100.B.8 and 33.285)
- Aviation and Surface Passenger Terminals (33.130.100.C)
- Detention Facilities (33.130.100.C)
- Rail Lines & Utility Corridors (33.130.100.C)
- Agriculture (33.130.100.B.14 and 33.237)
- Radio Frequency Transmission Facilities (33.274)

Primary uses that are **NOT** allowed include:

- Vehicle Repair
- Warehouse and Freight Movement
- Bulk Fossil Fuel Terminal
- Railroad Yard
- Waste-Related
- Mining

Additional information about the Use Categories (Residential, Commercial, Industrial, Institutional, and Other) can be found in Chapter 920 General Terms (33.920). Specific uses and developments may also be subject to regulations in the 200s series of Chapters of Title 33, even if they are not specifically referenced here.

Chapter 245 Inclusionary Housing

Chapter 245 Inclusionary Housing (33.245) contains regulations designed to promote the production of affordable housing in relation to the production of market-rate housing. The Residential Development Scenario triggers the regulations of Section 020 (33.245.020) as it proposes an alteration to an existing building that adds 20 or more dwelling units. The Residential Development Scenario meets the required Inclusionary Housing Standard of the Central City stipulated in Subsection A of Section 040 (33.245.040.A) as 10% of the total number of dwelling units in the alteration will be affordable to those earning no more than 60% of the area median family income.

Chapter 266 Parking

Chapter 266 Parking establishes the standard for the amount, location, and development of motor vehicle parking, bicycle parking, and standards for on-site loading areas based on a property's use. Table 266-1 in Section 110 Minimum Required Parking Spaces (33.226.110) indicates that the minimum number of required motor vehicle parking spaces for a property in the CX zone is zero for all primary uses, with the exception of Household Living.

As Household Living is the primary use of the Residential Development Scenario, the project would require the creation of 68 motor vehicle spaces, based on the provided regulatory formula of .33 spaces per unit for 51+ units. However, this requirement can be waived per Point 8 of Subsection D of Section 110 (33.266.110.D.8). Point 8 indicates that no parking is required for sites located less than 500 feet from a transit street with 20-minute peak hour service that meet the regulations set by Chapter 245 Inclusionary House (33.235). The proposed Residential Development Scenario meets these requirements as described above. Alternatively, the parking requirement can be waived if the site meets the requirements and takes advantage of one of the FAR bonus options in 33.120.205.F.2, 33.130.205.D.2, 33.140.205.D.2, or 33.526.230.C.2.

The Office Development Scenario does not have a minimum requirement for parking spaces.

Chapter 420 Design Overlay

The property has an additional design overlay zone due to the Courthouse's designation as a Historic Landmark. The overlay zone requires design reviews for any new construction or rehabilitation project. Subsection A of Section 045 Exempt From Design Review (33.420.045.A) stipulates that its designation as a Historic Landmark triggers a Historic Resource Review, a different process than that of a traditional design review, and directs to regulations in Chapter 445 Historic Resource Overlay Zone (33.445) and Chapter 846 Historic Resource Review (33.846) discussed below.

Chapter 510 Central City Plan District

Chapter 510 Central City Plan District (33.510) contains zoning regulations specific to those Plan Districts that comprise the Central City. The Multnomah County Courthouse is located in the Downtown Plan District. Four sections of Chapter 510 are relevant to the two proposed use scenarios: Section 210 Floor Area and Height Bonus Option (33.510.210), Section 220 Ground Floor Windows (33.510.220), Section 225 Ground Floor Active Uses (33.510.225), and Section 226 Minimum Active Floor Area (33.510.226).

The Residential Development Scenario would be eligible for a Floor Area Bonus under Section 210 Floor Area and Height Bonus Options, Subsection C Mandatory Inclusionary Housing, Point 1 (33.510.210.C.1) as it triggers the regulations set by Chapter 245 Inclusionary Housing (33.245). The Residential Development Scenario as proposed meets the requirements of 33.245, therefore the project would earn additional Floor Area Ratio of 3:1. In order to qualify for this bonus, the applicant must provide a letter to the Portland Housing Bureau certifying the regulations of 33.245 have been met.

Section 220 Ground Floor Windows (33.510.220) regulates the size and distribution of ground-level windows within the CX Zone and Central City Plan District. Subsection B (33.510.220.B) requires development to meet the base standard of the CX zone, described in 33.130.230.B.3. The base standard stipulates that windows must be at least 50% of the length and 25% of the ground level wall area, which includes all exterior wall area up to 9 feet above finished grade. Further assessments will be necessary to determine if the Courthouse currently meets these requirements. However, neither of the development scenarios calls for exterior alterations, as any such alterations would run contrary to this feasibility assessment's emphasis on the preservation of the Courthouse's historic character and materials.

Section 225 Ground Floor Active Uses (33.510.225) is intended to reinforce the continuity of pedestrian-active ground level building uses in the Central City. Retail, Residential, and Office are considered active uses. Per Subsection B (33.510.225.B), Map 510-7 indicates the NW half of the Courthouse block must meet the Ground Floor Active Use Standard outlined in Subsection C. The Standard's requirements (33.510.225.C) include: (1) The distance from the finished floor to the bottom of the structure above, which includes the supporting beams of the above structure, must be at least 12 feet. (2) The area must be at least 25 feet deep, measured from the street facing façade; (3) The area must be designed to fit single or multiple tenants and must meet the standard of the Accessibility Chapter of the State of Oregon Structural Specialty

Code; and (4) The street-facing façade must include windows and doors, or be structurally designed so that doors and windows can be added when space is converted to active building uses. The two proposed use Scenarios appear to satisfy Section 225.

Section 226 Minimum Active Floor (33.510.226) more specifically defines the minimum standards that that projects regulated by Section 255 must meet. Per Subsection C (33.510.226.C), on the portion of a site within 200 feet of a streetcar alignment (the NW half of the Courthouse block) at least 50% of floor area must be used by at least one of the allowed active uses. Retail use on the ground floor of both Development Scenarios qualifies as an active use and preliminary designs for this space meet the 50% of floor area requirement.

3. Historic Preservation Ordinances

Two chapters of Title 33 Zoning and Planning deal specifically with historic resources, Chapter 445 Historic Resource Overlay Zone (33.445) and Chapter 846 Historic Resource Review (33.846).

Chapter 445 Historic Resource Overlay Zone

Chapter 445 Historic Resource Overlay Zone (33.445) outlines the regulations pertaining to Historic Landmarks and Conservation landmarks as designated by the City of Portland.

Subsection A of Section 030 Types of Historic Resource Designation and Map Symbols (33.445.030.A) indicates that the Courthouse qualifies as a Historic Landmark by its inclusion in the National Register of Historic Places. Subsection A of Section 140 Alterations to a Historic Landmark (33.445.140.A) describes the circumstances in which a Historic Resource Review is required. Most relevant to the Development Scenarios are Point 1 (33.445.140.A.1), Exterior alterations, and Point 4 (33.445.140.A.4), alteration of an interior space when that interior space is designated as a Historic Landmark. Both Development Scenarios suggest minimal exterior alterations and attempt to ensure minimal disruption to interior spaces that maintain high-integrity of historic features, but any development of the the property will require a Historic Resource Review.

Section 600 Preservation Agreements (33.445.600) details the procedure through which property owners enter into a preservation agreement (Covenant) with the City of Portland. The process for establishing a Covenant on the property deed is defined in Chapter 700 Administration and Procedures Section 060 Covenants with the City (33.700.060).

Section 610 Historic Preservation Incentives (33.445.610) establishes those incentives provided by the City if the property owner enters into a Covenant with the City. The incentive most relevant to Courthouse developers is Point 5 of Subsection C Incentives (33.445.610.C.5), which allows for property owners to apply for the allowance of conditional uses in R, C, and E zones through a Type III review procedure.

Chapter 846 Historic Resource Review

Chapter 846 Historic Resource Review provides the procedures and establishes criteria for historic resource reviews.

Subsection B of Section 060 Historic Resource Review (33.846.060.B) stipulates any project involving the Courthouse will require a Type III review, as project costs would likely exceed the threshold of \$437,750 and would involve alterations of a Historic Landmark-designated interior public space.

Subsection F of Section 060 (33.846.060.F) describes the approval criteria for designs on properties in the Central City Plan district. The criteria are: (1) Retention and preservation of historic character by avoiding removal or alterations to historic materials, features, and spaces that contribute to its significance; (2) Maintenance of the historic resource as a record of its time by avoiding changes that create a false sense of historic development, such as adding conjectural features or architectural elements; (3) Preservation of changes that have occurred over time that have acquired historic significance; (4) Maintenance of historic features through repair or in-kind replacement of features that deteriorated to a point at which that cannot be repaired; (5) Protection of historic materials and avoidance of maintenance treatments that could potentially damage these materials; (6) Protection and preservation of significant archeological resources on the property to the extent practical, and implementation of mitigation measures if those resources must be disturbed; (7) Differentiation between new additions or alterations and old historic material, features, or spaces; (8) Architectural compatibility of new work with the historic resource's massing, size, scale and architectural features; (9) Preservation of the form and integrity of the historic resource by ensuring that new additions or new construction are undertaken in a manner that is reversible and will not alter the essential form and integrity of the resource; and (10) Hierarchy of compatibility in which exterior alterations and additions are designed to be compatible primarily with the original resource, secondarily with adjacent properties and finally, if located in a Historic or Conservation District, with the rest of the district.

4. Building Code

The City of Portland's Building Code is found in Title 24 Building Code of the Portland City Code. For the purposes of this feasibility study a minimal assessment of the building codes was undertaken, and further research in this area will be required as any project moves forward.

Chapter 10 Administration and Enforcement Section 040 Codes (24.10.040) outlines how the City of Portland has adopted the State of Oregon approved codes to serve as the City's Structural Specialty Code, Residential Code, and Energy Efficiency Code. The State of Oregon approved codes are located at <https://www.oregon.gov/bcd/codes-stand/Pages/adopted-codes.aspx>. Subsection C of Section 040 Codes stipulates that Titles 25 (Plumbing Regulations), 26 (Electrical Regulations), 27 (Heating and Ventilating Regulations), and 33 (Planning and Zoning Regulations) are authoritative in those areas.

Any project involving the Courthouse will require a seismic retrofit to upgrade the building to current standards. Chapter 85 (24.85) Seismic Design Requirements for Existing Buildings contains regulations pertinent to that aspect of the project.

5. Other

City of Portland Green Building: Summary of Codes, Regulations, and Policies Related to Green Building and Development

This summary contains only portions of the City of Portland's Green Building guide (<https://www.portlandoregon.gov/bps/article/475489>) deemed relevant to the Courthouse and its potential redevelopment. It is useful for the purpose of this section to list relevant chapters and sections of the Portland City Code by the themes of Solar, General Energy, Stormwater, and Construction and Demolition(C&D) Debris Recycling. The full text of those Sections listed here can be found in their referenced locations.

Solar

- Allowance of solar panels to exceed height limit in commercial zones (33.130.210.B.5).
- Rooftop solar standard for projects required to meet Community Design Standards (33.218, multiple sections).
- Rooftop solar exempt from design review (33.420.045.Y).
- Rooftop solar exempt from historic resource review (33.445, multiple sections).

General Energy

- Installation of storm windows and door exempt from historic resource review (33.445)

Stormwater

- Central City FAR bonus for eco-roof construction (33.510.210.C.10).
- Eco-roof exemption from design review (33.420.045.Z).
- Eco-roof exemption from historic resource review (33.445, multiple locations).

Construction and Demolition (C&D) Debris Recycling

- Requirements for construction and demolition debris recycling (<https://www.portlandoregon.gov/bps/55396>)
- Construction and Demolition debris website for City of Portland (<https://www.portlandoregon.gov/bps/41683>)

VII. National, Regional, and Local Factors

At the time of writing this report the United States had a newly elected President who was actively trying to fill his cabinet positions. This is a period of political uncertainty, where interested groups should not count on previously available federal programs and funding sources remaining available. We fully expect that by the time the Multnomah County Courthouse is fully developed in 3-5 years, another national election will leave some uncertainty as new policies are written and carried out. With that, there are several factors that are

somewhat independent of the changing public policy which will always affect the national economy and may affect the local Portland economy.

The rate of national unemployment fluctuates, but is a good barometer for local unemployment and the ability to spend money in a national economy. Though a Portland-local private partner is preferred, many neighboring structures to the Multnomah County Courthouse are managed by inter-state or international groups. According to the Bureau of Labor Statistics (BLS) unemployment was at 4.8% (7.6 million) for the United States. It is marginally up from 4.6% unemployment in October 2016 but down from January 2016 (4.9%) and January 2015 (5.7%).¹¹ In previous years the unemployment rate is lowest in the final quarter of the year then rises slightly in Quarters 1-3 before dipping again in Quarter 4.

It is possible that government support organizations such as those supporting low income housing or local development may be cut in the following years. The current administration as of March 2017 has released no plan of continued support or plan to slash funding at this time. Other government support programs such as Medicaid, Medicare, Supplemental Nutrition Assistance Program (SNAP, or colloquially, food stamps) and other forms of social welfare have, as of March 2017, have come under attack but again, no formal plan to dismantle these programs has been published at this time.¹² If such cuts were to occur, it would affect the national economy as people would have less disposable income to spend on non-food or healthcare costs. Other than possible budget cuts to the U.S. Department of Housing and Urban Development (HUD), or changed to regulatory legislation covered in the net section-- few national government support trends will affect this project.

The current administration as of January 2017 has publicly declared that they are anti-regulation, promising that for every new regulation, two existing regulations will be dismantled.¹³ This does not bode well for resource protection regulations and oversight such as the Nation Historic Preservation Act's Section 106 and the Secretary of Interior Preservation Standards. Fortunately, Oregon has strong, local-level protections.

The current administration has promised simplification of the current tax code. The simplification seems to be aimed at income taxes, specifically income tax brackets-- not removing historic tax

¹¹ Bureau of Labor Statistics, "The Employment Situation -- January 2017," New Release. (Washington DC: US Department of Labor, February 2017), accessed March 5, 2017, <https://www.bls.gov/news.release/pdf/empst.pdf>

¹² Dan Merica, Jeremy Diamond and Kevin Liptak, "Trump proposes defense spending boost, \$54 billion in cuts to 'most federal agencies,'" CNN, February 27, 2017, accessed March 4, 2017, <http://www.cnn.com/2017/02/27/politics/trump-budget-proposal/>; Sharon LaFraniere and Alan Rappeport, "Popular Domestic Programs Face Ax Under First Trump Budget," *New York Times*, February 17, 2017, accessed March 4, 2017, https://www.nytimes.com/2017/02/17/us/politics/trump-program-eliminations-white-house-budget-office.html?_r=0

¹³ Nolan D. McCaskill and Matthew Nussbaum, "Trump signs executive order requiring that for every one new regulation, two must be revoked," *Politico*, January 20, 2017, accessed March 5, 2017, <http://www.politico.com/story/2017/01/trump-signs-executive-order-requiring-that-for-every-one-new-regulation-two-must-be-revoked-234365>

credits.¹⁴ On the other hand, an intolerant federal administration and expected tax cuts have “devalued Low-Income Tax Credits by 20%” according to Andrew Crampton at Portland State University’s Center for Real Estate. As a result, the state of Oregon Housing and Community Services has cancelled tax credits for the upcoming year to fulfill a \$35 million funding gap from previous years.¹⁵ With this knowledge, it is not unlikely that with federal tax reform the expected 20% historic tax credit is threatened.¹⁶

Social Trends

Portland somewhat insulated from national social trends as it prides itself on its personal exceptionalism. It is considered a “lifestyle” city by some, focused on being more sustainable, more “green”, and a higher quality of life for creative/entrepreneurial citizens.¹⁷ Nevertheless, on the whole Portland is likely susceptible to certain national trends, such as how the 18 to 34 year old demographic is more likely to live with parents than engage in any other living arrangement.¹⁸

Portland may also not be insulated from the national trends in homeownership. Homeownership in the United States is at its lowest level in twenty years. Only 63.5% of households own their own homes, down from 69% in 2004.¹⁹ National economic trends have resulted in sustained demand for multifamily rental units. Nearly all reports advise restraint or moderation. Most renters were interested in green technologies and ways to decrease energy costs.²⁰

In addition to energy efficient trends in real estate, another trend in sustainability is growing in the United States: collaborative work environments and “co-working” environments. “Co-

¹⁴ Kevin Brady, House Representative - Texas, “House Republicans Unveil 21st Century Tax Plan Built for Growth,” Committee on Ways and Means, US House of Representatives, June 24, 2016, accessed March 8, 2017, <https://waysandmeans.house.gov/house-republicans-unveil-21st-century-tax-plan-built-growth/>

¹⁵ Andrew Crampton, “State of the Economy,” *Center for Real Estate Quarterly Report*, vol. 11, no. 1. (Winter 2017), Portland State University School of Business Administration, accessed March 4, 2017, <https://www.pdx.edu/realestate/sites/www.pdx.edu.realestate/files/02%20Economy%20-%20Crampton>

¹⁶ Shaw Sprague, “Call to Action (Update): Urgent Advocacy Needed to Protect the Historic Tax Credit,” National Trust for Historic Preservation, Preservation Leadership Forum, January 19, 2017, accessed March 8, 2017,

¹⁷ Portland Economic Development, “Economic Development Strategy: a Five Year Plan for Promoting Job Creation and Economic Growth,” 2014, accessed February 27, 2017, <http://www.pdxeconomicdevelopment.com/docs/Portland-Ec-Dev-Strategy.pdf>

¹⁸ Richard Fry, “For First Time in Modern Era, Living With Parents Edges Out Other Living Arrangements for 18- to 34-Year-Olds: Share living with spouse or partner continues to fall,” Pew Research Center, Social and Demographic Trends, May 26, 2016, accessed March 8, 2017, <http://www.pewsocialtrends.org/2016/05/24/for-first-time-in-modern-era-living-with-parents-edges-out-other-living-arrangements-for-18-to-34-year-olds/>

¹⁹ Richard Fry and Annie Brown, “In a Recovering Market, Homeownership Rates Are Down Sharply for Blacks, Young Adults: Most renters say they would like to own in the future, but financial constraints are an obstacle,” Pew Research Center, Social and Demographic Trends, December 15, 2016, accessed: March 9, 2017, <http://www.pewsocialtrends.org/2016/12/15/in-a-recovering-market-homeownership-rates-are-down-sharply-for-blacks-young-adults/>

²⁰ Freddie Mac, “Multifamily 2017 Outlook: Positioned for Further Growth,” Freddie Mac Multifamily, January 2017, accessed March 5, 2017, http://www.freddiemac.com/multifamily/pdf/mf_2017_outlook.pdf

working” concepts like “WeWork” have multiple locations across the county including two in Portland. In the WeWork model, a person pays to have use a desk in a shared environment. Though there has been hesitancy in the longevity and success in such work models, they seem to be maturing into stable, viable ideas.²¹

Economic Conditions

The U.S. GDP is increasing by 1.9% at the end of Q4 2016, slowing down from 3.5% in Q3.²² In contrast, Portland ranks 10th fastest growing GDP out of 100 U.S. Metropolitan areas, growing by 4.6% in 2015.²³ Professional and business services was the second largest source of growth locally after durable goods manufacturing (tech production), and number one nationally.²⁴ The technology industry is one of the major drivers of leasing activity across the country. It is a relatively stable job producer, outpacing national employment growth since 2010.²⁵ Portland has the third lowest vacancy rate compared among commercial buildings in the US, but vacancy rates are projected rise in the Pacific Northwest, specifically Seattle and Portland, as new supply is added to these markets, but sustained demand will allow landlords to increase rents enough to offset rising vacancy rates.²⁶ Several sources project that housing prices will increase nationally, though percentages vary.²⁷

B. Local or Regional Factors Which Might Affect Project

The City of Portland is a growing population and business center, trending towards a younger, more highly educated, and diverse population. The US Census Bureau recorded the City’s population in July 2015 at 632,209, an 8.3% increase over the previous five years since it was

²¹ Brian Sullivan, “SoftBank set to invest more than \$3 billion in WeWork,” *CNBC*, February 26, 2017, accessed March 6, 2017, <http://www.cnbc.com/2017/02/26/softbank-set-to-invest-more-than-3-billion-in-wework.html>

²² Bureau of Economic Analysis, “National Income and Product Accounts Gross Domestic Product: Fourth Quarter and Annual 2016 (Second Estimate),” February 28, 2017, accessed March 9, 2017. URL: <https://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm>

²³ Colliers International, “Portland: Office Market Overview | Q4 2016,” *Colliers*, January 27, 2017, accessed February 21, 2017, http://www.colliers.com/-/media/files/marketresearch/unitedstates/markets/portland/2016q4_office.pdf; State of Oregon Employment Department, “Employment In Oregon December 2016 News Release,” Latest News Release, January 19, 2017, accessed March 8, 2017, <https://www.oregon.gov/EMPLOY/Agency/Pages/News-Releases.aspx#release?id=55>

²⁴ State of Oregon Employment Department, “Employment In Oregon December 2016 News Release,” Latest News Release, January 19, 2017, accessed March 8, 2017, <https://www.oregon.gov/EMPLOY/Agency/Pages/News-Releases.aspx#release?id=55>

²⁵ JLL Campaigns, “The 10 most important tech trends to watch in 2017,” JLL, September 12, 2016, accessed March 7, 2017, <http://jllcampaigns.com/jlltechspec/articles/10-most-important-tech-trends-to-watch-in-2017-with-charts>

²⁶ Freddie Mac, “Multifamily 2017 Outlook: Positioned for Further Growth,” Freddie Mac Multifamily, January 2017, accessed March 5, 2017 http://www.freddiemac.com/multifamily/pdf/mf_2017_outlook.pdf

²⁷ Peter Park, “Portland Housing Market Forecast in 2017,” PDX Listed Portland Oregon Real Estate, October 17, 2016, accessed March 6, 2017, <http://www.pdxlisted.com/portland-housing-market-forecast-in-2017/>

measured in April 2010 at 583,800.²⁸ Portland's population is also younger and more racially diverse than State of Oregon averages. In 2010, 70.5% of the population of Portland was between 18-65, compared to only 57.3% of people statewide in that same age bracket.²⁹ Portland is predominantly white, 76.1%, but the City is slightly more diverse than Oregon as a whole, which is 83.6% white.³⁰ Hispanics and Asian are the second and third largest groups in Portland comprising 9.4 and 7.1% of the population, respectively. Black/African-Americans are 6.3% of Portland's population, and 4.7 %of people identified themselves as two or more races.³¹ The City of Portland is also more highly educated compared to the state of Oregon. In Portland, 93.1% of people age 25 and older have at least a high school degree and 45.5%of that same group holds at least a Bachelor's degree.³² The State of Oregon meanwhile has a comparable percentage of people 25 and older with high school degrees at 89.8%, however, only 30.8% of people statewide age 25 and older have a Bachelor's degree or other advanced degree.³³ Portland's demographic advantages in age and education have contributed to its workforce having a greater percentage of people age 16 and above employed than statewide numbers. Between 2011 and 2015, 69.5% of Portland's population age 16 and older was employed, compared to 62.1%statewide.³⁴ Portland's median household income is \$55,003, slightly higher than the state average of \$51,243.³⁵ These demographic trends in Portland help to explain the City's expanding economy, but also factor into the housing shortage Portland is currently experiencing.

Overall Portland's economic growth has outpaced national averages since 2011. Between 2011 and 2015 Portland's Nonfarm payroll growth has averaged 2.6% a year, compared to only 1.7% per year nationwide.³⁶ Portland's expanding economy is driven primarily by two sectors, Professional & Business Services and Merchant Wholesalers. State of Oregon Employment Department data indicates that Professional and Business Services sector experienced the most growth of any Nonfarm sector in fiscal year 2016, adding 10,200 jobs, a 4.4% increase since November 2015.³⁷ In Portland, the boost in this sector is driven by the presence of corporate headquarters for brands such as adidas North America, Columbia Sportswear, Intel Corporation, and NIKE, Inc.³⁸ Meanwhile, Merchant Wholesalers, defined as intermediaries between manufacturers and retailers that purchase bulk quantities of goods from manufacturers

²⁸ US Census Bureau, "QuickFacts, Portland city, Oregon," 2015. Accessed February 24, 2017, <https://www.census.gov/quickfacts/table/PST045215/4159000>.

²⁹ Ibid.

³⁰ Ibid.

³¹ Ibid.

³² Ibid.

³³ Ibid.

³⁴ Ibid.

³⁵ Ibid.

³⁶ U.S. Department of Housing and Urban Development. "Comprehensive Housing Market Area Analysis: Portland-Vancouver-Hillsboro, Oregon-Washington" May 1, 2016, 2.

³⁷ State of Oregon Employment Department. "Employment In Oregon December 2016 News Release" Latest News Release, January 19, 2017. Accessed March 8, 2017. <https://www.oregon.gov/EMPLOY/Agency/Pages/News-Releases.aspx#release?id=55>

³⁸ U.S. Department of Housing and Urban Development. "Comprehensive Housing Market Area Analysis: Portland-Vancouver-Hillsboro, Oregon-Washington" May 1, 2016, 3-4.

to sell to retailers, totaled 20,321,027 in 2012 sales. Comparatively, the next three highest grossing sectors in 2012 were Manufactures Shipments (\$8,768,447), Retail (\$8,508,267) and Healthcare and Social Assistance (\$7,270,237).³⁹ The preponderance of the Professional & Business Services and Merchant Wholesalers sectors in the City is due in part to the concentration of office space there. Portland's downtown contains 49% of the multi-tenant office space in the region (2010). This number is almost double that of averages of only 27% for eight peer cities, such as Denver, CO and Charleston, SC.⁴⁰ From this data it is clear that the City of Portland has the need for more office space to support this growing sector of the City and State economy.

As a result of its growing population and expanding economy, Portland has a need for more housing, particularly low-income affordable housing. Between 2011 and 2015, Portland had an almost even split in housing that was owner occupied, 52.9%, and rental units, 47.1%, compared to statewide averages of 61.3% owner occupied and 38.7% rental units.⁴¹ Portland is also significantly more cost-burdened, defined as spending more than 50% of income on housing and transportation, than most major metropolitan areas across the country. Almost a quarter of Portland's population is considered cost-burdened, a measure which includes both renters and owner-occupiers.⁴² High prices are partly tied to rising home values, which have increased by double digits in both 2015 (17%) and 2016 (13%).⁴³ However, low vacancy rates and high population growth are also likely to exacerbate the housing issues Portland is experiencing in 2017.⁴⁴ More housing units, at both market- and affordable-rates, is deeply needed to support Portland's growing population.

Both proposed use Scenarios are supported by the factors currently influencing Portland's economy and housing market. The concentration of Office space in Portland will likely continue to grow, particularly as the city attracts high-tech, sales, and other industries that require such space. As noted, the City of Portland is experiencing a housing shortage and rising prices make the availability of affordable housing even more important in maintaining the diverse population attracted to the City's expanding economy.

³⁹ US Census Bureau, "QuickFacts, Oregon," 2015. Accessed February 24, 2017, <https://www.census.gov/quickfacts/table/PST045216/41>.

⁴⁰ City of Portland, "The Portland Plan," adopted by Resolution #36918, April 25, 2012. <http://www.portlandonline.com/portlandplan/index.cfm?c=58776&a=398384>, p. 58.

⁴¹ US Census Bureau, "QuickFacts, Portland city, Oregon," 2015. Accessed February 24, 2017, <https://www.census.gov/quickfacts/table/PST045215/4159000>.

⁴² City of Portland, "The Portland Plan," adopted by Resolution #36918, April 25, 2012. <http://www.portlandonline.com/portlandplan/index.cfm?c=58776&a=398384>, 46.

⁴³ Park, Peter. "Portland Housing Market Forecast in 2017." PDXListed Portland Oregon Real Estate. October 17, 2016. Accessed March 6, 2017. <http://www.pdxlisted.com/portland-housing-market-forecast-in-2017/>

⁴⁴ Portland State University, Real Estate Center Quarterly, 2017-02., 3.

VIII. Political Factors

A. Local Trends

1. [Portland Plan, 2012](#)

City Plan adopted by the Portland City Council by Resolution 36918, as amended, on April 25, 2012. Outlines city goals for 2035 with five year action plan.⁴⁵ Specific mentions of historic preservation under the “Healthy Connected City” subsection show an interest of including historic properties in future development:

- a) H-20 Protect and enhance defining places and features of neighborhood centers, including historic resources, with special attention to redevelopment areas.
- b) H-30 Preserve older and historic buildings, public places and parks along corridors, where appropriate, to enhance the pedestrian realm and create a unique sense of place and neighborhood identity

2. Demolition Trends in Portland: In recent years, Portland has seen rising numbers of residential demolitions as a response to growing development pressures. The narrow lots of historic buildings created a challenge for developers in the city and often find demolition to be a more ideal approach for efficiency and cost.⁴⁶ A consequence of the widespread demolition has been a loss of the historic character in Portland neighborhoods. In April 2015, the city adopted a “demolition delay ordinance” that amended the city code to provide an added protection to buildings threatened with demolition (refer to “Portland City Code: 24.55.200 Residential Demolition Delay” subheading). However, even with this code adjustment, demolitions across Portland continue at a rising rate with more than 400 occurring in 2015.⁴⁷ The problem has been compounded with the introduction of the “deconstruction mandate” adopted in October 2016 (refer to “Portland City Code: 17.106 Deconstruction of Buildings Law” subheading). This ordinance requires that any primary single dwelling older than 1916 must be deconstructed and recycled rather than demolished in order to reduce landfill waste.⁴⁸ The ordinance is intended to not only reduce waste but provide an added layer of consideration when removing a historic property. It does however, also provide an avenue that may encourage continued removal of Portland’s historic resources in favor of modern developments. Overall, the City of Portland continues to see a concerning level of historic building removals but continued advocacy has seen success in the last few years which is encouraging for future considerations and amendments.

⁴⁵ “Portland Plan Summary.” Portland City Council. April 25, 2016. Date accessed March 3, 2016. <http://www.portlandonline.com/portlandplan/index.cfm?c=58776&a=405753>

⁴⁶ Jordan. “Portland to Reevaluate Residential Infill Development Standards.” *RestoreOregon.org*. September 28, 2015. https://restoreoregon.org/infill_standards/

⁴⁷ Brandon Spencer-Hartle. “The State of Demolitions in Portland.” *RestoreOregon.org*. October, 7 2015. <https://restoreoregon.org/state-of-demolitions/>

⁴⁸ Lydia Ness. “Portland First in Nation to Mandate Deconstruction of Historic Homes.” *RestoreOregon.org*. October 31, 2016. <https://restoreoregon.org/portland-deconstruction-mandate/>

B. City and State Law

1. Portland City Code: [**24.55.200 Residential Demolition Delay**](#): In July 2014, the Historic Landmarks Commission of Portland requested a review of Chapter 24.55 of the city code which deals with residential demolitions. Concern over the "one-for-one exception" that gave exemption to the demolition delay provision if a demolition application was submitted with a construction permit for the new building. This resulted in 75% of the demolitions in 2013-2014 to occur with no notice.⁴⁹ Effective April 2015, the City Council adopted a Residential Demolition Ordinance that removed the "one-for-one exemption," expanded notice requirements and amended appeal provisions. Notice is given to residents in the area of a demolition permit as well as to organizations like Restore Oregon and the Architectural Heritage Center as a means of protecting potentially historically significant buildings from careless demolition. Large-scale alterations and additions are also subject to notice to the neighborhood residents. This shows an effort by the city to provide additional protection to the integrity of Portland's historic neighborhoods.

2. Portland City Code: [**17.106 Deconstruction of Buildings Law**](#): This ordinance adopted on October 31, 2016 requires that any primary dwelling structure older than 1916 is subject to professional deconstruction, in place of demolition, for removal. A certified "deconstruction contractor" is required by this ordinance to ensure correct handling of materials. This law is not directly related to the Multnomah County Courthouse as the building is not being wholly demolished. However, consideration to any historic materials that are removed from the building should be given the same level of attention. Reduction of waste and recycling of high quality historic materials that may be removed during the restoration project should be given high-priority.

3. Oregon State Law: [**ORS 197-772: Consent for designation as historic property**](#): The "Owner Consent Law" requires the permission of the property owner to designate a privately-owned building as a historic landmark and/or list it with the National Register of Historic Places. Refusal of consent by the owner prevents any historic designation.⁵⁰ Definitions within the law were challenged in an Oregon State Supreme Court trial in 2016 (refer to "Lake Oswego Preservation Society vs. City of Lake Oswego" subheading). This law does not directly affect the Multnomah County Courthouse as the building is publicly-owned and has previously been designated historic and listed with the National Register. However, the law can reflect a state-wide attitude of individual, property owner rights superseding protection of historic resources which could become a factor in the restoration of the County Courthouse.

4. [**Lake Oswego Preservation Society vs. City of Lake Oswego, 2016**](#): This landmark case was the result of a dispute over the historic designation of the oldest house in Lake Oswego, the

⁴⁹ "Residential Demolition Ordinance: Implementation Report to City Council." Portland Bureau of Development Services & Development Review Advisory Committee. November 2016. <http://www.portlandonline.com/fritz/index.cfm?c=49205&a=623101>

⁵⁰ "Annotations, 2015 ORS 197.772 Consent for designation as historic property." *Oregonlaws.org*. <https://www.oregonlaws.org/ors/197.772>

Carman House, built in the 1850s. The suit called into question the definition of “property owner” in the law ORS 197.772 (refer to “Oregon State Law: ORS 197-772: Consent for Designation as historic property” subsection). The owner of the Carman House claimed that they fell within the definition of “property owner” despite not owning the property at the time of designation. They requested removal of the historic designation with the intent of demolishing the building for redevelopment of the land. A decision was reached in the Oregon State Supreme Court on August 4, 2016 narrowing the definition to only the owner at the time of designating the property which results in the designation of the Carman House to remain in place.⁵¹ This ruling will result in the protection of other historic properties from losing their designation allowing the acknowledgement and protection of more resources in Oregon.

5. Historic Resources Code Improvement Project: [Ordinance No. 185915, 2013](#) : Concerns over the fees and time required for small-scale alterations designated historic properties prompted an amendment project to the historic resource review code. This project updated ambiguous terms, simplified categories of procedure type and level of review with the intention of easing the burden of resource review on small scale (<150SF) projects on non-street facing facades and streamlining the procedural process.⁵² The amendments were adopted by Portland City Council in March 2013. Due to the size of the County Courthouse project and suggested alterations to the the exterior, this design will be subject to review and approval by the bureau of Development Services and the Historic Landmarks Commission. The amendment project indicates that the county is flexible in adjusting city code and is responsive to concerns about the quality of the historic resource review procedures.

6. Goal 5 Compliance amendments: [OR660-023-0200 Historic Resources, 2017](#) : Changes made to the Goal 5 Historic Resource code redefines terms and requires public hearing to determine historic resource review procedures for properties listed after adoption of the amendments. Resources listed prior to the changes are subject to the previous procedure of an automatic resource review.⁵³ The County Courthouse is well before this change and may comply with the previous Goal 5 procedures.

B. Boards and Commissions

1. Historic Landmark Commission: The Multnomah County Courthouse was placed on the commission’s Historic Resource Watch List in the 2016 report.⁵⁴ This is a recognition that the property is an “at-risk” historic resource and indicates a special interest in its preservation and

⁵¹ Jonathan Bockian. “Lake Oswego Preservation Society v. City of Lake Oswego.”

Preservationlawdigest.com. August 13, 2016. Date accessed March 3, 2016.

<http://preservationlawdigest.com/2016/08/13/lake-oswego-preservation-society-v-city-of-lake-oswego/>

⁵² Portland Bureau of Development Services. *Adopted Historic Resources Code Improvement Project Zoning Code Amendments*. Ordinance#: 185915. Effective May 1, 2013.

⁵³ Portland Planning and Sustainability. “New State Rules Will Prompt Changes to Portland's Historic Resource Protection Program.” February 6, 2017. Date accessed March 3, 2016.

<https://www.portlandoregon.gov/bps/72560>

⁵⁴ Portland Historic Landmarks Commission. *State and City Preservation Report 2016*. November 2016. Date accessed March 6, 2016. <https://www.portlandoregon.gov/bds/article/619268>

successful reuse. This project's success would provide a positive focal point for the future plans and goals in historic preservation for the City of Portland. A successful project would also reinforce the city's dedication to protecting the significant resources and historic character of the cityscape.

C. Advocacy Groups

1. Potential supporters

Minoru Yasui Tribute Project

Minoru Yasui was a Japanese Lawyer that received his degree from the University of Oregon in 1939. He was the first Japanese American to graduate from the law program and join the Oregon Bar. After defying the curfew for Japanese citizens in 1942 to prove it was unconstitutional, Yasui was held in trial at the Multnomah County Courthouse. Convicted and stripped of his citizenship, he was placed in solitary confinement for nine months in the Multnomah County jail. The jail cell remains intact on the 7th/8th floor of the courthouse. Protection of this historic resource is a priority of the restoration project. If the cell cannot be preserved in place a suggestion is to place the cell on the first floor as an exhibit to Yasumi's life that can attract visitors. The Minoru Yasui Tribute Project would likely be a supporter to this building restoration. They will also be releasing a documentary film on Yasui on March 28, 2017 which could bring more attention to the value of preserving this historic courthouse.

Restore Oregon

Restore Oregon is a nonprofit advocacy organization for historic preservation in the state of Oregon. The Multnomah County Courthouse was listed on Restore Oregon's Endangered Places list in 2013. Reasons for listing are the lack of seismic upgrades and the outdated building systems.⁵⁵ With the county's decision to build a new courthouse, the rehabilitation and reuse of the Multnomah County Courthouse will ensure the preservation of this historic landmark and likely supported by Restore Oregon.

Architectural Heritage Center (AHC)

The AHC is a nonprofit advocacy group for historic preservation located in Portland. Their mission includes the promotion of adaptive reuse projects in historic buildings and is a likely supporter of the Courthouse project.

⁵⁵ "Multnomah County Courthouse." *RestoreOregon.org*. May 10, 2013. Date Accessed March 3, 2016. <https://restoreoregon.org/multnomah-courthouse-portland/>

[Oregon Historical Society](#) (OHS)

OHS is a museum and nonprofit advocacy group for Oregon's cultural heritage. The importance of the County Courthouse to the history of Portland should conjure the support of this group for the adaptive reuse project.

2. Potential opponents

Developers looking to demolish and build new.

The development pressures on the City of Portland have resulted in increased demolitions and modern redevelopments to adapt to a growing population. Potential conflicts from supporters of a more modern development of the County Courthouse tax lot could arise. The size of the tax lot being a full-city block would provide ample development space for a more modern design use. However, the loss of the historic courthouse building would forever change the downtown cityscape and the reused of the building is much more ideal for the long term character of the city.

D. Potential Impacts

1. Environmental

- *Demolition of Annex:* Removal of the central annex addition will create a significant amount of waste. Efforts should be made to recycle as much material as possible to reduce landfill waste.
- *Updated 'green' building systems:* The redevelopment of the courthouse is a prime opportunity to update and install eco conscious and energy efficient building systems.

2. Community plans

- *Increased traffic:* The redevelopment of the courthouse could result in increased vehicle and pedestrian traffic. With the lack of parking available for the building this could compound issues if future tenants are vehicle oriented. Increased pedestrian traffic is more ideal as it has a smaller impact on the quality of the city.
- *Affordable housing:* Addition of affordable units will benefit the community and continue to support diversity in the city.
- *Employment opportunities:* The first floor retail program and an office redevelopment would create a significant number of jobs for the Portland CBD.

3. Other properties

- *Property value and taxes:* An improvement to the Courthouse's overall value through an adaptive reuse of the building could potentially increase the value of surrounding properties.

IX. Financial Sources and Property Disposition

We have analyzed two strategies for financing the development of this property for a new residential or commercial use: 1) the developer employs their own financial sources to purchase the property outright from Multnomah County, or 2) the County maintains ownership of the property and the developer pays an annual ground lease. Either strategy will require a variety of financial sources and interventions. Our analyses have incorporated the developer's equity, debt, and a federal preservation tax credit. Other financial interventions are described in this report, but we not factored into the financial analysis for the sake of simplicity.

A. Purchase Price

We have chosen to proceed with a conservative estimate that values the courthouse at \$10,000,000 in its current state. Its size, location, and potential as a mixed-use building means that the sales price after development would be quite high; however, as a defunct courthouse with serious structural and systematic deficiencies that will require a massive investment in redevelopment, it might be more appropriate to price the building according to the value of the land.

In its current condition, sales comparables are hard to find. The Tilbury Building at 123 Southwest Yamhill Street is advertised on LoopNet for \$1,400,000. It is a historic building, three stories high, contains Class B offices, and occupies 3,794 SF. The Arthur building at 726 SW 11th Ave is advertised on LoopNet for \$8,700,000. It is historic, contains 50 studios and micro-unit apartments on five stories, and occupies 18,000 SF. Both the Tilbury and the Arthur have had seismic upgrades, plumbing and electrical upgrades, and the interiors have already been redeveloped for office and residential use. By comparison, the Courthouse is larger and has a more prominent location, but it is in need of substantial development.

An empty lot located at 2601 Southwest Water Ave is advertised as a fully entitled 100-unit multifamily development site available for \$5,750,000. At 20,059 SF it is small compared to the courthouse's 40,000 SF lot. This still does not provide a reliable estimate for the courthouse's market value. As stated above, we have chosen to proceed with a conservative estimate of \$10,000,000.

B. Public-Private Partnership

The most beneficial way to finance the Courthouse development project is for the county to enter into a Public-Private Partnership with a property management company that manages other historic properties in an operation, maintenance, and management (OMM) contract. This partnership would be beneficial to the county because the county would retain ownership while a developer would take on the risk and hassle of development, maintenance, and day-to-day

operations for the property. A long contract term may be the most beneficial for attracting potential partners and as the private partner will have more time to see reasonable returns on their investment.

According to Inici's Courthouse Options Analysis Report (2012), developers may look favorably on a Public-Private-Partnership with Multnomah County. Inici found that the county has earned a high bond rating by maintaining a low debt burden and successfully managing its long-term debt. A public developer would benefit by partnering with the county, since the county is able to borrow at a highly competitive rates. This report and financial analyses do not assume that Multnomah County would go into debt to further the project, although that might be feasible.

In every scenario the county will receive the value of the property before development begins or over a period of decades. The developer takes on debt in order to finance the project and pay the county. Ideally, the developer will fund at least 10% of the project through equity to solidify their commitment to its success while funding no more than 75% of the project through debt. These details are further described in the "Financial Synthesis" sections of each scenario.

C. Ground Lease

A typical example of such an arrangement would be to partner with a preservation-minded developer in a 60 to 80 year ground lease. With a ground lease, the county can offer developers a prime Central Business District location. It also absolves the county of having to sell the public agency-owned property and land to a private entity, taxing the sale, and losing a stake in real salable property in the CBD. As the landlord, the county may also exact fees from the private partner, making it a viable economic investment with long terms. With only a few controls placed on the lease, Multnomah County can also control how the County Courthouse is rehabilitated and used as commercial office space or residential apartments.

D. Federal Historic Preservation Tax Credit

The most effective program to promote investment of private equity in historic resource rehabilitation is the Federal Historic Preservation Tax Incentives program. It has been instrumental in the rehabilitation of the places that give our cities, towns, and rural areas their distinctive character. The incentive also improves the economic health of communities by increasing property value, generating jobs, creating affordable housing, and augmenting revenues for local, state, and Federal government entities. The program was implemented in 1976 and has generated over \$84 billion in preservation activity since its inception. During Fiscal Year 2016, the National Park Service approved 1,299 proposed projects representing an estimated \$7.16 billion of investment to restore and rehabilitate historic buildings.⁵⁶

⁵⁶ U.S. Department of the Interior, "Federal Tax Incentives for Rehabilitating Historic Buildings Statistical Report and Analysis for Fiscal Year 2016," National Parks Service, March 2017.
<https://www.nps.gov/tps/tax-incentives/taxdocs/tax-incentives-2016statistical.pdf>

The tax credit will apply because the Courthouse is listed on the National Register of Historic places, but the redevelopment plan must facilitate an income-producing use and all physical changes to the structure must follow the Secretary of the Interior's Standards for Historic Preservation. The tax credit allows for a 20% tax credit on eligible costs. If the rehabilitation of the Multnomah County Courthouse is put towards an use that is income producing, such as leasable office space or leasable residential space, the tax credit could be utilized. However, if the rehabilitation is completed for private use, the project cost would not qualify for this tax credit opportunity. More information can be found in the Appendix.

X. Financial Interventions

The county and its development partners may eventually choose to participate in numerous programs that will help finance the courthouse's next phase of life. Several of these interventions are here described for future reference, but they are excluded from the financial analysis (pro forma) that accompanies this report. The interventions are considered to be additive, not essential. The pro forma demonstrates that all scenarios are feasible without these interventions and that they can be utilized to facilitate the development if so desired.

It is important to consider that most interventions are conditional and may restrict the developer's plans for the courthouse. The federal preservation tax credit is technically an intervention, but we feel that it is worthwhile and achievable so have included it in the financial analysis.

A. Grant money for Acquisition

Grants that assist with acquisition funding in the State of Oregon predominantly focus on property acquisitions that would serve to preserve park lands, or maintenance or preservation of watersheds and habitat for native fish or wildlife. The Portland Parks and Recreation Land Acquisition program lists "significant cultural resource properties" as an area of focus, but implies that such an acquisition would be utilized for future park use. It does not appear that the Multnomah County Courthouse property would fit into any of these categories, and therefore would not be eligible for any acquisition grants for the uses our group has proposed.⁵⁷

⁵⁷ City of Portland Parks and Recreation, "Land Acquisition Program," Accessed March 15, 2017. <https://www.portlandoregon.gov/parks/42035>

B. Grants for Construction or Rehabilitation

Preserving Oregon Grant⁵⁸ - This grant program is a one-time 1:1 matching award of up to \$20,000 offered by Oregon Parks and Recreation Department for rehabilitation costs related to properties listed on the National Register of Historic Places. Additional information such as specific criteria and application processes can be found at <http://www.oregon.gov/oprd/HCD/FINASST/docs/PreservingOregonInformation2017.pdf>.

Oregon Heritage Grant⁵⁹ - This grant program is a one-time award of up to \$20,000 that cannot exceed 50% of the total project cost. The Multnomah County Courthouse is an eligible resource, however, the project would need to follow a ground-lease scenario as it would have to retain its current local government ownership in order to qualify. Additional information to include eligibility for resources and ownership entities as well as application requirements can be found at <http://www.oregon.gov/oprd/HCD/FINASST/docs/2015HeritageGrantInformation.pdf>.

Oregon Cultural Trust Cultural Development Grant⁶⁰ - With a strong focus on the support of Oregon's Cultural Heritage, this grant supports a range of projects. It specifically relates to the Multnomah County Courthouse in the "Preservation" section, which allows for awards up to \$50,000 requiring a 1:1 match to be applied to rehabilitation costs of historic resources in Oregon. In order to qualify for this grant, ownership must be a non-profit organization within the State of Oregon. If ownership is maintained by Multnomah County, this grant would not be accessible. However, if a non-profit organization had a long-term lease of the historic jail on the 7th floor, this grant may be possible. More information can be found at http://culturaltrust.org/wp-content/uploads/CDV_FY18_GuidelinesBudgetForms_20170119.pdf.

According to the Department of Planning and Sustainability, the site is eligible for the Community Development Block Grant (CDBG) Entitlement Program. CDBG is a HUD program that provides annual grants to providing housing, principally for low- and moderate-income persons. More information on the CDBG can be found on the U.S. Department of Housing and Urban Development website under Community Development Block Grant Program.⁶¹

⁵⁸ Oregon Parks and Recreation Department, "Preserving Oregon Grant 2017," Oregon Heritage, 2017. <http://www.oregon.gov/oprd/HCD/FINASST/docs/PreservingOregonInformation2017.pdf>.

⁵⁹ Oregon Parks and Recreation Department, "Oregon Heritage Grant," Oregon Heritage, 2017. <http://www.oregon.gov/oprd/HCD/FINASST/docs/2015HeritageGrantInformation.pdf>.

⁶⁰ Oregon Cultural Trust, "Oregon Cultural Trust FY2018 Cultural Development Grant Guidelines," 2017. http://culturaltrust.org/wp-content/uploads/CDV_FY18_GuidelinesBudgetForms_20170119.pdf.

⁶¹ U.S. Department of Housing and Urban Development, "Community Development Block Program," 2017. https://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/communitydevelopment/programs

C. Favorable Financing

This report encourages the utilization of favorable financing to help increase potential profit and help reduce the debt service impact. Some options that could be explored include direct low-interest loans, interest write-down, term subsidy, loan guarantees, bridge loans, subordination of debt interests and assistance with financing fees.

D. Reinvestment of Development Fees in Project Area

In the extent that it is possible, any fees that can be waived should be committed to reinvestment in the project area to help promote public interests.

E. Regulatory relief

As a part of the local government, Multnomah County can significantly increase project feasibility and profitability through regulatory relief. By easing regulations relating to zoning and code enforcement, specifically as it relates to rehabilitation of an historic building, the project can save money throughout the development and construction phase, thus adding to profits in the short and long term. Additional information regarding historic preservation zoning agreements and zoning incentives can be found in the Portland City Code under Title 33 Chapter 445 Sections 600 and 610.

Seismic upgrades have been identified as a requirement for the courthouse building, as outlined in the Physical and Technical Constraints section of this report. Unfortunately, the courthouse is not eligible for grants from FEMA or the Oregon Office of Emergency Management that fund public projects for seismic upgrades, life safety improvements, and hazard mitigation because the courthouse is not a high-priority community service, such as a fire station or school. As a result, if possible, it is recommended that relaxed seismic design requirements are investigated and implemented if possible.

F. State Assessment Program

While the State of Oregon presently does not offer a tax incentive program that is modeled similarly to the Federal Historic Preservation program, as 34 states currently do, it does offer the Oregon Historic Special Assessment Program. Administered by the Oregon State Historic Preservation Office, the Special Assessment Program allows property taxes to be “frozen” at the property’s assessed value prior to improvement.

Eligibility considerations and guidelines of this program are as follows:

- The building must be listed or soon to be listed in the National Register of Historic Places, either individually or as a contributing building in a historic district.
- A preservation plan is required, along with progress reports every 3rd, 6th, and 9th years. Approval for all work must be received in advance. Failure to carry out a preservation plan or other requirements is cause for disqualification, repayment of taxes, penalties and interest.
- Ten percent of the building’s value must be invested in rehabilitation work within the first five years.
- Local jurisdictions may review applications and provide advisory recommendations to SHPO “relating to public benefit” and property eligibility. More information can be found at <https://www.portlandoregon.gov/bps/article/146265>.

G. Multiple-Unit Limited Tax Exemption Program

The site is eligible under the city’s Multiple-Unit Limited Tax Exemption (MULTE) Program. Multiple-unit projects receive a ten-year property tax exemption on structural improvements to the property.⁶²

H. Preservation Easements

The Historic Preservation League of Oregon (HPLO) accepts preservation easements across the state, which can both protect the property in perpetuity as well as offer tax incentives.⁶³

⁶² City of Portland, Portland Housing Bureau, “Multiple-Unit Limited Tax Exemption Program,” 2017. <https://www.portlandoregon.gov/phb/61191>

⁶³ City of Portland, “Financial Incentives for Historic Preservation,” 2007. <https://www.portlandoregon.gov/bps/article/146265>

I. Low-Income Housing Tax Credits

The Low Income Housing Tax Credit (LIHTC) was created by the 1986 Tax Reform Act as an incentive to encourage an increase in low-income housing availability through the construction and rehabilitation of rental housing. The LIHTC program allows for credits to be utilized against federal tax liabilities for 10 years and is manifested through direct tax savings to owners of rental housing developments that establish a minimum of 10% of the units as affordable for those earning 60% or less of the gross area median income. According to the Oregon Housing and Community Services website, “[d]evelopers of tax credit developments typically sell the credits to investors who are willing to provide capital in return for the economic benefits (including tax credits) generated by the development. The amount of tax credit an owner receives is determined at the time the tax credit is allocated. The tax credit amount is based on several factors including depreciable development costs, type of development (new construction, rehabilitation or acquisition), and percentage of housing units designated for low-income use, the allocating agency’s evaluation and development financing.”⁶⁴

Both the rental and condominium residential use proposals meet the requirements outlined for compliance with low-income housing, offering 10% of the units at a rate that is affordable for those earning 60% or less of the gross area median income. Therefore, if a residential use is carried out, the development would be eligible for the LIHTC.

J. Energy Incentives

There are multiple sustainability and energy incentives, including LEED certification, that can help offset development costs if the project is conducted in a way that meets incentive requirements. Our group strongly recommends the employment of sustainable development measures, whether or not such measures will trigger eligibility for tax incentives. We recommend visiting the Oregon Department of Energy for a wide range of incentive options that allow for an array of variables to be implemented in the development.⁶⁵

K. Tax Increment Financing

Portland, Oregon offers a robust tax increment financing opportunity for low-income housing developments under the Affordable Housing Set-Aside Policy. Unfortunately, the Multnomah County Courthouse property is not currently located within any Urban Renewal Areas, and therefore may not be eligible for TIF incentives. If the residential program in either rental unit or condominium format is undertaken, this program and the property’s eligibility should be re-

⁶⁴ Oregon Housing and Community Services, “Low Income Housing Tax Credit Program,” 2017. <https://www.oregon.gov/ohcs/pages/multifamily-housing-tax-credit-lihtc.aspx>

⁶⁵ Oregon Department of Energy, “Incentives,” 2017. <http://www.oregon.gov/energy/Pages/index.aspx>

evaluated before development occurs. Information regarding the Affordable Housing Set Aside Policy and other related incentives is supplied by the Portland Housing Bureau.⁶⁶

L. Transfer Development/Air Rights (TDR)

No evidence has been found within City of Portland Code that options are available for the transfer of development rights for the Multnomah County Courthouse.

XI. Residential Development Scenario

A. Multifamily Rental Market Factors

Rent Levels

Our proposal for the Multnomah County Courthouse includes studios, one bedroom, two bedroom, and three bedroom apartments. As of 2016, the average asking rents by unit type in the Portland Submarket were \$1,066 for a studio, \$1,406 for a one-bedroom unit, \$1,961 for a two-bedroom unit, and \$2,341 for a three-bedroom unit.⁶⁷ Central Portland rates were above average. HUD reports that the estimated demand for new market-rate rental housing falls into three categories of monthly gross rent. The Courthouse apartments would be located in Central Portland and in a historic building (not new construction), therefore we propose that the units be priced in the top tier of average monthly gross rent. The rent by unit type would be \$1400 for a studio, \$1500 for a one-bedroom unit, \$1700 for a two-bedroom unit, and \$2,100 for a three-bedroom unit.⁶⁸

The Courthouse's new residential program will need to provide low-income housing to a standard that is specified for buildings in the Central City Plan District. The Portland City Code includes a regulation for Inclusionary Housing (33.245.020.B), which is triggered by alteration projects that add 20 or more dwelling units. Either 10% of total units must be affordable to people earning no more than 60% of the area median family income (AMFI) or 20% of total units must be affordable to people earning no more than 80% of AMFI. According to US Census data, AMFI for residents of Portland was \$55,003 from 2011-2015. In our residential program, 80% of rentable apartment units are priced to meet the market rate for units in the Central District, while 20% of units are priced at 60% of the market rate.

⁶⁶ City of Portland, Portland Housing Bureau, "Affordable Housing Set-Aside Policy," 2017. <https://www.portlandoregon.gov/phb/60811>

⁶⁷ U.S. Department of Housing and Urban Development, "Comprehensive Housing Market Area Analysis: Portland-Vancouver-Hillsboro, Oregon-Washington," May 1, 2016.

⁶⁸ U.S. Department of Housing and Urban Development, "Comprehensive Housing Market Area Analysis: Portland-Vancouver-Hillsboro, Oregon-Washington," May 1, 2016.

Vacancy Levels

Currently, the vacancy rate for multifamily residential developments in Portland is 4.4%, down from 6.8% in 2000 and 5.6% in 2010. According to a Comprehensive Market Analysis for greater Portland-Vancouver-Hillsboro Area published by the U.S. Department of Housing and Urban Development, the decrease in vacancy rates for rental housing in the Portland Submarket can be attributed to climbing sales prices, steady economic growth, and net in-migration. For apartments, 1,125 were added for the first two quarters of 2014 and only 510 units were added during the first two quarters of 2015. There has been a slight increase in vacancy rates in the Central Portland area, most applicable to the Multnomah County Courthouse, attributed to the increase of completed units in the area in 2016. In comparison, surrounding markets had both lower and higher vacancy rates. For example, Gresham had a much lower vacancy rate (1.9%) due to the relatively limited multifamily construction. The East Portland area experienced a 3.8% vacancy rate during the first quarter of 2016 as compared to 2% in 2015.

Table 5. Estimated Demand for New Market-Rate Rental Housing in the Portland Submarket During the Forecast Period

Zero Bedrooms		One Bedroom		Two Bedrooms		Three or More Bedrooms	
Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand
1,000 to 1,199	470	1,100 to 1,299	1,275	1,300 to 1,499	1,675	1,500 to 1,699	230
1,200 to 1,399	530	1,300 to 1,499	1,700	1,500 to 1,699	2,150	1,700 to 1,899	85
1,400 or more	180	1,500 or more	1,275	1,700 or more	960	1,900 to 2,099	65
						2,100 or more	45
Total	1,175	Total	4,275	Total	4,800	Total	430

Notes: Numbers may not add to totals because of rounding. Monthly rent does not include utilities or concessions. The 4,900 units currently under construction will likely satisfy some of the estimated demand. The forecast period is May 1, 2016, to May 1, 2019. Source: Estimates by analysts

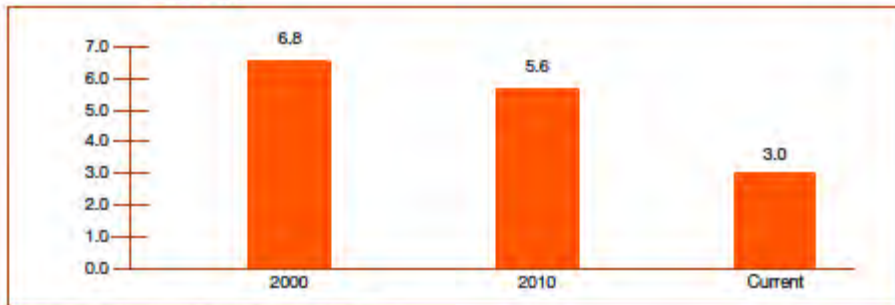
Table DP-2. Portland Submarket Data Profile, 2000 to Current

	2000	2010	Current	Average Annual Change (%)	
				2000 to 2010	2010 to Current
Total population	1,042,437	1,160,677	1,239,000	1.1	1.1
Total households	416,674	469,513	504,500	1.2	1.2
Owner households	258,366	281,474	294,100	0.9	0.7
Percent owner	62.0%	60.0%	58.3%		
Rental households	158,308	188,039	210,400	1.7	1.9
Percent renter	38.0%	40.0%	41.7%		
Total housing units	443,087	502,475	527,000	1.3	0.8
Owner vacancy rate	2.2%	2.4%	1.0%		
Rental vacancy rate	6.8%	5.6%	3.0%		

Notes: Numbers may not add to totals because of rounding. The current date is May 1, 2016.

Sources: U.S. Census Bureau; U.S. Department of Housing and Urban Development; estimates by analyst

Figure 10. Rental Vacancy Rates in the Portland Submarket, 2000 to Current



Note: The current date is May 1, 2016.

Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

Capture and Absorption Rates

In a three-year forecast period (May 2016 - May 2019) HUD anticipates demand for 10,650 market-rate rental units of various sizes in the Portland Submarket. 4,900 units were under construction as of May 2016. There will still be demand for 5759 market-rate units.⁶⁹ In the greater Portland Housing Market Area (HMA) HUD anticipates demand for 18,925 market-rate rental units. The HMA consists of Portland, Beaverton, and Hillsboro in Oregon as well as Vancouver in Washington. 6,995 units were under construction as of May 2016. There will still be demand for 11,930 units.⁷⁰ If the newly renovated Multnomah County Courthouse can accommodate 206 market-rate rental units, a capture rate of 3.6% in the Portland Submarket would be sufficient to fill the available space. In the larger Portland HMA a capture rate of 1.7% would be sufficient.

HUD anticipates a demand for 180 studios, 1,275 one-bedroom units, 960 two-bedroom units, and 45 three-bedroom units in the Portland Submarket between 2016 and 2018. For maximum absorption, the Courthouse should offer all four unit types broke down into 7% studios, 52% one-bedroom units, 39% two-bedroom units, and 2% three-bedroom units. Given 278,669 SF throughout the building, 20% of space set aside for circulation and retail and original courtroom square footage subtracted, an estimated 133,337 SF is available for residential development. According to market demand, we have dedicated 8,400 SF to market-rate studio units (21 units at 400 SF) and 933 square feet to low-income studio units (2 units at 400 SF), 62,402 SF to market-rate 1-bedroom units (104 units at 600 SF) and 6,934 square feet to low-income 1-bedroom units (12 units at 600 SF), 46,801 SF to market rate 2-bedrooms units (59 units at 800 SF) and 5,200 SF to low-income 2-bedroom units (7 units at 800 SF), and 3,696 SF to market rate 3-bedrooms units (2 units at 1,100 SF). There will be a total of 206 expected residential units.

⁶⁹ U.S. Department of Housing and Urban Development, "Comprehensive Housing Market Area Analysis: Portland-Vancouver-Hillsboro, Oregon-Washington" May 1, 2016.

⁷⁰ U.S. Department of Housing and Urban Development, "Comprehensive Housing Market Area Analysis: Portland-Vancouver-Hillsboro, Oregon-Washington" May 1, 2016.

Operating Costs

As a multi-unit apartment building, the courthouse would likely have a favorable expense ratio, which is used to measure operational efficiency. Kitchens (June 2016) found that operating expenses for professionally managed apartment buildings have trended down over the last 10 years. On average, all apartment buildings of various size had an expense ratio of 0.43 between 2006 and 2016. Properties with more than 150 units maintain a lower expense ratio than those with fewer than 150 units. High rise apartments (greater than four stories) also performed better than low rise apartments.⁷¹

Sales Comparables

Because this proposed use does not incorporate calculations related to the sale of residential units, there are no sales comparables to present. However, the condominium use does utilize calculations regarding the sale of residential units. That information is presented in the Condominium Market Factors section.

B. Multifamily Rental Financial Synthesis

Development Costs

Our financial analysis anticipates that adapting the courthouse's 2nd through 8th floors into apartments will cost \$17.3 million at a rate of \$130 per square foot. The costs of developing the ground floor retail space, circulation routes, jail, courtrooms, basement, and courtyard reaches \$20.5 million. Seismic upgrades will cost at least \$11 million. The Residential Scenario predicts development cost in excess of \$54.9 million, excluding the cost of purchasing the property.

Operating Statement

We anticipate that the Residential Scenario offers a potential gross income of \$3.8 million and effective gross income of \$3.6 million each year, accounting for normal vacancy levels and exclusive of the retail program that would occupy the first floor.

The courthouse would contain 206 apartments of four sizes. 90% of these units would be priced at market rates that are appropriate in the Portland CBD and 10% would be priced at 60% of the market rate in order to meet the city's Inclusive Housing ordinance. In total, the apartments would generate \$3.7million of potential income each year. Vacancy rates in the Portland CBD are currently at 5%, so the apartments offer an effective gross income of \$3.5 million per year.

⁷¹ Kitchens, Bill, "Size Matters: Investigating Operating Expenses Across Multifamily Product," *realpage.com*, June 2016, accessed March 7, 2017, www.realpage.com.

In this scenario, four of the most intact courtrooms would be maintained as rental space available to tenants and the public for short-term events. The pro forma uses a conservative estimate of the courtrooms' potential income, calculated as half of the potential income that is produced by retail spaces. The courtrooms would potentially generate \$108,000 annually, but its effective gross income is more likely to be \$63,000 per year.

As a high rise building with a capacity of more than 150 residential units the courthouse is likely to operate with an expense ratio lower than the average ratio for apartment buildings of all sizes. The pro forma anticipates an expense ratio of .41, totaling \$1.4 million in operating costs.⁷² The courtroom expenses are calculated at 5.57 per square foot, which amounts to approximately \$38,000 annually.

Accounting for the effective income and operating costs, the financial analysis shows that the apartments will generate a net operating income of \$2 million, and the courtrooms will generate \$63,500. Retail spaces on the ground floor retail will likely produce \$651,000 in net operating income. To conclude, our analysis of the Residential Development Scenario predicts an total net operating income of 2.8 million.

Return on Investment - Up Front Sale

If the developer purchases the property outright from Multnomah County the county's income would be \$10 million at the start of the project. The county would see no continuing return on investment in future years, other than property taxes applied to the building.

In order to purchase the property and finance its development, we have calculated that \$38.5 million will need to be acquired as debt, accounting for 59.35% of the development costs while \$16.5 million will need to be contributed as private equity, accounting for 25.42% of the development costs. The federal preservation tax credit would provide a refund of 20% of the project's certified costs. We estimate that the certified costs would be \$49.4 million and the tax credit would provide \$9.8 million in equity amounting to 15.23% of the development costs.

If the developer invests \$16.5 million of private equity to develop the property and borrows \$38.5 million, their return on investment over 15 years, including sale of the property in year 15, would be \$40.8 million. This calculation accounts for a loan of \$38.5 million at 6% interest over 30 years which would require payments of \$2.5 million annually. It anticipates that the developed property could be sold for \$67.4 million in year 15. At that time, the developer would need to pay \$27.2 million to pay the remaining principal of debt. Therefore, the developer would see \$40.2 million in profit from the sale in year 15.

⁷² Kitchens, Bill. "Size Matters: Investigating Operating Expenses Across Multifamily Product." www.realpage.com. June 2016. Accessed March 7, 2017.

Return on Investment - Ground Lease

If the developer makes a down payment of \$1 million to the county and continues to make ground lease payments over 60 years, Multnomah County would receive annual payments starting at \$154,600 (and increasing by 3% to account for inflation). After 60 years the county would have received \$25.2 million in ground lease payments (which is \$9 million with a discount rate of 3%) and would still maintain ownership of the property.

The ground lease scenario removes the initial cost of purchasing the property and makes it easier for them to finance its development. We have calculated that \$35.3 million will need to be acquired as debt, accounting for 64.15% of the development costs, while \$10 million will need to be contributed as private equity, accounting for 18.18% of the development costs. The federal preservation tax credit would provide a refund of 20% of the project's certified costs. We estimate that the certified costs would be \$48.6 million and the tax credit would provide \$9.7 million in equity amounting to 17.67% of the development costs.

If the developer invests \$10 million of private equity to develop the property and borrows \$35.3 million, their return on investment over 15 years, including sale of the property in year 15 would be \$43.1 million. This calculation accounts for a loan of \$35.3 million at 6% interest over 30 years which would require payments of \$2.6 million annually. It anticipates that the developed property could be sold for \$67.4 million in year 15. At that time, the developer would need to pay \$24.9 million to pay the remaining principal of debt. Therefore, the developer would see \$42.5 million in profit from the sale in year 15.

Apartment Return on Investment - Up Front Sale vs. Ground Lease

The financial analysis of the Residential Development Scenario concluded that a ground lease is advantageous to both the developer and the county. It allows the county to retain ownership and have a sustained income over 60 years. It allows the developer to finance the development with just \$10 million in equity, as opposed to \$16.5 million, and see a return of \$43.1 million rather than \$40.8 million. Another way to examine this is with the respective calculations of the project's net present value (NPV) and internal rate of return (IRR). In an upfront sale scenario, the developer would see an NPV of \$29 million and IRR of 10.54%. In a ground lease scenario, the developer has a more favorable NPV of \$35.8 million and an IRR of 14.72%.

C. Condominium Market Factors

Condominium Rent Levels

The condominium program we have described would not include renting either retail or residential space, however, if any owners of either space type would like to make their respective property available for rent, they could consider the rent level data presented in the other use sections of this report to understand potential rental incomes.

Condominium Vacancy Rates

Residential condominium vacancy rates in both the Portland Submarket and the greater Portland Housing Market Area (HMA) as of 2016 are at 1%, a decrease from 2.4% in April 2010 that can be attributed to household finances and access to credit have steadily improved. Additionally, as with other areas of real estate, much of the inventory left from the foreclosure crisis has been absorbed.⁷³

Condominium Capture and Absorption Rates

In a three-year forecast period (May 2016 - May 2019) HUD anticipates demand for 12,750 new homes in the Portland Submarket. 1,050 homes were under construction as of May 2016. There will be a portion of 13,000 vacant homes returning to the market that will contribute to the demand in addition to the homes under construction.⁷⁴ In the greater Portland HMA, HUD describes that home sales included 52,900 units from March 2015 to March 2016, a 19% increase from the previous year. The HMA consists of Portland, Beaverton, and Hillsboro in Oregon as well as Vancouver in Washington. As of April 2016, 2,810 new homes were under construction. During the three year period between 2016 and 2019, there is an estimated demand of 27,225 new homes with the assumption that the 2,810 under construction and a portion of the 20,700 other vacant units to return to the market.⁷⁵ If the newly renovated Multnomah County Courthouse can accommodate approximately 200 condominiums a capture rate of 1.5% in the Portland Submarket would be sufficient to fill the available space. In the larger Portland HMA a capture rate of .7% would be sufficient.

HUD reports that the estimated demand for new market-rate rental housing falls into six categories based on a range of purchase prices. If the aforementioned estimations are translated to purchase prices and the affordable units are subtracted, the Multnomah County Courthouse could offer 21 studio condos at \$300,000, 104 one-bedroom condos at \$400,000, 59 two-bedroom condos at \$550,000 and 2 three-bedroom condos at \$700,000. As Table 4 supplied by the "Comprehensive Housing Market Area Analysis" report outlines below, the highest percentages of demand lies in purchase prices ranging from \$300,000 to \$600,000 which accounts for 99% of our proposed condominium offerings.

⁷³ U.S. Department of Housing and Urban Development, "Comprehensive Housing Market Area Analysis: Portland-Vancouver-Hillsboro, Oregon-Washington," May 1, 2016.

⁷⁴ Ibid.

⁷⁵ Ibid.

Table 4. Estimated Demand for New Market-Rate Sales Housing in the Portland Submarket During the Forecast Period

Price Range (\$)		Units of Demand	Percent of Total
From	To		
200,000	299,999	1,525	12.0
300,000	399,999	3,175	25.0
400,000	499,999	3,175	25.0
500,000	599,999	2,550	20.0
600,000	699,999	1,275	10.0
700,000	and higher	1,025	8.0

Notes: The 1,050 homes currently under construction and a portion of the estimated 13,000 other vacant units in the submarket will likely satisfy some of the forecast demand. The forecast period is May 1, 2016, to May 1, 2019.

Source: Estimates by analyst

Condominium Sales Comparables

Residential, specifically condominium, sales comparables reports for the Portland area were not located for the creation of this assessment report. For the purposes and breadth of this report, a preliminary analysis of condominium sales listed on www.zillow.com from March 2016 to March 2017 in the downtown Portland area were examined with an average determination made based on sale prices and square footage. Additional features and amenities were not considered. The determinations are as follows:

- approximately \$750 per square foot for units 400 square feet or less,
- approximately \$650 per square foot for units between 400 and 600 square feet
- approximately \$675 for units between 600 and 800 square feet
- approximately \$625 per square feet for 800 square feet and above

Median condo prices are just over 80% of the median single family home price. The single family market and the condo market both had a big hit during the recession. Both have rebounded, but single family home rates are rising faster.⁷⁶ Condo prices may have been rising slower because of the age of the housing stock; there have been very few new condos built since 2008. Multnomah County has only seen an average of 160 condos built per year from 2009 to 2015.⁷⁷

Retail Sales Comparables


Retail Sales Comparables were evaluated within the condominium use, because unlike any other proposed use, the condominium program calls for immediate sale of both residential and retail spaces.

⁷⁶ Seidman, Adam. "Portland's Missing Condos," Portland State University Center for Real Estate Quarterly Report, vol. 10, no. 3. Summer 2016, Summer 2016.

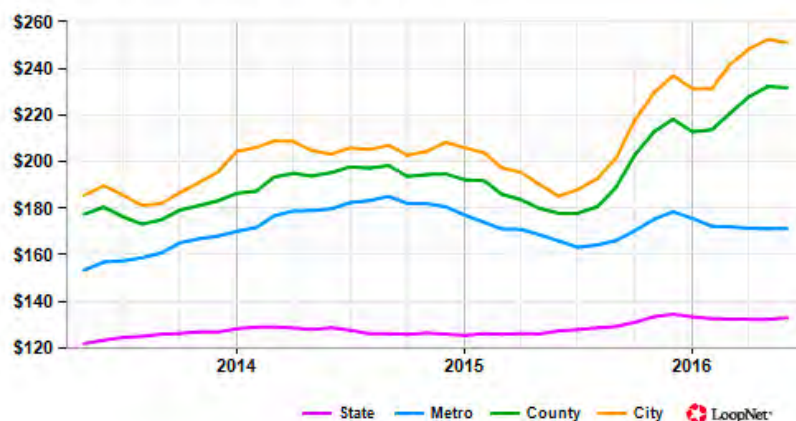
⁷⁷ Ibid.

Specific retail comparables were generally unavailable due to a low number of sales over the last 12 months as of March 2017. However, LoopNet offered retail sales trend information expressed in price per square feet. According to the graph below from LoopNet, the city price per square foot average at the end of 2016 is approximately \$260.⁷⁸

Retail Property Asking Price Index - Sale Trends

 Embed

Asking Prices Retail for Sale Portland, OR (\$/SF)



Current Portland market trends data indicates an increase of +3.9% in the median asking price per sq ft for Retail Commercial properties compared to the prior 3 months, with an increase of +35.6% compared to last year's prices. County-wide, asking prices for Retail Commercial properties are 5.0% higher at \$232 per sq ft compared to the current median price of \$251 per sq ft for Retail Commercial properties in Portland, OR.

Furthermore, Kidder Mathews' Real Estate Market Review report for the first quarter of 2016 describes retail market characteristics as "strong" with decreasing vacancy rates, rising rental prices, and healthy absorption rates.⁷⁹ In the first quarter, the transaction volume for retail spaces was \$217.23 million, compared to \$290.80 million at the end of 2015. The average price per square foot is listed as \$230 for the first quarter, compared to \$309 at the end of 2015 and \$205 in the first quarter of 2015.⁸⁰

When considering incorporating the data from the first quarter of 2016 presented by Kidder Mathews and the full year depiction by LoopNet, the data appears to be similarly matched.

⁷⁸ Loopnet, "Portland Oregon Market Trends: Retail," accessed March 12, 2017.

http://www.loopnet.com/Portland_Oregon_Market-Trends?Trends=AskingPricesFS,SalePricesFS,TotalAvailableForSaleFS,NumberOfListingsFS,ProfileViewsFS,TotalNumOfUnitsFS,TotalSFAvailableFS,DaysOnMarketFS,AskingRentsFL,NumberOfListingsFL,ProfileViewsFL,TotalSFAvailableFL,DaysOnMarketFL&PropertyTypes=Retail

⁷⁹ Kidder Mathews, "Real Estate Market Review: Portland Retail," 1st Quarter, 2016.

<http://www.kiddermathews.com/downloads/research/retail-market-research-portland-2016-1q.pdf>

⁸⁰ Ibid.

Therefore, in an effort to utilize the most recently analyzed price per square foot, this group will utilize an average of \$250 per square foot when calculating the sale of the first floor retail space.

D. Condominium Financial Synthesis

For the condominium financial synthesis, our group made some general assumptions to simplify our calculations. In this scenario, we assume that all construction and sale of rehabilitated spaces, both residential and retail, will occur in the same calendar year. Therefore, we did not calculate any operating costs and have no figures for a net operating income, cash flow, or a multi-year return on investment.

Development Costs

We calculated that the development costs would be higher per square foot in residential areas than the price calculated for the rental units, equaling \$140 per square foot. For the residential portion, we anticipate a development cost of \$61,340,656 and for the retail portion, we anticipate a development cost of \$11,371,822 for a combined total of \$72,712,478.

Return On Investment

It was our goal to assess whether or not selling both the residential and retail spaces could cover the development costs, and whether the project as a whole would be a profitable venture. In a condominium scenario the county would sell a developer the property outright instead of maintaining ownership. We assessed the residential and retail sales comps, as described above. These indicate that the condominium total sales would equal \$87,112,829 and the retail total sales would equal \$7,100,000 for a total calculation of sales as \$94,212,829. When subtracting the total development costs, the final profit would be \$21,500,351.

In order to cover development costs at the start of the project, we have calculated that \$54,212,478 will need to be acquired as debt, accounting for 74.56% of the development costs while \$18,500,000 will need to be contributed as private equity, accounting for 25.44% of the development costs. With a total sales calculation of \$94,212,829, the project can easily support paying of the debt principal. With a profit of \$21,500,351, we have calculated that the private equity investors would be returned the initial investment of \$18,500,000 and make an additional profit of \$21,500,351 totaling a finished-project return of \$40,000,351.

Apartments vs. Condominiums

If the county decides to develop the courthouse with a residential program, we recommend that they begin by renting the units and wait a period of at least 5 years before selling the units as condominiums. The condo market in Portland is improving, but has yet to fully emerge from the Recession. In 2015, Portland State University's Center for Real Estate found three reasons why condo development is limited in the city, and we believe that keeping the courthouse units off the sales market for several years will address each of these three concerns and reduce the

risks of selling now.

Foremost, Portland's condo market is typical and in line with the national market which has seen a major increase in the demand for rental housing since the Great Recession, for reasons such as higher quality supply of rental units, changing lifestyle and employment patterns, and fewer opportunities for home mortgages. Condo prices and demand are on the rise, so this is likely to improve in future years.

Secondly, in Portland, and elsewhere, condo developments struggled during the recession and although the market is improving this slump has left its legacy in the form of negative perceptions and heightened restrictions that prevent investors from signing on to new development projects. Specifically, it is difficult for developers, investors, and potential buyers to obtain capital for condo projects. It may be easier to finance the courthouse rehabilitation project if the units are apartments instead of condos and potential buyers may have greater access to condo mortgages in a few years.

Finally, the stock of new condos that were built before the recession has been plagued by defect liability claims. This, in addition to the two factors mentioned above, has led to a certain degree of reluctance from investors and buyers. It has increased the risks and financial feasibility of condo projects. By first renting the courthouse units, the county will have an opportunity to verify that the product is well constructed and make any necessary adjustments before entering the condo market. This will reduce the risk of liability claims.

Furthermore, the project will be eligible for federal preservation tax credits if the units are apartments rather than condominiums.

XII. Office Development Scenario

A. Market Factors

Rent Levels

In the 4rd quarter of 2016, average rental rates for all classes of office space in the Portland Central Business District ranged from \$29.15 - \$31.47 per square foot per year, while the average rental rates for Class B offices in Portland ranged from \$29.54 - \$31.35 per square foot.⁸¹ Three brokerage firms reported marginally different rental rates for Class B office space in the CBD during that time, with the average rent ranging from \$27.18 - \$29.55 per square foot per year. The Multnomah County Courthouse, however, would be exceptional as office space. When compared to other leasable historic properties in the Central Business District, Pearl

⁸¹ Melissa Beh, "Office Market Analysis," *Center for Real Estate Quarterly Report*, vol. 11, no. 1 (Winter 2017), Portland State University School of Business Administration, accessed March 4, 2017, <https://www.pdx.edu/realestate/sites/www.pdx.edu.realestate/files/05%20Office%20-%20Beh.pdf>

District, and Chinatown (both immediately north of the CBD), the average rent ranged from \$26.00 - \$34.00/SF per year.⁸²

Vacancy Levels

In the 4th quarter of 2016, vacancy rates for all office space in the Portland CBD were 8.7% according to a Fall 2016 Office Market Analysis report released by Portland State University's Center for Real Estate.⁸³ In the fourth quarter of 2016, total vacancy levels for Class B Commercial offices in the CBD of Portland were at 8.4% according to JLL.⁸⁴ Colliers, another market analyst, projected 8.6% vacancy in offices of all classes in Portland for the 4th quarter of 2016, with 10.4% given for Class B Commercial offices in the Central Business District.⁸⁵ Finally, in the 4th quarter of 2016, vacancy rates for all office space in the Portland CBD were 9.8% according to Kidder Matthews.⁸⁶

Capture Rate/Absorption Rate

Portland's Central Business District capture rate for the multi-tenant office is in decline. In 2010, Bay Area Economics produced a report for the City of Portland on downtown Portland Office trends. The report found that Portland's CBD had a larger share of multi-tenant offices than other peer markets. Also in 2010, Portland's CBD had a total office inventory of 20.5 million square feet across all classes (Class A, B and C offices), commanding roughly half of the the total office inventory for the city as a whole. Portland's CBD exhibited the second highest capture rate of regional office inventory among all comparison regions in both 1990 and 2010, behind only Seattle in the Pacific Northwest. Portland's CBD accounted for 58% of the region's total office inventory in 1990, but declined to 49% in 2010.⁸⁷ The capture rate for office space in Portland's CBD has continued to decline, with only 25,892,288 square feet available inventory in 2016 out of the total for Portland's office inventory of 86,091,876 square feet. This capture rate

⁸² Cityfeet (date accessed).

⁸³ Melissa Beh, "Office Market Analysis," *Center for Real Estate Quarterly Report*, vol. 11, no. 1 (Winter 2017) Portland State University School of Business Administration, accessed March 4, 2017 URL: <https://www.pdx.edu/realestate/sites/www.pdx.edu.realestate/files/05%20Office%20-%20Beh.pdf>

⁸⁴ JLL
www.jll.com/portland/en-us/Pages/RemoteResearch.aspx?URL=http://www.jll.com/united-states/en-us/research/7909/portland-office-market-statistics-q4-2016

⁸⁵ Colliers International, "Portland: Office Market Overview | Q4 2016," *Colliers*, January 27, 2017, accessed February 21, 2017, http://www.colliers.com/-/media/files/marketresearch/unitedstates/markets/portland/2016q4_office.pdf

⁸⁶ Kidder Mathews. "Real Estate Market Review: Portland, Q4 2016." 2017. Accessed March 4, 2017. URL: <http://www.kiddermathews.com/downloads/research/office-market-research-portland-2016-4q.pdf>

⁸⁷ Bay Area Economics. "Downtown Portland Office Space Trends." City of Portland Bureau of Planning and Sustainability. September 30, 2010. Accessed: March 10, 2017. URL: <https://www.portlandoregon.gov/bps/article/322772>

is only 30% of Portland's total office inventory.⁸⁸ The vacancy rate for Portland's CBD is also higher at 9.8% than the city as a whole (7.9%), indicating that office markets has expanded well outside the boundaries of the traditional downtown core and into the surrounding neighborhoods of Portland.⁸⁹ The Multnomah County Courthouse, at roughly 137,250 RSF, will capture 0.53% of the CBD market and 0.159% of the total office market in Portland.

The low capture rate is not entirely bad news, however. Leasing activity in the fourth quarter of 2016 totaled 211 transactions involving 618,478 square feet. Downtown Portland submarkets accounted for approximately 39% of the space leased, up from 23% during the third quarter of 2016.⁹⁰ Also in spite of a low capture rate, Portland's CBD maintains some of the highest lease prices in the city, and is expected to sustain the higher prices. Asking lease rates in Portland for Class B is projected to stay near \$29 per square foot per year for 2017. Class A is projected to also hold steady at \$33 per square foot.⁹¹

According to the Q4 2016 Portland State University report, absorption is summarized thus: "CBRE reported an overall negative net absorption in all Portland Metro markets in the fourth quarter, whereas Colliers International and JLL only reported negative absorption in the CBD. CBRE points to the slowing tech sector and major construction deliveries for these fourth quarter absorption rates. Despite these lower rates Portland still ended 2016 with an annual total of 782,090 square feet of positive net absorption."⁹²

Kidder Mathews is the only report that indicates a positive absorption for Portland's CBD, with 13,503 SF absorbed in Q4 2016 and 244,480 SF for the annual total.⁹³ The negative absorption rate seems to have been interpreted differently by different reporting groups, but the key takeaway is that absorption in the downtown area dropped 21,302 SF as two companies left the CBD. Suburban markets on the other hand, enjoyed a positive net absorption of 104,096 SF.⁹⁴

Operating Costs

For a downtown commercial office in Portland Kidder Matthews (Q1, 2013) found that operating expenses for high-efficiency buildings have showed a range of total real estate operating expenses from \$5.14 to \$6.75 per SF. Traditional office operating expenses then, as of 2013,

⁸⁸ Kidder Matthews. "Real Estate Market Review: Portland, Q4 2016." 2017. Accessed March 4, 2017. URL: <http://www.kiddermathews.com/downloads/research/office-market-research-portland-2016-4q.pdf>

⁸⁹ Ibid.

⁹⁰ Ibid.

⁹¹ Melissa Beh, "Office Market Analysis," *Center for Real Estate Quarterly Report*, vol. 11, no. 1 (Winter 2017) Portland State University School of Business Administration, accessed March 6, 2017, <https://www.pdx.edu/realestate/sites/www.pdx.edu.realestate/files/05%20Office%20-%20Beh.pdf>

⁹² Ibid.

⁹³ Kidder Matthews. "Real Estate Market Review: Portland, Q4 2016." 2017. Accessed March 4, 2017. URL: <http://www.kiddermathews.com/downloads/research/office-market-research-portland-2016-4q.pdf>

⁹⁴ Ibid.

range from \$7.50 to \$10.00 per SF.⁹⁵ It's expected that the Multnomah County Courthouse, even after renovation, operating expenses will be on the high end of this wide spectrum.

Very rarely will operating expenses not be included in a full service lease. Unlike an apartment where the tenant is only responsible for their rent, in most office leases (e.g. modified gross lease, triple net lease, full service lease) most leases have wording holding the lessee accountable for a portion of the operating expenses.⁹⁶ Operating Expense Rent or Common Area Maintenance rent is defined in the lease. Only in the case of an absolute gross lease is the building owner alone left with the costs of operating and maintaining the building.

Sales Comparables

In the Q4 2016 Kidder Mathews Real Estate Market Review report, three comparable sales were made in 2016 in the Central Business District of Portland.⁹⁷ These comparable sales were the PacWest Center which sold for \$312 per square foot, Park Square Campus which sold for \$319 per square foot, and the closest comparison, the CDK Plaza, a 180,772 SF Class B asset, was sold from KBS to Bixby Land Company for \$33.4 million or \$185 per square foot.⁹⁸ The next building comparable in size and location is the Meier and Frank Unit 2 building with 208,000 RSF sold for \$54,150,000 or roughly \$259 per square foot.⁹⁹

The below figure, according to Loopnet, shows that Office property asking prices have steadily increased over the past three years.¹⁰⁰ In the later quarters of 2016 prices appear to have remained level or slightly declined since their peak in early 2016. This chart does not differentiate between new development and existing buildings, nor between office classes.

⁹⁵ Kidder Matthews. "Real Estate Market Review: Portland Q1 2013." 2013. Accessed March 20, 2017. URL: <http://kiddermathews.com/downloads/research/office-market-research-portland-2013-1q.pdf>

⁹⁶ Linda Day Harrison. "Operating Expenses: Details Matter-- Commercial Real Estate." Digsy. November 25, 2015. Accessed March 20, 2017. URL: <http://www.getdigsy.com/blog/commercial-real-estate/operating-expenses-commercial-real-estate/>

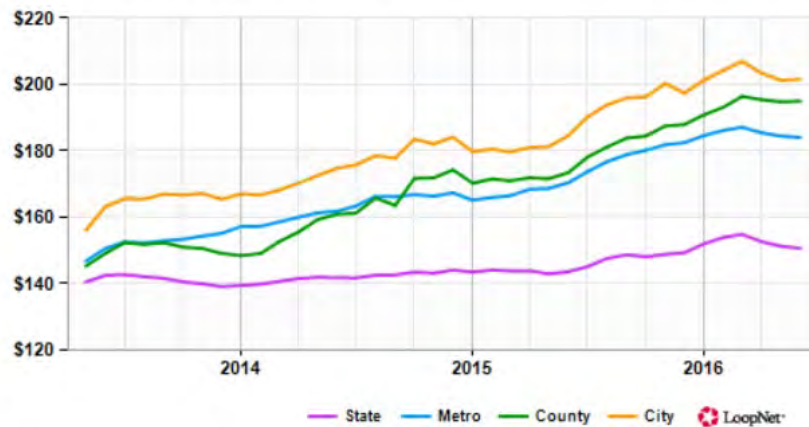
⁹⁷ Kidder Matthews. "Real Estate Market Review: Portland, Q4 2016." 2017. Accessed March 4, 2017. URL: <http://www.kiddermathews.com/downloads/research/office-market-research-portland-2016-4q.pdf>

⁹⁸ Melissa Beh, "Office Market Analysis," *Center for Real Estate Quarterly Report*, vol. 11, no. 1 (Winter 2017) Portland State University School of Business Administration, accessed March 4, 2017, <https://www.pdx.edu/realestate/sites/www.pdx.edu.realestate/files/05%20Office%20-%20Beh.pdf>

⁹⁹ Ibid.

¹⁰⁰ Loopnet, "Portland Oregon Market Trends: Office," accessed March 13, 2017. URL: http://www.loopnet.com/Portland_Oregon_Market-Trends?Trends=AskingPricesFS,SalePricesFS,TotalAvailableForSaleFS,NumberOfListingsFS,ProfileViewsFS,TotalNumOfUnitsFS,TotalSFAvailableFS,DaysOnMarketFS,AskingRentsFL,NumberOfListingsFL,ProfileViewsFL,TotalSFAvailableFL,DaysOnMarketFL&PropertyTypes=Office

Asking Prices Office for Sale Portland, OR (\$/SF)



Current Portland market trends data indicates a decrease of -2.6% in the median asking price per sq ft for Office properties compared to the prior 3 months, with an increase of +9.2% compared to last year's prices. County-wide, asking prices for Office properties are -0.7% lower at \$195 per sq ft compared to the current median price of \$202 per sq ft for Office properties in Portland, OR.

B. Financial Synthesis

Development Costs

Financial analysis of the office program anticipates renovation will cost \$ 22,646,250 at a rate of \$165 per square foot, with an additional projected cost of \$ 6,211,900 for circulation spaces. An approximate estimation for the removal of the three floor annex is \$15,000 with the redevelopment of the courtyard area costing an additional \$500,000.

Stabilized Year

Estimated Potential Gross Income in a stabilized year, with \$36 annual rental rate per square foot, is \$4,941,000. Subtracting a vacancy allowance of 8.7% reduces income to \$4,511,133. Operation costs of \$5.70 per square foot (for a high efficiency building) over one year equals \$782,325 resulting in a Net Operating Income of \$3,728,808 for the first floor retail program. A more realistic operation cost might be \$8.75 per square foot (for traditional buildings) would be \$1,201,212 resulting in a Net Operating Income of \$3,309,921.

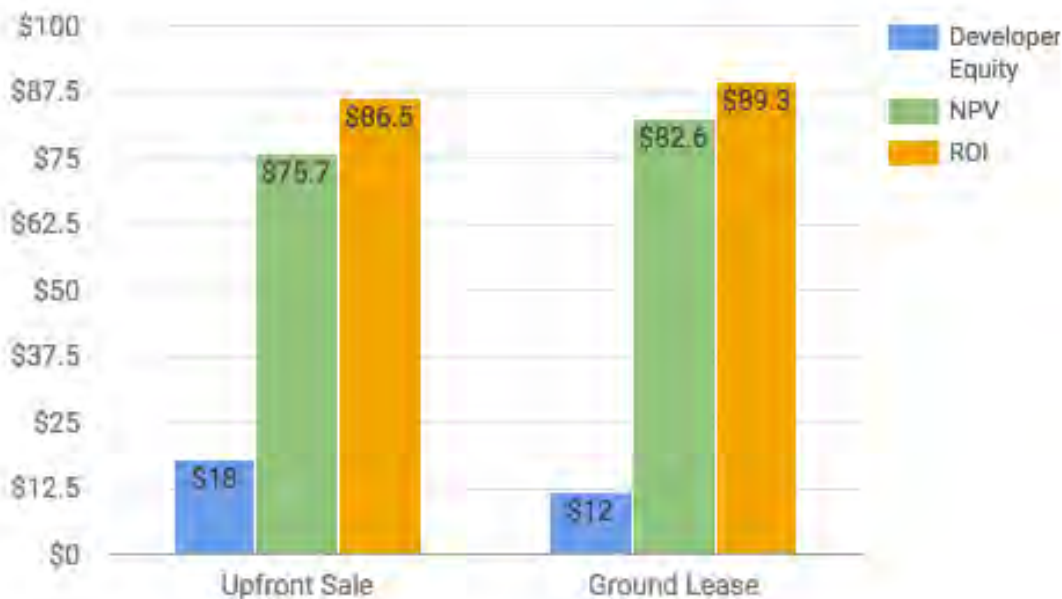
Operating Statement

We anticipate that the office program offers a potential gross income of \$4.9 million and effective gross income of \$4.5 million each year, accounting for vacancy levels from the fourth quarter of 2016 and exclusive of the retail program that would occupy the first floor.

The courthouse would contain 36 apartments of in a wide range of sizes, reusing existing courtroom space and respecting historical hallway and circulation layout. Vacancy rates in the Portland CBD are currently at 8.7%, so the offices, once fully leased may offer an effective gross income of \$4.5 million per year. Though for this scenario we have rated the base rent for all offices at \$36 per square foot per year, it is far more likely that a leasing company will offer premium pre-lease rates, lower, or raise rents in some spaces based on ceiling height or other amenities as they see fit. For simplicity, we have not included such a complicated scenario for this report. In this scenario, four of the most intact courtrooms that retain their historical integrity would be maintained unaltered office space, utilizing the adjoining jury rooms and judges' quarters to suit individual office needs.

Return on Investment

Like the apartment scenario, the office program performs better across the board in a ground lease rather than an upfront sale. In a ground lease, the County may expect to make \$25.2 million, rather than a conservative amount of \$10 million in an upfront sale. Given development costs, the initial investment for an upfront sale scenario, \$18 million, is also higher than that of the ground lease, \$12 million, due to the cost of purchasing the property. Additionally, potential return and net present value are also high in a ground lease scenario after 15 years. Internal rate of return for a ground lease scenario after 15 years is projected to be 23.76%, with an upfront sale trailing at 18.28%.



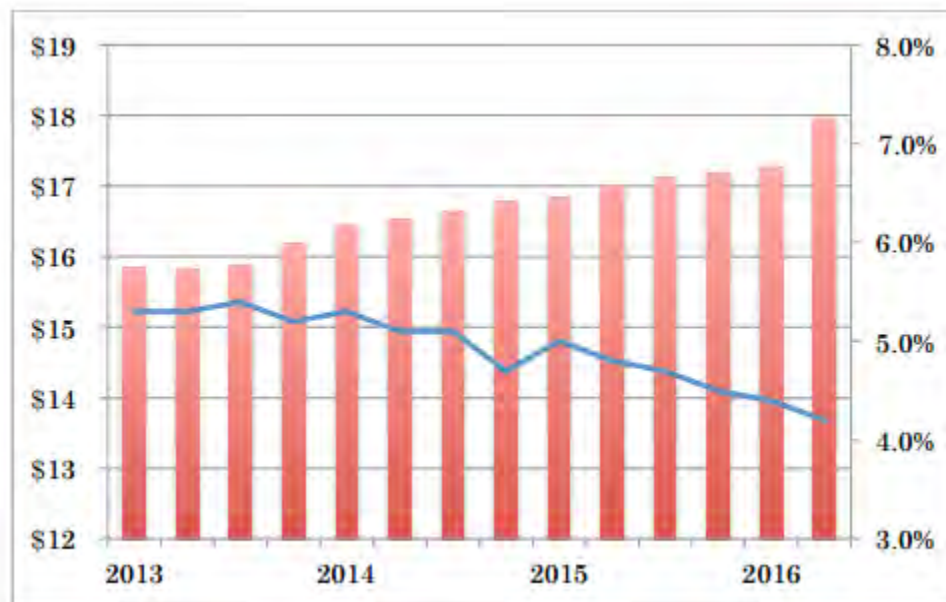
XII. Retail

A. Market Factors

Rent Levels¹⁰¹

Retail real estate in the Portland downtown area shows a diverse and desirable market. Annual rental rates are following an increasing trend with an average of \$19.10 per square foot reported by Kidder Mathews in the CBD. The retail market in 2016 had significant growth and limitations in available spaces. Lack of available rental space in the retail market has driven up leasing costs and is expected to continue increasing the 2017 market. Comparables from the current market were research through Loopnet.com with the following criteria: multi-story building with street-level retail, renovated historic building, within downtown Portland area. Average annual rental rate among the comparable properties is \$30 per square foot. Considering the Loopnet.com comparables are more specific to the unique nature of a renovated historic building the \$30 per square foot average was selected as the asking rental rate for first floor retail in the county courthouse.

Portland Retail Market Average Quoted Rates (\$/SF/Yr/NNN) & Vacancy (%) by Quarter, 2013-2016¹⁰²



¹⁰¹ Kidder Mathews. *Portland Real Estate Market Review: 4th Quarter 2016*. Date accessed march 3, 2016. <http://www.kiddermathews.com/downloads/research/retail-market-research-portland-2016-4q.pdf>

¹⁰² Melissa Beh. "Retail Market Analysis." *Center for Real Estate Quarterly Report*, vol. 10, no. 3. Summer 2016. Date Accessed March 3, 2016. http://pdxscholar.library.pdx.edu/realestate_pub/39/

Retail Rental Comparables: Portland, Oregon, February 2017¹⁰³

Listing Name	Address	Available Square Footage	Annual Rental Rate (per SF)	Source Link (Loopnet.com)
Haseltine Building	133 SW 2nd Ave	1800 SF	\$23	http://www.loopnet.com/Listing/14945467/133-SW-second-Avenue-Portland-OR/
2nd Generation Urban Retail	1957 & 1967 W Burnside St	3956 SF	\$21-24	http://www.loopnet.com/Listing/19239675/1957-1967-W-Burnside-St-Portland-OR/
Overland Building	205 NW 4th Ave	8381 SF	\$20	http://www.loopnet.com/Listing/19259164/205-NW-4th-Avenue-Portland-OR/
The Gregory Building	417 NW 10th Ave	1507 SF	\$35	http://www.loopnet.com/Listing/20078966/417-NW-10th-Ave-Portland-OR/
The Pacific Building	520 SW Yamhill St	6925 SF	\$24-50 SF	http://www.loopnet.com/Listing/19934198/520-SW-Yamhill-St-Portland-OR/
Edington Building	10 NW 20th Ave	2850 SF	\$28	http://www.loopnet.com/Listing/19903700/10NW-20th-Avenue-Portland-OR/
Tiffany Center	1410 SW Morrison St	1033 SF	\$18	http://www.loopnet.com/Listing/14732656/1410-SW-Morrison-Portland-OR/

Vacancy Levels¹⁰⁴

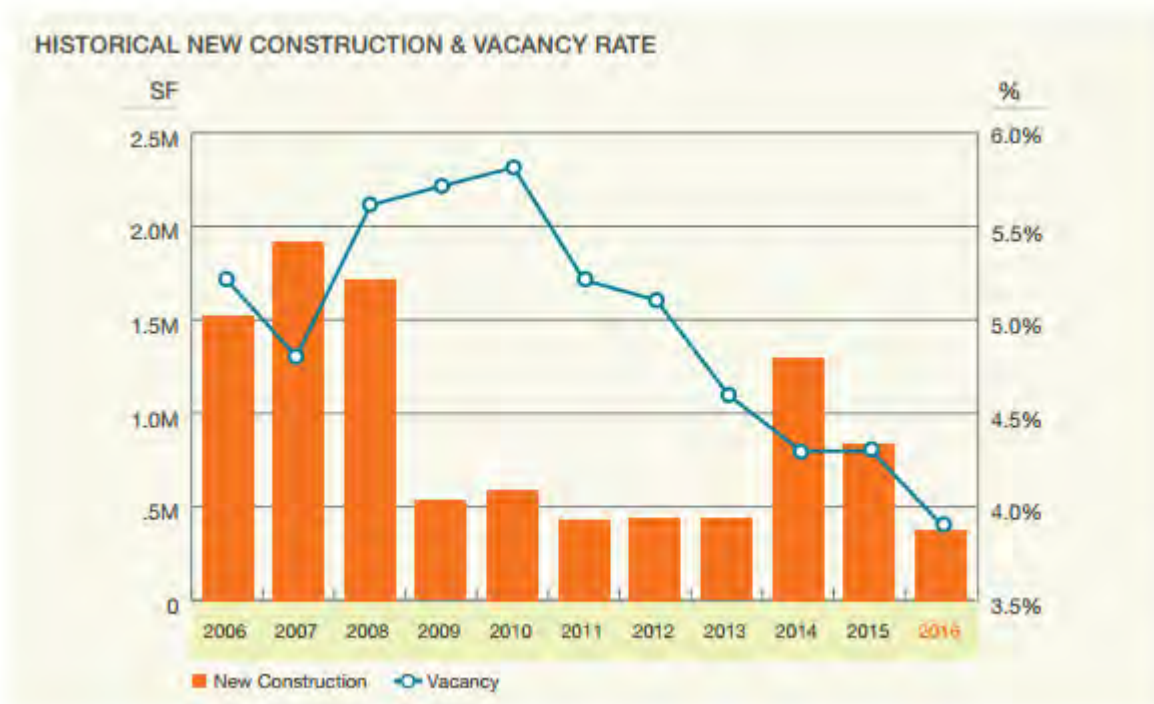
In the 4rd quarter of 2016, retail vacancy rates fell as absorption rates increased throughout 2016. Vacancy rates varied between 3.1% and 7.3 % in the Portland Metro Area. The Kidder

¹⁰³ <http://www.loopnet.com/for-lease/portland-or/retail/?e=u> Date accessed: February 16, 2017.

¹⁰⁴ Kidder Mathews. *Portland Real Estate Market Review: 4th Quarter 2016*. Date accessed march 3, 2016. <http://www.kiddermathews.com/downloads/research/retail-market-research-portland-2016-4q.pdf>

Mathews report presents the CBD vacancy rate on the low end of the spectrum with 3.8% in 2017 fourth quarter. The same report shows an average annual percent change of -9.3% over the last two years. Surrounding areas show similar rates, with the lowest in Hillsboro (3.1%) and highest in the I-5 Corridor (5.3%). A total of 195,385 square feet across nine buildings were added to the market in the third quarter of 2016 and eighteen retail properties under construction at the end of 2016.

Kidder Mathews 4th Quarter 2016 Construction & Vacancy Rates¹⁰⁵

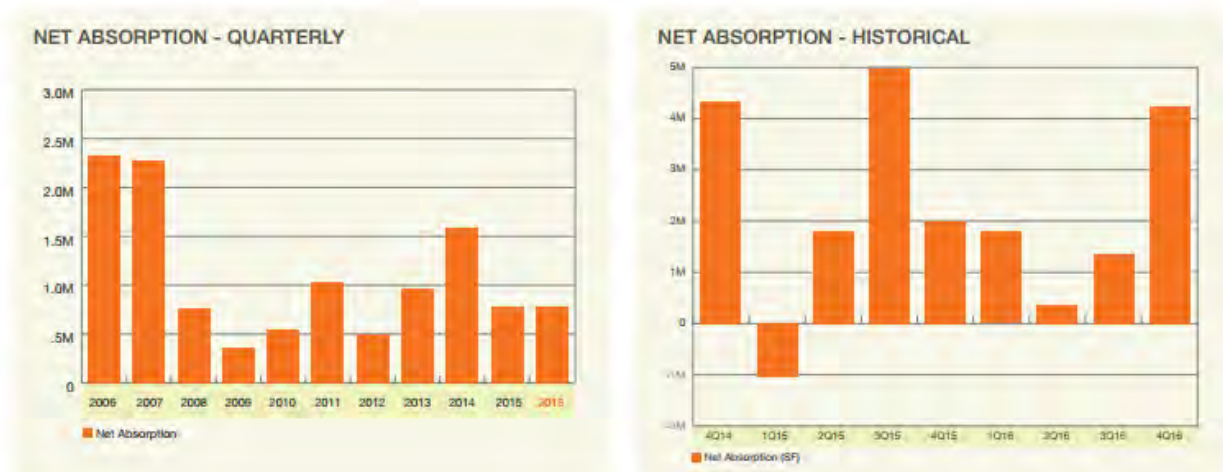


¹⁰⁵ Kidder Mathews. *Portland Real Estate Market Review: 4th Quarter 2016*. Date accessed march 3, 2016. <http://www.kiddermathews.com/downloads/research/retail-market-research-portland-2016-4q.pdf>

Capture and Absorption Rates

The *Center for Real Estate Quarterly Report* for the 4th quarter of 2016 ended with a positive net absorption of almost 200,000 square feet. This was a weaker than the 3rd quarter which saw over 500,000 square foot absorption in the Portland metro area. During the 4th quarter of 2016 almost 55% of positive net absorption occurred from the 774,572 square footage gains that year.¹⁰⁶ However, the Central Business District reported a negative absorption rate with an occupancy loss of over 57,000 square feet at the end of 2016.¹⁰⁷ With the addition of 28,400 square feet of retail space in the county courthouse the estimated capture rate is 50%.

Portland, Oregon Net Absorption Rates - 4th Quarter 2016¹⁰⁸



Operating Costs

Operation costs were calculated using Institute of Real Estate Management (IREM) standard rule of thumb of \$5.27 per square foot released in the 2015 Shopping Centers Report¹⁰⁹

¹⁰⁶ Kidder Mathews. *Portland Real Estate Market Review: 4th Quarter 2016*. Date accessed march 3, 2016. <http://www.kiddermathews.com/downloads/research/retail-market-research-portland-2016-4q.pdf>

¹⁰⁷ Portland State University, *Center for Real Estate Quarterly Report*, vol. 10, no.4. Fall 2016.

¹⁰⁸ Kidder Mathews. *Portland Real Estate Market Review: 4th Quarter 2016*. Date accessed March 3, 2016. <http://www.kiddermathews.com/downloads/research/retail-market-research-portland-2016-4q.pdf>

¹⁰⁹ "Income Expense Analysis Reports." IREM.org. Date accessed March 6, 2016. <https://www.irem.org/about-irem/media-resources/irem-releases-2015-incomeexpense-analysis-reports>

B. Financial Synthesis

Development Costs

Financial analysis of the first floor retail program anticipates renovation will cost \$5,254,000 million at a rate of \$185 per square foot. An approximate estimation for the removal of the three floor annex is \$15,000 with the redevelopment of the courtyard area costing an additional \$500,000.

Stabilized Year

Estimated Potential Gross Income in a stabilized year, with \$30 annual rental rate per square foot, is \$852,000. Subtracting a vacancy allowance of 6% reduces income to \$800,880. Operation costs of \$5.27 per square foot over one year equals \$149,668 resulting in a Net Operating Income of \$651,212 for the first floor retail program.

XIV. Conclusion

What's the best investment for Developer & County?

Each of the Development Scenarios is financially feasible and ensures the preservation of the Courthouse's most significant historic features. For both Scenarios, a Ground-lease between the County and developer provides a greater return on investment for both parties than the Upfront Sale of the property. The Ground-lease is also advantageous as offers the County the option of maintaining a degree of control over the property while enjoying a continuous revenue stream, rather than simply relinquishing the property and receiving a single lump sum. Comparing the two Development Scenarios, the Office Scenario is more profitable than the Residential Scenario regardless of a Ground-lease versus the Upfront Sale of the property, though it should be noted that estimates of Development Costs are slightly higher for Office than for Residential use.

One other use explored was Condominiums, however it would face several unique challenges. First, the condominium market in Portland has been slow to recover from the 2009 Recession and there have been a number of defect liability claims levied against Portland condominium developments in recent years, increasing the risk associated with condo development in Portland. Secondly, if developed as condominiums the project would not be eligible for Federal Historic Tax Credits because condominiums do not qualify as an income producing use. For these reasons it is recommended that a developer looking to pursue condominiums should first redevelop the Courthouse as apartments, and then sell them as condominiums at a later date. This scenario would allow the project to be eligible for Federal Historic Tax Credits, ensure the quality of construction of the residential units, and still provide the developer with the opportunity to enter the condominium market when it becomes more optimal for sales.

Comparison of Achievable Results with Owner Objectives

This report concludes that Multnomah County's objectives might be 1) to pass along the responsibility of ownership and management burden of surplus property, 2) gain income through sale or lease, and 3) maintain Portland's unique heritage. The redevelopment of the Multnomah County Courthouse under either of the proposed Development Scenarios would achieve these objectives. Disposition of the Courthouse to a developer would generate revenue for the County and relieve it of the responsibility for managing and redeveloping the property. A rehabilitation of the Courthouse for a new use also provides an opportunity for Multnomah County to take an active role in promoting historic preservation and similar reuse projects in Portland and other communities which highlight their unique historical heritage.

Comparison of Achievable Results with Investor/Developer Objectives

We concluded that any potential developer would want to generate a profit, invest in a project that had an Internal Rate of Return (RR) of between 15-30% and would generate steady project over a period of many years. The Office Development Scenario provides a return on investment that falls within this range, while the Residential Development Scenario falls slightly short of 15%. Additionally, if any potential developer were to followed the Preservation Approach outlined in this document and accounted for in the proposed Development Scenarios they would be able to reap benefits both financially and in terms of public support. The Preservation Approach ensures that a redevelopment project would be eligible for significant tax benefits provided by the Federal Historic Tax Credit program and could establish the developer's reputation in Portland and Multnomah County as a supporter of historic preservation and reuse therefore bolstering their brand within the sustainable development and preservation communities that could lead to future business opportunities on similar projects in the City, County and region.

Comparison of Achievable Results with Third Party Objectives

We concluded that third parties would support a project that promotes sustainable development and historic preservation. The City of Portland has long been a leader in sustainable urban development and the rehabilitation and reuse of historic buildings contributes to that goal. Third Parties including the Oregon SHPO, Portland preservation and environmental sustainability organizations and the public could prove to be ardent supporters or fierce opposition to the redevelopment of the Courthouse depending on how such a project is approached and completed. The proposed Development Scenarios adhere to a preservation approach that could win the support of these groups and facilitate redevelopment through valuable partnerships within the community.

Next Step Recommendations

This Report serves as a preliminary exploration for the possible redevelopment of the Multnomah County Courthouse that achieves the goals of Multnomah County, any potential

developer and their investors, and will have community support. Going forward, more research and work is required in a number of areas. These include, but are not limited to:

1. Securing a better estimate of value of the property in its current state.
2. Establishing more confident cost estimates for the redevelopment of the Courthouse, specifically development costs, that were unable to be obtained for this report due to time and resource constraints;
3. Exploring alternative uses than those suggested, use as Hotel for example, that were not researched to the same degree as the proposed Development Scenarios due to time and resource constraints; and
4. Involving to a greater degree the Portland and Multnomah County communities including advocacy groups and the general public, in order to incorporate more fully their desires into plans for the redevelopment of a historically significant and highly recognizable public resource.

The adaptive reuse of the Multnomah County Courthouse that emphasizes a preservation approach would be an ideal outcome for Multnomah County, developers, and interested third parties. The Courthouse property has been in public use for over a century and deserves to be redeveloped in a manner that speaks to its rich history while ensuring its continued viability and use for the City of Portland. Despite the challenges such a project would face, it has been demonstrated that adaptive reuse of the courthouse is not only feasible but provides a reasonable return on investment for both Multnomah County and a potential developer, and ensures the preservation of the historically significant Multnomah County Courthouse.

XV. Epilogue

On March 20, the authors presented their findings to a group of Multnomah County staff who provided their input. Future work should incorporate their suggestions.

This financial analysis should be complemented with a “sensitivity analysis” which identifies particular functions within the pro forma that could easily make each model unfeasible if they changed. For instance, it is possible that the terms of debt, development costs, or purchase price would easily upset the pro forma if they are higher than predicted.

There are additional costs that have not been factored into the analysis. Development costs should increase to incorporate a mandatory 2% for the Regional Arts Council (RAC) and approximately 1.5% for solar power. If the county retains ownership of the property, the project would be required to pay labor costs established by unions, which generally increases labor costs by 30%.

The discussions prompted a question about projected development costs: why is the cost of office development higher than residential development? It may be accurate, but seems counter to intuition, given that the courthouse essentially provides office suits in its current configuration.

It is possible that another government agency such as the City of Portland, may want to trade properties in order to redevelop the courthouse as office space on all eight floors. This scenario was not addressed in our analysis.

XVI. Appendices

Useful Reports

- (A) U.S. Department of the Interior. "Secretary of the Interior's Standards for Rehabilitation."
- (B) U.S. Department of the Interior. "Federal Tax Incentives for Rehabilitating Historic Buildings: Statistical Report and Analysis for Fiscal Year 2016" March 2017.
- (C) U.S. Department of Housing and Urban Development. "Comprehensive Housing Market Area Analysis: Portland-Vancouver-Hillsboro, Oregon-Washington." March 2016.
- (D) Portland State University Center for Real Estate. "In Search of the Missing Condos: An Analysis of Condo Development in the Portland Area," August 2016.
- (E) Portland State University Center for Real Estate. "Portland's Seismic Retrofit Project," May 2016.
- (F) Portland State University Center for Real Estate. "Multifamily Market Analysis," February 2017.

Proposed Use Plans

- (G) Residential Use
- (H) Office Use
- (I) Retail Use

APPENDIX A - USEFUL REPORTS

U.S. Department of the Interior. "Secretary of the Interior's Standards for Rehabilitation."

Secretary's Standards for Rehabilitation

Rehabilitation projects must meet the following Standards, as interpreted by the National Park Service, to qualify as "certified rehabilitations" eligible for the 20% rehabilitation tax credit. The Standards are applied to projects in a reasonable manner, taking into consideration economic and technical feasibility.

The Standards apply to historic buildings of all periods, styles, types, materials, and sizes. They apply to both the exterior and the interior of historic buildings. The Standards also encompass related landscape features and the building's site and environment as well as attached, adjacent, or related new construction.

1. A property shall be used for its historic purpose or be placed in a new use that requires minimal change to the defining characteristics of the building and its site and environment.
2. The historic character of a property shall be retained and preserved. The removal of historic materials or alteration of features and spaces that characterize a property shall be avoided.
3. Each property shall be recognized as a physical record of its time, place, and use.
Changes that create a false sense of historical development, such as adding conjectural features or architectural elements from other buildings, shall not be undertaken.
4. Most properties change over time; those changes that have acquired historic significance in their own right shall be retained and preserved.
5. Distinctive features, finishes, and construction techniques or examples of craftsmanship that characterize a historic property shall be preserved.
6. Deteriorated historic features shall be repaired rather than replaced. Where the severity of deterioration requires replacement of a distinctive feature, the new feature shall match the old in design, color, texture, and other visual qualities and, where possible, materials. Replacement of missing features shall be substantiated by documentary, physical, or pictorial evidence.
7. Chemical or physical treatments, such as sandblasting, that cause damage to historic materials shall not be used. The surface cleaning of structures, if appropriate, shall be undertaken using the gentlest means possible.

8. Significant archeological resources affected by a project shall be protected and preserved.
If such resources must be disturbed, mitigation measures shall be undertaken.
9. New additions, exterior alterations, or related new construction shall not destroy historic materials that characterize the property. The new work shall be differentiated from the old and shall be compatible with the massing, size, scale, and architectural features to protect the historic integrity of the property and its environment.
10. New additions and adjacent or related new construction shall be undertaken in such a manner that if removed in the future, the essential form and integrity of the historic property and its environment would be unimpaired.

More information should be reviewed at the following links:

Sustainability: <https://www.nps.gov/tps/standards/rehabilitation/sustainability-guidelines.pdf>

Preserving, Rehabilitating Restoring & Reconstructing Historic Buildings:
<https://www.nps.gov/tps/standards/four-treatments/treatment-guidelines.pdf>

APPENDIX B - USEFUL REPORTS

U.S. Department of the Interior. "Federal Tax Incentives for Rehabilitating Historic Buildings: Statistical Report and Analysis for Fiscal Year 2016" March 2017.

Federal Tax Incentives for Rehabilitating Historic Buildings

Statistical Report and Analysis
for Fiscal Year 2016



Corning Free Academy in Corning, NY

The Federal Historic Preservation Tax Incentives Program, administered by the National Park Service in partnership with the State Historic Preservation Offices, is the nation's most effective Federal program to promote community revitalization and encourage private investment through historic building rehabilitation.

Since the program's inception in 1976, the tax incentives have spurred the rehabilitation of historic structures of every period, size, style, and type. The incentives have been instrumental in preserving the historic places that give our cities, towns, and rural areas their special character and have attracted new private investment to our Main Streets and historic cores of our urban areas alike.

The tax incentives also generate jobs, enhance property values, create affordable housing, and augment revenues for Federal, state, and local governments. Through this program, vacant or underutilized schools, warehouses, factories, apartments, churches, retail stores, hotels, houses, farms, and offices throughout the

country have been restored to life in a manner that maintains their historic character.

The historic tax credit applies specifically to income-producing historic properties, and throughout its history it has leveraged many times its cost in private expenditures on historic preservation. This program is the largest Federal program specifically supporting historic preservation, generating over \$84 billion in historic preservation activity since 1976. During Fiscal Year (FY) 2016, the National Park Service approved 1,299 proposed projects (Part 2 applications) representing an estimated \$7.16 billion of investment to restore and rehabilitate historic buildings.

Over 42,000 projects to rehabilitate historic buildings have been undertaken since the first project using the historic tax incentives was completed in 1977. Rehabilitation work has taken place in all 50 states, the District of Columbia, the Virgin Islands, and Puerto Rico. The completed projects have brought new life to deteriorated business and residential districts, created new jobs and new housing, and helped to ensure the

(continued next page)



U.S. Department of the Interior, National Park Service
Technical Preservation Services, Washington, DC

March 2017

long-term preservation of irreplaceable cultural resources.

In 1986, Congress amended the Federal Tax Code establishing the 20% historic tax credit that remains in effect today. Program activity in the 1990s reached record highs in the amount of investment dollars, before declining during the recent recession. Program activity has rebounded in recent years, with the amount of rehabilitation investment in proposed projects exceeding \$7 billion for the first time in program history. The average investment in completed certified projects (Part 3 applications) in FY 2016 was \$5.8 billion, the highest in program history.

The National Park Service review of project applications is undertaken by the Technical Preservation Services office in Washington, DC, in partnership with the State Historic Preservation Offices. State Historic Preservation Offices are the first point of contact for property owners wishing to use the rehabilitation tax credit. They can be contacted to help determine whether a historic building is eligible for Federal or state historic preservation tax incentives; to provide guidance before the project begins

so as to make the process as fast and economical as possible; and to advise on appropriate preservation work.

The Technical Preservation Services website, <<http://www.nps.gov/tps>>, allows applicants to check the status of projects online and find other information on the program. In addition, the certification application, guidance on applying the Secretary of the Interior's Standards for Rehabilitation, and technical information concerning the treatment of historic buildings are available on the website.

This statistical report and analysis was prepared by Kaaren Staveteig of the Technical Preservation Services office. Questions regarding the data and analysis may be addressed to Ms. Staveteig by e-mail at <kaaren_staveteig@nps.gov>. Special thanks are due to the staff of Technical Preservation Service for their assistance in the preparation of this report, particularly Charles Fisher and Liz Petrella, and to Brian Goeken, Chief, Technical Preservation Services.

Technical Preservation Services
March 2017

“

The historic tax credit program has had a very positive effect on the revitalization of our community--crime is down, the business retail community thrives and property taxes are up

”

Little Rock, Arkansas

*Highlights for FY 2016**

<i>Investment in historic rehabilitation</i>	<i>Part 2 (proposed)</i>	<i>Part 3 (completed)</i>
Rehabilitation costs	\$7.16 billion	\$5.85 billion
Median cost of projects	\$900,000	\$1,028,571
Number of approved applications	1,299	1,039
<i>Number of housing units sets new record</i>		
Number of housing units		21,139
Rehabilitated housing units		6,572
New housing units		14,567
New low and moderate income housing units		7,181
<i>Job creation remains strong**</i>		
Average number of local jobs created per project		104
Estimated number of local jobs created		108,528

Program Accomplishments 1977-2016

Number of historic rehabilitation projects certified	42,293
Rehabilitation investment	\$84.15 billion
Rehabilitated housing units	271,174
New housing units	277,831
Low and moderate income housing units	153,255
Estimated total number of total jobs created**	2.44 million

** Statistics used in this report are based on the Part 1, 2 and 3 Historic Preservation Certification Applications and the voluntary User Profile and Customer Satisfaction Questionnaire. All rehabilitation costs are estimated as reported by the applications.*

***Jobs numbers are based on a National Park Service-funded study of the economic impacts of the historic tax credits by the Rutgers University Center for Policy Research.*

Federal Tax Incentives For Rehabilitating Historic Buildings 1977-2016

Approved Proposed Projects (Part 2 applications)

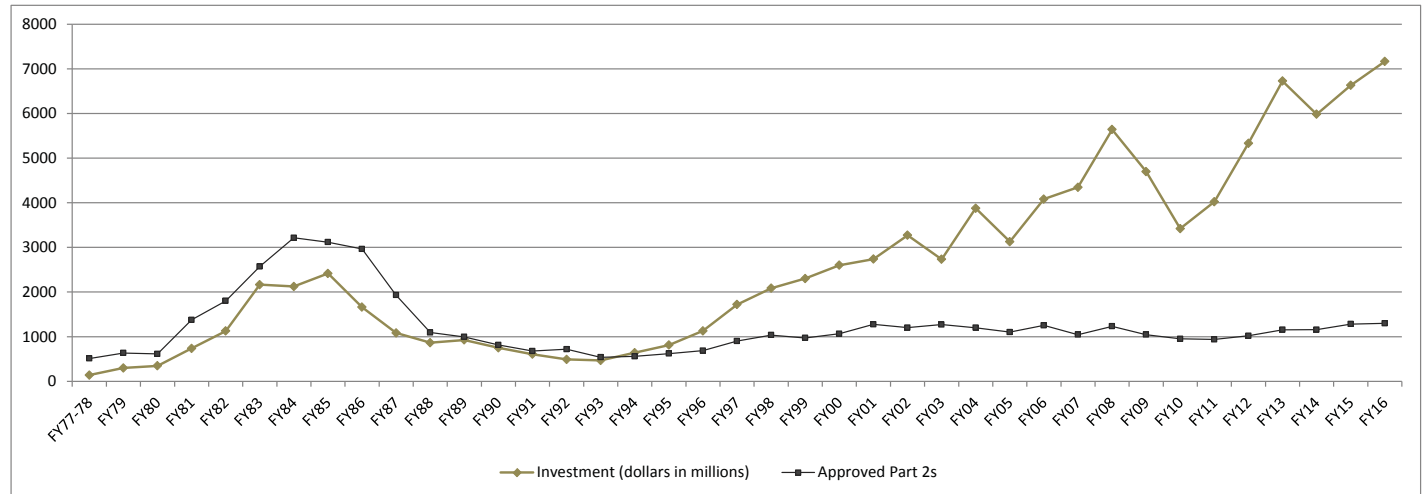


Figure 1. Note: Investment dollars above are not adjusted for inflation.

Adaptive Reuse of Historic Bank Buildings Benefits Older Neighborhoods

The Stony Island Arts Bank building is one of the last remnants of what was once a dense commercial strip along Stony Island Avenue on the South Side of Chicago, IL. The gray terra-cotta structure, originally the Stony Island Savings and Trust, was built in 1923 with a dramatic vaulted banking lobby. It served a succession of financial institutions, but lost its tenants in the late 1970s, remained vacant for many years, and was almost demolished. Now, this landmark has been restored and reopened as the Stony Island Arts Bank, a hub for free arts and cultural programming for the Rebuild Foundation founded by Theaster Gates, a nonprofit

organization that seeks specifically to foster culture and development in underinvested neighborhoods.



Stony Island Bank, Chicago, IL



First National Bank, Stephenville, TX.

Photos: NPS files

The First National Bank of Stephenville is a two-story Romanesque-style bank building in Stephenville, TX. One of the oldest remaining structures in the downtown, it was constructed in 1889 and housed the town's first bank. The bank moved out in 1925, and the building became home to a variety of tenants under multiple ownerships. In 2014, work began to rehabilitate this distinctive landmark into a mixed-commercial use building using the Federal historic tax credits. This enabled the restoration of many of the original features and finishes including the windows, interior plaster and frieze, wood trim, and floors. The building is once again a focal point for the surrounding community.

Preservation Tax Incentives Project Activity

The historic tax credit is a catalyst for community revitalization and economic development. Total estimated investment in proposed rehabilitation projects was \$7.16 billion in FY 2016, the highest in the program's history, and the median investment in proposed rehabilitation projects was \$900,000.

The tax incentives program remains an effective means of leveraging private investment in the adaptive reuse and preservation of historic buildings. The program continues to help stimulate economic recovery in older communities, both large and small, throughout the nation, and created an estimated 108,528 jobs last year.

Table 1: Projects & Estimated Expenses (Part 2 applications): FY 2012-2016

	FY12	FY13	FY14	FY15	FY16
Approved Projects (Part 2s)	1,020	1,155	1,156	1,283	1,299
Rehabilitation Expenses (in millions)	\$5.33	\$6.73	\$5.98	\$6.63	\$7.16
Maximum Amount of Credit (in millions)	\$1,066	\$1,346	\$1,196	\$1,326	\$1,432
Median Expense/Project	\$600,000	\$770,000	\$989,464	\$937,865	\$900,000
Average Credit/Project (approx.)	\$1,045,255	\$1,164,648	\$1,035,005	\$1,033,515	\$1,103,124

Two major events have impacted the tax incentives program in the past 25 years. Changes in Federal tax law in 1986 led to a dramatic decline between FY 1989 and FY 1993 in the reported investment in new historic rehabilitation projects throughout the country. This trend reversed, starting in FY 1994, as the number of new projects steadily increased and the amount of investment in new projects reached a then-record high in FY 2008. The downturn in the economy during the recent recession

resulted in a decline of nearly 25% in the number of approved projects over the succeeding three years, and a major reduction in investment dollars, including a 65% drop in just two years. Project activity has rebounded in the past five years, with a 27% increase in the number of approved projects in FY 2012-2016 and an increase of 34% in investment dollars. In FY 2016, the \$7.17 billion in investment dollars (Part 2 approved applications for proposed projects) is the highest in program history.

*Table 2: Size of Approved Rehabilitation Projects (Part 2s)
as Percentage of Total Cost*

COST	FY12	FY13	FY14	FY15	FY16
Less than \$20,000	2%	0.5%	0.5%	0.5%	0%
\$20,000-\$99,999	9%	9%	9%	8%	7%
\$100,000-\$249,999	12%	16%	16%	15%	10%
\$250,000-\$499,999	10%	14%	13.5%	13.5%	12%
\$500,000-\$999,999	18%	16%	11%	14%	21%
\$1,000,000 and over	49%	44.5%	50%	49%	50%
TOTAL	100%	100%	100%	100%	100%

Certifications of Significance

Certification of Historic Significance (Part 1 applications) is the first step in establishing eligibility for the historic tax credit, and is an early economic indicator for future rehabilitation project activity. A building must be individually listed in the National Register of Historic Places or be certified as contributing to a registered historic district in order to qualify for the 20% credit. This year, 1,553 properties were approved for a Certification of Historic Significance, which is an 4% increase over the previous year and consistent with the recent growth in new projects. The National Park Service also certifies buildings as nonsignificant, i.e., not contributing to

a National Register historic district. A nonsignificant building built before 1936 can qualify for a 10% tax credit if it is rehabilitated for income-producing, non-residential purposes. The National Park Service certifies state and local historic districts that are not listed in the National Register. This allows buildings in these districts to also qualify for tax credits. In addition, Part 1 submissions are certified when the applicant is seeking a charitable donation for a historic preservation easement. In such a case, no Part 2 or 3 submissions are necessary. In FY 2016, there were 9 Certifications of Significance for easement purposes.

Approvals of Proposed Rehabilitation Work

All owners of a certified historic structure who are seeking the 20% tax credit for rehabilitation work must

complete a Part 2 application form, which is a description of the proposed rehabilitation work. Long-term lessees

may also apply if their remaining lease term is more than 27.5 years for residential property or more than 39 years for nonresidential property. The owner submits the application to the State Historic Preservation Office (SHPO). The SHPO provides technical assistance and guidance on appropriate rehabilitation treatments, advises owners on their applications, makes site visits when possible, and forwards submitted applications to the NPS, with a recommendation. The NPS reviews the description of the

proposed rehabilitation for conformance with the Secretary of the Interior's Standards for Rehabilitation. The entire project is reviewed, including related demolition and new construction, and the project is approved only if the overall rehabilitation project meets the Standards. The proposed work may also be given a conditional approval that outlines specific modifications to bring the project into conformance with the Standards. The NPS strongly encourages owners to submit for review before work is undertaken.

Certified Rehabilitation Projects

Certifications of completed projects (Part 3 applications) are issued only when all work has been finished on a certified historic building or building complex. These approvals are the last administrative action taken by the

National Park Service for projects eligible for the historic rehabilitation tax credit. Estimated certified rehabilitation costs in FY 2016 were \$5.85 billion, a 31% increase over the previous year.

Table 3: Comparisons of Proposed Projects (Part 1s and 2s) Received & Approved and Completed Projects (Part 3s) Received and Certified: FY 2010-2016

	FY12	FY13	FY14	FY15	FY16
Part 1s Received	1,222	1,323	1,478	1,616	1,717
Part 1s Approved	1,171	1,269	1,377	1,491	1,553
Part 2s Received	1,190	1,208	1,291	1,416	1,521
Part 2s Approved	1,020	1,155	1,156	1,283	1,299
Part 3s Received	792	838	779	966	1,040
Part 3s Certified	744	803	762	870	1,039

Project review by the National Park Service typically extends over more than one fiscal year, accounting for some of the differences in the number of Part 2s and Part 3s received and approved in any given year (see Table 3). Other factors include projects with pending approvals, phased projects, withdrawn projects, and those not approved. The National Park Service generally makes final decisions on certification within 30 days of receipt of a complete application and payment of a processing fee. However, more time may be required if the information provided by the owner is incomplete or treatments do not meet the Standards.

Estimated rehabilitation costs on Part 2 applications are for proposed rehabilitation work. While work usually is completed within 24 months, projects can be phased under a special 60-month provision, or otherwise delayed because of financing or other reasons. Thus, these figures cannot be relied upon for actual costs or activity in any given year. Certified rehabilitation costs, reported on the Part 3 application form, represent the estimated amount reported by the applicant to be claimed as qualifying costs associated with the rehabilitation. These costs do not include new construction and other work ineligible for the credit.

*Table 4: Estimated Rehabilitation Investment (Part 2s/Part 3s)
Since the Tax Reform Act of 1986*

	FY86	FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94	FY95	FY96
Part 2 Est. Rehab Costs (in millions)	\$1,661	\$1,083	\$865	\$927	\$750	\$608	\$491	\$468	\$641	\$812	\$1,130
Part 3 Est. Rehab Costs (in millions)	N/A	N/A	N/A	N/A	N/A	N/A	\$735	\$547	\$483	\$569	\$757
	FY97	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07
Part 2 Est. Rehab Costs (in millions)	\$1,720	\$2,085	\$2,303	\$2,602	\$2,737	\$3,272	\$2,733	\$3,877	\$3,127	\$4,082	\$4,346
Part 3 Est. Rehab Costs (in millions)	\$688	\$694	\$945	\$1,676	\$1,663	\$2,110	\$2,859	\$2,204	\$2,491	\$2,776	\$2,988
	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16		
Part 2 Est. Rehab Costs (in millions)	\$5,641	\$4,697	\$3,421	\$4,023	\$5,330	\$6,726	\$5,982	\$6,630	\$7,165		
Part 3 Est. Rehab Costs (in millions)	\$3,272	\$4,539	\$3,438	\$3,473	\$3,155	\$3,390	\$4,324	\$4,474	\$5,855		

Investment Activity on a State-by-State Basis

Comparisons of state-by-state activity may be made by referring to the chart on the next page. Project activity occurred in 49 states, the Virgin Islands, Puerto

Rico, and the District of Columbia, with only Idaho, reporting no new projects in FY 2016.

Table 5: FY2016 State-by-State Project Activity and
Estimated Qualified Rehabilitation Expenditures (QRE)

STATE	Part 1 R*	Part 2 R*	Part 3 R*	Part 1 A**	Part 2 A**	Part 3 A**	Estimated QRE at Part 2	Estimated QRE at Project Completion (Part 3)
AK	0	1	1	0	1	1	\$90,000	\$90,000
AL	21	9	13	13	9	11	\$45,576,627	\$46,061,788
AR	33	25	24	23	22	23	\$56,354,383	\$44,927,514
AZ	1	4	8	2	3	8	\$4,450,000	\$38,934,676
CA	18	7	6	17	7	5	\$387,133,675	\$80,116,630
CO	8	5	5	7	4	5	\$20,756,000	\$13,014,852
CT	9	15	6	11	8	17	\$186,856,681	\$155,553,302
DC	11	9	3	9	4	2	\$61,769,684	\$17,151,804
DE	7	6	4	6	5	4	\$6,299,352	\$17,571,967
FL	25	16	9	24	13	8	\$101,405,050	\$20,981,104
GA	79	71	31	28	16	22	\$104,204,513	\$37,528,139
HI	1	1	0	1	1	0	\$700,000	\$0
IA	39	35	28	42	43	25	\$193,323,823	\$113,019,293
ID	0	0	0	0	0	0	\$0	\$0
IL	39	29	15	38	29	15	\$235,452,035	\$271,976,061
IN	39	24	14	32	12	14	\$80,363,845	\$46,607,634
KS	26	27	16	24	13	15	\$31,817,500	\$61,151,971
KY	46	46	55	41	38	50	\$157,179,398	\$74,235,891
LA	188	163	91	161	144	91	\$465,015,328	\$308,665,795
MA	79	89	48	75	52	40	\$355,862,497	\$306,051,457
MD	51	47	47	48	38	42	\$77,728,890	\$199,025,809
ME	12	13	12	10	12	12	\$47,792,615	\$44,551,963
MI	40	42	21	39	40	17	\$307,039,129	\$132,442,994
MN	19	15	20	17	13	14	\$160,378,135	\$242,318,696
MO	133	133	95	146	121	96	\$309,950,691	\$600,969,399
MS	31	19	15	26	15	14	\$20,021,908	\$25,173,430
MT	1	1	5	1	0	5	\$0	\$13,038,964
NC	76	50	44	55	52	40	\$174,204,995	\$389,575,926
ND	2	2	0	2	0	0	\$0	\$0
NE	8	12	16	8	10	18	\$27,224,423	\$62,715,818
NH	8	5	1	8	4	1	\$10,870,640	\$870,000
NJ	21	16	7	18	18	9	\$81,600,000	\$370,091,835
NM	2	0	0	2	0	0	\$0	\$0
NV	0	1	1	0	1	1	\$1,148,850	\$1,148,850
NY	130	120	97	124	104	85	\$711,419,303	\$748,105,782
OH	90	95	50	94	90	102	\$975,522,511	\$299,628,958
OK	25	22	20	21	22	25	\$102,371,516	\$122,667,485
OR	10	9	8	10	8	9	\$38,901,455	\$24,816,461
PA	51	50	28	50	54	25	\$451,010,301	\$172,708,797
PR	1	1	0	1	1	0	\$150,000	\$0
RI	16	17	19	16	16	18	\$127,215,000	\$101,398,296
SC	20	24	9	21	16	7	\$208,575,194	\$52,922,856
SD	4	1	1	4	2	1	\$2,700,000	\$350,000
TN	18	9	9	11	11	3	\$82,962,580	\$2,737,927
TX	44	32	10	44	20	10	\$146,273,318	\$148,860,579
UT	5	7	4	2	5	2	\$4,119,337	\$2,940,341
VA	154	133	77	147	142	80	\$278,857,684	\$223,321,032
VI	1	0	0	0	0	0	\$0	\$0
VT	10	10	10	10	10	13	\$8,124,699	\$16,383,487
WA	9	12	8	11	11	10	\$174,401,599	\$112,481,692
WI	37	30	22	35	30	18	\$116,176,921	\$81,998,440
WV	16	10	6	15	9	5	\$23,440,000	\$6,700,819
WY	3	1	1	3	0	1	\$0	\$1,641,520
TOTAL	1717	1521	1040	1553	1299	1039	\$7,164,792,085	\$5,855,228,035

* Received ** Approved

In FY 2016, Louisiana claimed the top spot for the most Part 2s and Ohio the most Part 3s. The four states with the most rehabilitation activity were Louisiana (144), Virginia (142), Missouri (121), and New York (104).

Twenty-seven states had more proposed projects approved in FY 2016 than in FY

2015. These states are Alaska, California, Colorado, District of Columbia, Delaware, Hawaii, Iowa, Illinois, Indiana, Kansas, Kentucky, Michigan, Missouri, New Hampshire, New Jersey, Nevada, New York, Oklahoma, Pennsylvania, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah, Virginia, and West Virginia.

Denials and Appeals

Projects are denied certification by the National Park Service if the rehabilitation work does not preserve the historic character of the building. Meeting the Secretary of the Interiors Standards for Rehabilitation is the basis for this determination. The Internal Revenue Service disallows the tax credit for projects without certification. If a project is denied certification, the owner may appeal the decision to the National Park Service's Chief Appeals Officer.

In FY 2016, 1,553 certifications of significance (Part 1s) were approved and 33 were denied. For rehabilitation projects, 41 were denied certification (Part 2s and/or 3s). A large number of the denials involved rehabilitation projects where work was substantially

underway or complete prior to review by the National Park Service. Thirty-two denials were appealed to the Chief Appeals Officers in FY 2016, with 22 heard during the fiscal year. (Appeals are not necessarily heard in the same fiscal year that the projects were denied. The data presented here refers to appeals heard during FY 2016.) During the year, 26 appeals were decided. Twenty-two denials were upheld, in whole or in part, and four denials were overturned. Of the upheld denials, 14 projects were approved based on new information and/or proposed changes to the project; or the denial letter outlined changes or remedial work that could be undertaken for the project to be approved. One appeal was withdrawn, and two appeals were denied hearings due to untimely filing.

Table 5: Denials and Appeals (Parts 1, 2, and 3): FY 2007-2016

	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16
Initial Denials	52	43	54	49	39	60	60	63	73	74
Appeal Decisions	23	19	30	31	33	32	31	31	40	26

Ownership of Certified Rehabilitation Projects

Information collected from the voluntary User Profiles and Customers Satisfaction Questionnaires sent to property owners post-certification indicates that the limited

liability company form of ownership continues to be the most common, and is used in over half of all projects.

Table 6: Type of Ownership in FY 2016 (Part 3s)

Individual	Corporation	General partnership	Limited partnership	Limited liability company	TOTAL
14%	4%	2%	23%	57%	100%

Size of Completed Projects

Table 7 shows the breakdown of projects by the amount of rehabilitation investment. Historic tax credit projects are not all large projects, which is a common misconception of the program.

In FY 2016, 7% of all projects were under \$100,000, 29% of all projects were under \$500,000, and the majority of all projects (51%) were greater than \$1 million in costs.

Table 7: Comparison of Percentage of All Certified Projects (Part 3s) in Each Size Category: FY 2012-2016

	<\$20,000	\$20,000-\$99,999	\$100,000-\$249,999	\$250,000-\$499,999	\$500,000-\$999,999	>\$1,000,000	TOTAL
FY16	0%	7%	10%	12%	20%	51%	100%
FY15	1%	12%	10%	15%	17%	39%	100%
FY14	1%	11%	14%	13%	17%	44%	100%
FY13	1%	7%	23%	15%	13%	41%	100%
FY12	0.5%	9%	16%	13%	13%	48.5%	100%

Primary Uses of Rehabilitated Properties

The following table (Table 9) shows the final primary use of projects certified over the past five fiscal years, as drawn from customer questionnaires. Of

projects reporting housing as the final primary use, 57% were for multiple-family housing.

Table 9: Uses of Certified Rehabilitation Projects (Part 3s): FY 2012-2016

	FY12	FY13	FY14	FY15	FY16
Housing	47%	46%	42%	50%	57%
Office	21%	21%	18%	21%	13%
Commercial	16%	19.5%	25%	14%	17%
Other	16%	13.5%	15%	15%	13%

Housing and Preservation

The tax incentives program has been an invaluable tool in both the revitalization of historic communities and neighborhoods and in increased public awareness of the importance of preserving tangible links to the nation's past. In many cases, the rehabilitation of one key building has resulted in the rehabilitation of adjacent buildings.

Housing has been the single-most important use for rehabilitated historic buildings under the program. Over the past five years, between 47% and 57% of the projects have included housing. Since the program began, the National Park Service has approved the proposed rehabilitation of an estimated 271,174 housing units and the creation of an estimated 277,831 new units. In FY 2016 a reported 21,139 housing

units were approved, including 6,572 housing units rehabilitated and 14,567 new units. Table 10 shows the total number of housing units reported as part of proposed projects, including rehabilitated units and new units, over the past decade.

One of the benefits of the program is the creation and retention of affordable housing. Various Department of Housing and Urban Development (HUD) programs, such as the low-income housing tax credits, have been used by private investors in conjunction with preservation tax credits to achieve this goal. Over the past 40 years, the National Park Service has approved as part of the historic tax credit program a reported 153,255 low and moderate income housing units.

Table 10: Historic Rehabilitation Projects (Part 2s) Involving Housing (Reported Unit Count): FY 2007-2016

	Number of Housing Units	Number of Units Rehabilitated	New Units	Number of Low/Moderate Units	Percentage of Low/Moderate Units to Total Number of Housing Units
FY16	21,139	6,572	14,567	7,181	34%
FY15	23,569	8,608	14,961	8,096	34%
FY14	19,786	8,369	11,417	6,540	33%
FY13	25,121	9,367	15,754	7,097	28%
FY12	17,991	6,772	11,219	6,366	35%
FY11	15,651	7,435	8,216	7,470	48%
FY10	13,273	6,643	6,630	5,514	42%
FY09	13,743	5,764	7,979	6,710	49%
FY08	17,051	6,659	10,392	5,220	31%
FY07	18,006	6,272	11,734	6,553	36%

Use of Additional Incentives and Funding Assistance

Using Federal historic preservation tax credits generally does not preclude the use of other Federal, state, or local funding sources that promote public benefits, or other programs designed to encourage rehabilitation. Information from the User Profile and Customer Satisfaction Questionnaire indicates that 88% of the respondents reportedly used one or more forms of additional incentives or publicly-supported financing in FY 2016. Of the additional incentives, 80% utilized state historic preservation tax incentives and 21%

used the Federal low-income housing credit. Other incentives included HUD programs such as HOME, Insured Loan Programs and the Community Development Block Grant (CDBG); New Market Tax Credit Program (NMTC); Tax Increment Financing (TIF); Brownfields Economic Development Initiative Grant; and, USDA Rural Development Loan Programs. Local property tax/ad valorem tax abatement was used by 23% of the respondents, and 15% obtained low interest loans through their cities.

*Table 11: Other Incentives Used In Completed Projects
In Addition to Historic Preservation Tax Credits in FY 2016**

None	10%
Low-income Rental Housing Credits	21%
Local Property Tax/Ad Valorem Tax Abatement	23%
Historic Preservation Easement	2%
Facade Grant Program	6%
State Historic Preservation Tax Incentives	80%
HUD Program	21%
Low Interest Loan	15%
Other	8%

*Many projects used more than one type of program. This is reflected in the percentage rates above. This data is taken from the post-certification questionnaire voluntarily returned by property owners.

Historic Schools Revitalizing Communities

With their neighborhood locations and handsome architecture, vacant school buildings are being adapted utilizing the Federal historic tax credit to help meet the needs of older communities. Both of the projects shown here were certified by the National Park Service in FY 2016.

Standing empty for seven years, the Ben Day School has become a new home for 24 families in historic central Leavenworth, KS. Originally built in 1909, the two-story Tudor revival-style building served elementary students, then primary students, and finally early childhood programs. Completed in FY 2016, this \$2.3 million project repaired and preserved the wide corridor spaces with many of the original, wooden hall cupboards, trim, and plaster, and incorporated classroom chalkboards, cloakrooms, and built-in cabinets within the apartment units.



Ben Day School, Leavenworth, KS



Harnett County Training School, Dunn, NC
Photos: NPS files

The Harnett County Training School has been a landmark in Dunn, North Carolina, since its construction in 1922. The school was built to provide education for the African-American students in the area. After several expansions, the school became one of the largest Rosenwald schools in the state. Over time, desegregation made the buildings obsolete and the school sat vacant for many years. In 2014, a \$7.8-million rehabilitation project was undertaken to bring the school building, as well as a gymnasium/auditorium, a classroom annex building, and a multi-purpose building, back to life to provide multiple uses. Besides providing 37 units of affordable housing for seniors, classrooms and multi-purpose rooms are leased to the Central Carolina Community College, and the gym serves as the Dunn Police Athletic League's youth recreation center.

on the front cover . . .

Corning Free Academy, Corning, NY

With the continuing consolidation of neighborhood schools or simple replacement of older buildings, hundreds of historic school buildings are at risk each year. Once closed and left vacant, schools soon suffer from lack of maintenance, vandalism, and general neglect. The Federal historic tax credit has helped rescue many neighborhood school buildings with reuses varying from charter schools and hotels to apartments providing much needed community housing. Through the reuse of historic schools, new jobs are created and vacant buildings are renewed with broad positive economic impact on the local community—and the history of communities embodied by the schools that educated multiple generations of local children is preserved.

First a high school and later a middle school, the Corning Free Academy located in the Southside Historic District in Corning, New York, is an imposing four-story Romanesque Revival brick building, embellished by terra cotta. Built in 1922 and added onto over time, the school closed in 2014. Thanks to the foresight of the local school board and community leaders, plans were soon in place for New York-based developer Purcell Construction Company to acquire and undertake a \$13-million rehabilitation of the building. In just about a year's time, the building reopened with a new name, Academy Place, and a new use, providing 58 market-rate apartments.

The Elmira Savings Bank and the Empire State Development Corporation provided financing, with the local bank noting it was their largest single project ever financed in its 145-year history. In 2016, the project was certified by the National Park Service for purpose of the historic tax credit.

Not only was the exterior of the building repaired and preserved, but also distinctive interior features and spaces were retained, including the auditorium which will be used as a community space. A physical fitness center is



located in space formerly used as the gym. The experience today of again walking along the wide hallways so distinctive of older schools is enhanced by the retention of the many large arched openings. "Once you walk in that front door you realize it is a special building," according to Mark Purcell, President of the family-owned business that developed the property.

Cover and interior corridor photos: David R. Miller for Johnson-Schmidt & Associates, Architects; drone and auditorium photos: B Square Web for Riedman Companies

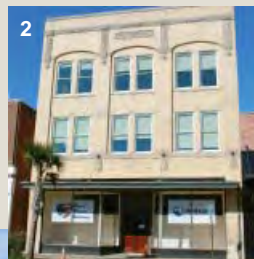
State Historic Preservation Tax Incentives

More than half of the states offer state tax incentives of various kinds for historic preservation rehabilitation projects. Approximately half of the projects receiving Part 3 certification also used state historic tax credits in FY 2016. Over half of the states currently offer state income tax credits. The four states with the most rehabilitation activity in FY 2016 (Louisiana, Virginia, Missouri, and

New York) all have “piggyback” state historic credits. Piggybacking state credits has proven to be an invaluable additional incentive for rehabilitating vacant and deteriorated historic buildings. Property tax relief is also available for qualified projects through statewide programs in a number of states. Some states also offer property tax relief as a local option.

Economic Revitalization Utilizing Federal Historic Preservation Tax Incentives

For 40 years the Federal historic preservation tax incentives have spurred the rehabilitation of historic structures of every period, size, style, and type. Abandoned or underutilized schools, warehouses, factories, churches, barns, retail stores, apartments, hotels, houses, offices, and theaters throughout the country have been given new life in a manner that maintains their historic character. In FY 2016, 57% of the completed projects included housing, with a third of those units for affordable units. Office space accounted for 14% of the projects, while 17% was for other commercial uses. This year, 55% of the historic structures undergoing rehabilitation work are for a continued use rather than an adaptive reuse.



1. Erwin House, Bourbon, IN; 2. Rainwater Building, Florence, SC; 3. 21c Museum Hotel, Lexington, KY; 4. Sheridan Inn, Sheridan, WY; 5. Washington School House, Park City, UT; . Photos: NPS files



APPENDIX C - USEFUL REPORTS

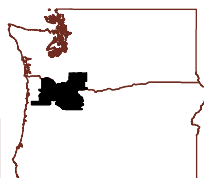
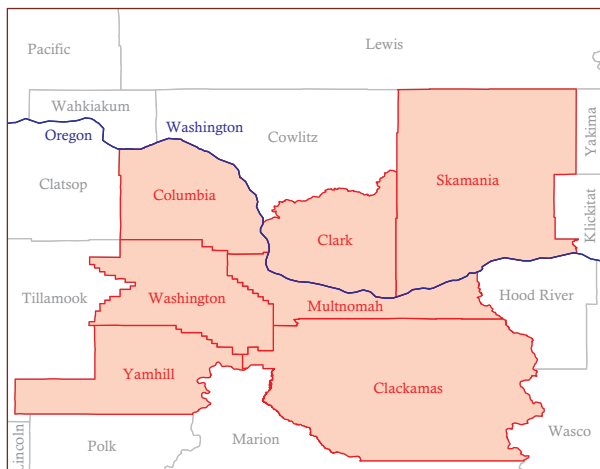
U.S. Department of Housing and Urban Development. "Comprehensive Housing Market Area Analysis: Portland-Vancouver-Hillsboro, Oregon-Washington." March 2016.



Portland-Vancouver-Hillsboro, Oregon-Washington

U.S. Department of Housing and Urban Development | Office of Policy Development and Research | As of May 1, 2016

PD&R



Housing Market Area

The Portland-Vancouver-Hillsboro Housing Market Area (hereafter, the Portland HMA) consists of seven counties located at the confluence of the Columbia and Willamette Rivers in northwestern Oregon and southwestern Washington. The HMA is coterminous with the Portland-Vancouver-Hillsboro, OR-WA Metropolitan Statistical Area. For purposes of this analysis, the HMA is divided into three submarkets: (1) the Portland submarket, consisting of Clackamas, Columbia, and Multnomah Counties in Oregon; (2) the Beaverton-Hillsboro submarket, consisting of Washington and Yamhill Counties in Oregon; and (3) the Vancouver submarket, which consists of Clark and Skamania Counties in Washington.

Summary

Economy

After losing jobs from 2008 through 2010, nonfarm payrolls in the Portland HMA have expanded every year since 2011 as a result of strong economic conditions. During the 12 months ending April 2016, nonfarm payrolls in the HMA increased by 35,200 jobs, or 3.2 percent, to 1.12 million jobs compared with a gain of 32,400 jobs, or 3.1 percent, during the 12 months ending April 2015. During the same time, the unemployment rate declined from 5.8 to 5.0 percent. Nonfarm

payrolls are projected to increase at an average annual rate of 2.7 percent during the 3-year forecast period.

Sales Market

The current sales housing market in the HMA is tight, with an estimated vacancy rate of 1.0 percent, down from 2.2 percent in April 2010 (Table DP-1 at the end of this report). New and existing home sales totaled 52,900 during the 12 months ending March 2016, up 19 percent from a year earlier (CoreLogic, Inc., with adjustments by the analyst). As of April 2016, a 1.4-month supply of homes was available for sale, down from a 1.8- and 2.8-month supply in April 2015 and 2014, respectively, in the HMA (RMLS™). During the next 3 years, demand is expected for 27,225

new single-family homes (Table 1). The 2,810 homes under construction and some of the 20,700 other vacant units that may return to the market will satisfy a portion of the demand.

Rental Market

Rental housing market conditions in the HMA are tight, with an estimated vacancy rate of 2.9 percent compared with 5.9 percent in April 2010 (Table DP-1). The apartment vacancy rate was 3.0 percent during the first quarter of 2016, up from 2.5 percent a year ago; however, the average rent increased 13 percent to \$1,185 (MPF Research). During the 3-year forecast period, demand is expected for 18,925 market-rate rental units. The 6,995 units under construction will meet a portion of that demand (Table 1).

Market Details

Economic Conditions	2
Population and Households	6
Housing Market Trends	9
Data Profiles	22

Table 1. Housing Demand in the Portland HMA* During the Forecast Period

	Portland HMA*		Portland Submarket		Beaverton-Hillsboro Submarket		Vancouver Submarket	
	Sales Units	Rental Units	Sales Units	Rental Units	Sales Units	Rental Units	Sales Units	Rental Units
Total demand	27,225	18,925	12,750	10,650	7,675	5,325	6,800	2,950
Under construction	2,810	6,995	1,050	4,900	820	970	940	1,125

*Portland-Vancouver-Hillsboro HMA.

Notes: Total demand represents estimated production necessary to achieve a balanced market at the end of the forecast period. Units under construction as of May 1, 2016. A portion of the estimated 20,700 other vacant units in the HMA will likely satisfy some of the forecast demand. The forecast period is May 1, 2016, to May 1, 2019.

Source: Estimates by analyst

Economic Conditions

Economic conditions in the Portland HMA are strong, with the rate of job growth having outpaced growth in the nation since 2011. Nonfarm payroll growth in the HMA averaged 2.6 percent a year from 2011 through 2015, far exceeding the national average of 1.7 percent. During the 12 months ending April 2016, job growth accelerated, increasing by an average of 35,200 jobs, or 3.2 percent, to 1.12 million

jobs compared with job gains during the 12 months ending April 2015 (Table 2). Job gains occurred in every nonfarm payroll sector during the past 12 months. The unemployment rate averaged 5.0 percent during the 12 months ending April 2016, down from 5.8 percent a year earlier, because growth in employment far outpaced growth in the labor force (Figure 1). Top employers in the HMA include Intel Corporation, Providence Health Systems, and Oregon Health & Science University, with 17,500, 15,239, and 14,616 employees, respectively (Table 3).

The economy of the HMA experienced two separate periods of substantial job losses during the 2000s—from 2001 through 2003, when the dot.com bubble burst, and from 2009 through 2010, when the economy experienced the nationwide economic recession and housing market collapse. The HMA is a regional center for the high-technology (hereafter, high-tech) industry, earning the region the nickname “Silicon Forest.” During the 1990s, the HMA experienced particularly strong economic

Table 2. 12-Month Average Nonfarm Payroll Jobs in the Portland HMA,* by Sector

	12 Months Ending		Absolute Change	Percent Change
	April 2015	April 2016		
Total nonfarm payroll jobs	1,087,700	1,122,900	35,200	3.2
Goods-producing sectors	176,100	180,100	4,000	2.3
Mining, logging, & construction	56,600	57,700	1,100	1.9
Manufacturing	119,500	122,400	2,900	2.4
Service-providing sectors	911,600	942,800	31,200	3.4
Wholesale & retail trade	167,300	171,200	3,900	2.3
Transportation & utilities	36,100	37,300	1,200	3.3
Information	23,700	25,100	1,400	5.9
Financial activities	64,800	67,200	2,400	3.7
Professional & business services	166,500	172,900	6,400	3.8
Education & health services	157,500	163,500	6,000	3.8
Leisure & hospitality	109,500	114,700	5,200	4.7
Other services	38,500	39,800	1,300	3.4
Government	147,800	151,100	3,300	2.2

*Portland-Vancouver-Hillsboro HMA.

Notes: Numbers may not add to totals because of rounding. Based on 12-month averages through April 2015 and April 2016.

Source: U.S. Bureau of Labor Statistics

growth because the high-tech industry was expanding rapidly (referred to as the dot.com bubble); however, when the dot.com bubble burst, it disproportionately impacted firms in the high-tech industry, causing a more

severe downturn in the HMA compared with the economic downturn in the nation. From 2001 through 2003, payrolls in the HMA declined by an average of 13,300 jobs, or 1.4 percent, annually; nationwide, payrolls fell an average of 0.4 percent a year. Economic growth returned from 2004 through 2007, with payroll gains averaging 25,500 jobs, or 2.6 percent, annually compared with the national rate, which averaged 1.4 percent a year. The national recession and housing market collapse subsequently caused economic conditions in the HMA to weaken. After reaching a plateau of 1.04 million jobs in 2007 and 2008, nonfarm payrolls fell by 60,000 jobs, or 5.8 percent, in 2009 and the unemployment rate spiked to 10.9 percent; national payrolls fell 4.3 percent. The weak economy caused a sharp reduction in planned spending, both from households and businesses, causing job losses in nearly every sector of the economy. Payrolls continued to decline in 2010, but at a much slower rate, down 4,200 jobs, or 0.4 percent, to 979,200 jobs.

The professional and business services sector, the largest in the HMA economy, represents slightly more than 15 percent of total nonfarm payrolls (Figure 2). During the 12 months ending April 2016, the sector added more jobs than any sector, increasing by 6,400 jobs, or 3.8 percent, to 172,900 jobs, compared with an increase of 7,800 jobs, or 4.9 percent, during the previous 12 months. Growth in this sector has been boosted by hiring in the high-tech industry, including computer systems design and scientific, professional, and technical services, and also by increased administrative hiring with the presence of corporate headquarters such as adidas North America,

Figure 1. Trends in Labor Force, Resident Employment, and Unemployment Rate in the Portland HMA,* 2000 Through 2015



*Portland-Vancouver-Hillsboro HMA.

Source: U.S. Bureau of Labor Statistics

Table 3. Major Employers in the Portland HMA*

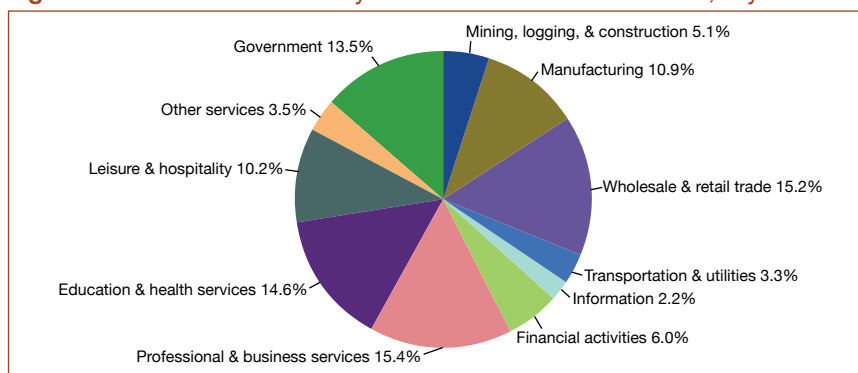
Name of Employer	Nonfarm Payroll Sector	Number of Employees
Intel Corporation	Manufacturing	17,500
Providence Health Systems	Education & health services	15,239
Oregon Health & Science University	Government	14,616
Kaiser Permanente	Education & health services	11,881
Legacy Health Systems	Education & health services	10,436
Fred Meyer Stores	Wholesale & retail trade	10,237
Nike, Inc.	Professional & business services	8,000
Wells Fargo & Co.	Financial activities	4,617
Portland State University	Government	4,153
U.S. Bank	Financial activities	4,000

*Portland-Vancouver-Hillsboro HMA.

Note: Excludes local school districts.

Sources: Moody's Economy.com; Portland Business Journal: Book of Lists 2015

Figure 2. Current Nonfarm Payroll Jobs in the Portland HMA,* by Sector



*Portland-Vancouver-Hillsboro HMA.

Note: Based on 12-month averages through April 2016.

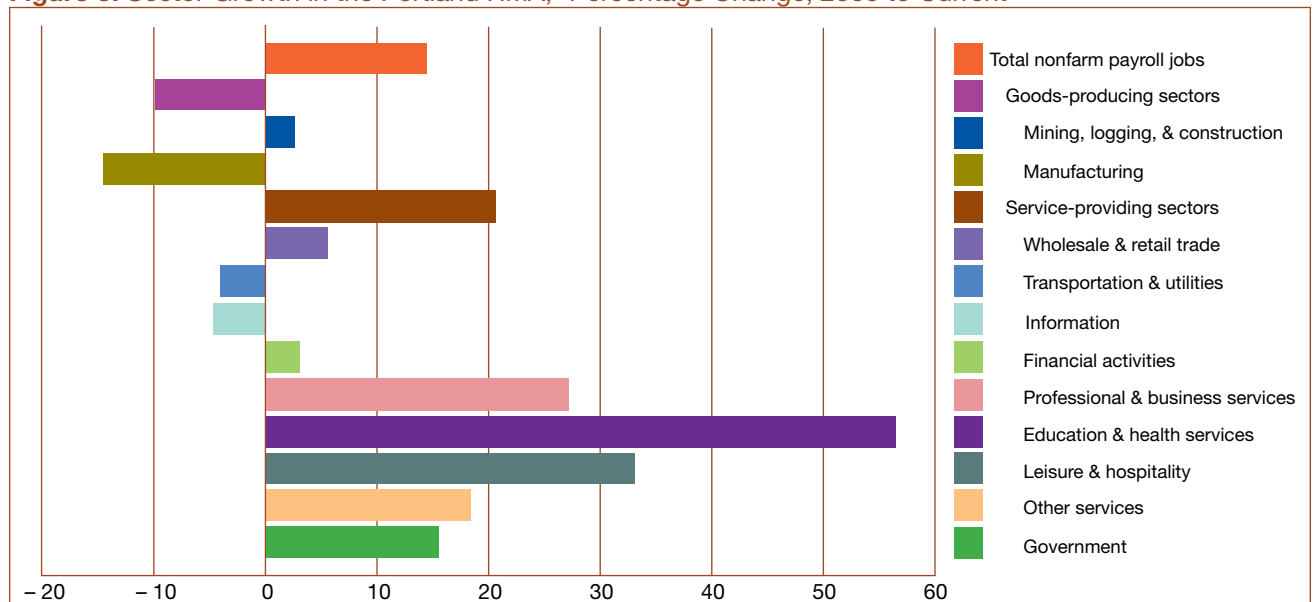
Source: U.S. Bureau of Labor Statistics

Columbia Sportswear Company, Daimler Trucks North America, Intel Corporation, and NIKE, Inc. Growth trends in this sector mirrored overall economic conditions in the HMA, with strong growth during the buildup of the dot.com bubble, followed by a sharp drop as it burst. The sector rebounded quickly, partially because business openings and expansions required increased administrative hiring, but also because of increased demand for computer systems design and information technology improvements. The onset of the nationwide economic recession caused a 1-year decline in sector payrolls, which fell by 11,600 jobs, or 8.0 percent, in 2009. Job growth in the professional and business services sector recovered faster than any sector in the HMA, and, from 2011 through 2014, payrolls increased by an average of 7,000 jobs, or 4.8 percent, annually. In April 2016, NIKE, Inc., announced a \$380 million expansion of its corporate headquarters campus in the Beaverton-Hillsboro submarket. With a target completion

date of 2018, the expansion will add approximately 3.2 million square feet of office, mixed-use, and parking facilities to the campus, with the potential to create thousands of jobs during the 3-year forecast period.

The manufacturing sector continues to play a significant role in the economy of the HMA, despite a decline in employment of 15.0 percent since 2000 (Figure 3). During the 12 months ending April 2016, manufacturing payrolls increased by 2,900 jobs, or 2.4 percent, to 122,400 jobs, compared with a gain of 3,200 jobs, or 2.5 percent, during the previous 12 months. Nearly 60 percent of the jobs in the manufacturing sector are in the computer and electronic product manufacturing or semiconductor and other electronic component manufacturing industries. Both these industries are considered part of the high-tech industry; consequently, the collapse of the dot.com bubble caused a major decline in manufacturing jobs. From 2001

Figure 3. Sector Growth in the Portland HMA,* Percentage Change, 2000 to Current



*Portland-Vancouver-Hillsboro HMA.

Note: Current is based on 12-month averages through April 2016.

Source: U.S. Bureau of Labor Statistics

through 2003, manufacturing sector payrolls declined by an average of 8,400 jobs, or 6.2 percent, annually, the largest payroll decline of any sector. Manufacturing payroll growth resumed from 2004 through 2006, during a period of economic expansion in the HMA, but the average growth of 2,800 jobs, or 2.3 percent, annually was not enough to compensate for all the job losses during the previous recession. The most recent economic recession caused payrolls to decline even further, losing an average of 4,900 jobs, or 4.1 percent, annually from 2007 through 2010. The manufacturing sector began to recover in 2011, when the high-tech industry began to expand; from 2011 through 2014, payrolls increased by an average of 2,800 jobs, or 2.5 percent, a year. This trend is expected to moderate during the forecast period because of planned layoffs at Intel Corporation, the largest employer in the HMA and in Oregon, which specializes in semiconductor manufacturing. In April 2016, the company announced plans to cut its global workforce by 11 percent, or 12,000 workers, beginning immediately. Already, nearly 800 employees have been laid off in Oregon, but that could climb to an estimated 2,150 jobs if the 11-percent cut is applied evenly across all locations. Reducing its workforce is not uncommon for Intel Corporation, however, and is not necessarily indicative of industry performance. It is likely that a large portion of these highly skilled workers will find employment at other high-tech firms that are expanding within the HMA.

During the past 5 years, the HMA has gained national attention for its lifestyle and culture, with numerous accolades, including being ranked number 1 in 2015 on the *Washington*

Post's list of "The 10 Best Food Cities in America." Recognition such as that has contributed to strong growth in the leisure and hospitality sector, which largely comprises jobs in the accommodations and food services industry. During the 12 months ending April 2016, sector payrolls increased by an average of 5,200 jobs, or 4.7 percent, to 114,700 jobs, compared with an increase of 3,900 jobs, or 3.7 percent, during the previous 12 months. Sector payrolls declined sharply in response to both economic downturns but have fully recovered, adding an average of 3,300 jobs, or increasing 3.3 percent, annually from 2011 through 2014. Part of this growth can be attributed the HMA's growing beer industry. The number of brewing companies in the HMA increased from 83 in 2014 to 91 in 2015, and the industry had an economic impact of \$2.83 billion in Oregon in 2014 (Oregon Craft Beer). Job growth in the leisure and hospitality sector is expected to continue at a strong pace during the forecast period as the HMA continues to be nationally highlighted, boosting population growth and tourism and elevating the demand for accommodations and drinking and dining establishments.

The recent and future growth in the local high-tech industry is expected to positively affect employment in the manufacturing and the professional and business services sectors. Other sectors, such as the leisure and hospitality and the wholesale and retail trade sectors, are expected to indirectly benefit from growth in core industries. Nonfarm payrolls are expected to increase at an average annual rate of 2.7 percent, or by 29,950 jobs, annually during the 3-year forecast period.

Population and Households

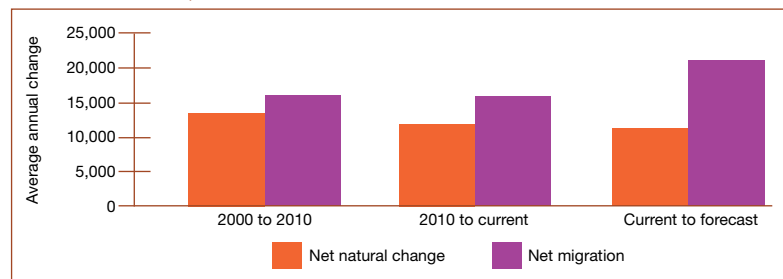
As of May 1, 2016, the population of the Portland HMA is estimated at 2.4 million, increasing at an average annual rate of 1.2 percent, or 27,800, since 2010, with net in-migration accounting for 15,800 people a year, or approximately 57 percent of the increase (Figure 4). Population growth averaged 1.5 percent a year from 2000 to 2004, despite the collapse of the dot-com bubble, with net in-migration accounting for 51 percent of the increase. Economic growth rebounded, and population growth accelerated moderately from 2004 to 2007, averaging 1.7 percent, or 35,050 people, annually; approximately 63 percent of the growth came from net in-migration. Population growth in the HMA slowed sharply in response to the nationwide economic recession that began in 2007, and, from 2007 to 2012, growth averaged 20,900 people, or 0.9 percent; net in-migration decreased, comprising 32 percent of the increase. Strengthening economic conditions boosted population growth to an average of 26,700 people, or 1.2 percent, from 2012 to 2013, because of increased net in-migration, which averaged 15,000 people and comprised 56 percent of the increase. Since 2013, population growth in the HMA has averaged 35,800 people, or

1.5 percent, annually, and strong labor market conditions helped boost net in-migration, which has accounted for nearly 69 percent of total population growth, or 24,800 people, annually. During the next 3 years, population growth is expected to slow slightly because of moderating economic growth, reaching an estimated 2.49 million people by May 1, 2019, reflecting an average annual increase of 32,000 people, or 1.3 percent, a year.

The Portland submarket is the most populous of the three submarkets in the HMA, with an estimated population of 1.24 million, followed by the Beaverton-Hillsboro submarket with an estimated population of 683,400, and the Vancouver submarket with approximately 472,200, increasing at average annual rates of 1.1, 1.4, and 1.3 percent, respectively, since 2010. Net in-migration in the HMA has averaged 15,800 people annually since 2010, with nearly 50 percent being in the Portland submarket, 28 percent in the Beaverton-Hillsboro submarket, and 22 percent in the Vancouver submarket. From 2000 to 2004, suburban growth was more prevalent, and net in-migration was strongest in the Vancouver submarket, which comprised 46 percent of total net in-migration to the HMA. The Vancouver submarket historically has been a bedroom community for the city of Portland, attracting new residents because of its relatively low cost of living compared with the other two submarkets. The Portland submarket captured approximately 32 percent of total net in-migration during this period, and the Beaverton-Hillsboro submarket accounted for 22 percent.

Population growth in the HMA increased from 2004 to 2007 because of strong economic conditions that

Figure 4. Components of Population Change in the Portland HMA,* 2000 to Forecast



*Portland-Vancouver-Hillsboro HMA.

Notes: The current date is May 1, 2016. The forecast date is May 1, 2019.

Sources: 2000 and 2010—2000 Census and 2010 Census; current and forecast—estimates by analyst

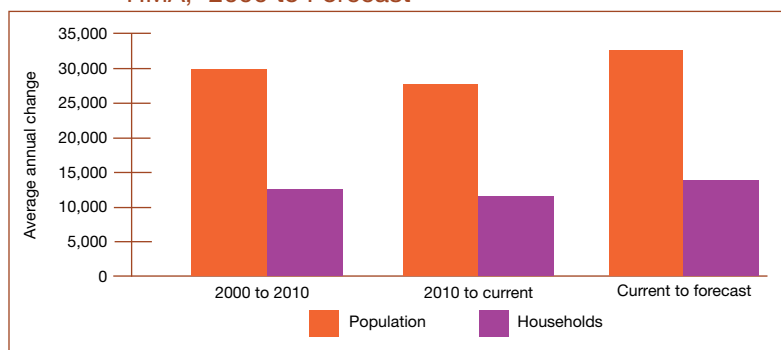
bolstered net in-migration, which averaged 22,150 people annually. During this period of economic expansion, household preferences shifted toward more urban areas that tend to be closer to job opportunities, and the share of net in-migration attributable to the Portland submarket increased from 32 to 43 percent. In the Beaverton-Hillsboro submarket, net in-migration increased, accounting for 30 percent of the total, largely a result of job growth in the high-tech industry, which is more concentrated in the submarket. Population growth slowed in the Vancouver submarket, and its share of net in-migration declined from 46 to 27 percent. The trend of moving into urban centers continued during the nationwide economic recession, although total population growth in the HMA slowed substantially and net in-migration declined to an average of 6,750 people annually from 2007 to 2012. The Portland submarket captured 52 percent of total net in-migration to the HMA during this time. The Beaverton-Hillsboro submarket accounted for 35 percent of all net in-migration, mainly because it has a stronger economic base than does the Vancouver submarket and it has easier access to the city of Portland, which is the economic center

for the HMA. The recession caused population growth in the Vancouver submarket to plummet and net in-migration fell to 13 percent of the HMA total from 2007 to 2012. Since 2013, improving economic conditions in the HMA have led to increased net in-migration, averaging 24,800 people annually, with the Portland, Beaverton-Hillsboro, and Vancouver submarkets comprising 47, 28, and 25 percent of the HMA total, respectively.

During the next 3 years, population growth is expected to accelerate slightly compared with the 2010-to-current period in the Portland submarket, increasing by an average of 15,350 people, or 1.2 percent, annually, reaching 1.29 million people by May 1, 2019. The population of the Vancouver submarket is also anticipated to grow at a faster rate than the 2010-to-current period, increasing by an average of 7,000, or 1.5 percent, annually, to 493,200, by May 1, 2019, largely because job growth in the submarket has been strong since 2013 and the cost of living continues to be relatively less than in the other two submarkets. Population growth in the Beaverton-Hillsboro submarket is anticipated to continue at the same rate, gaining 9,975 people, or 1.4 percent, a year, reaching 713,300 people by the end of the 3-year forecast period.

An estimated 936,700 households currently reside in the HMA, with 504,500, 254,800, and 177,350 being in the Portland, Beaverton-Hillsboro, and Vancouver submarkets, respectively. From 2010 to the current date, the number of households in the HMA increased by an average of 11,350, or 1.3 percent, annually compared with an average annual increase of 12,250 households, or 1.5 percent, from 2000 to 2010 (Figure 5). From 2000 to 2010,

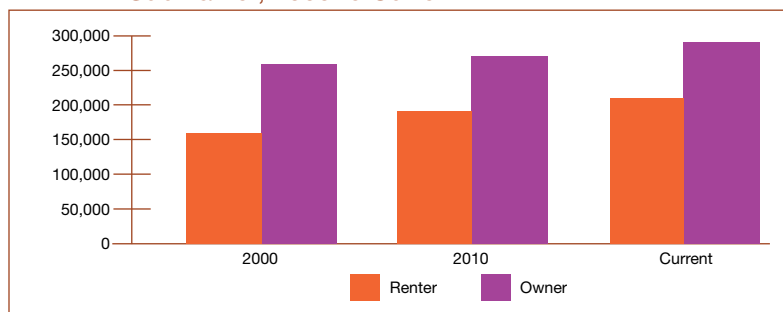
Figure 5. Population and Household Growth in the Portland HMA,* 2000 to Forecast



*Portland-Vancouver-Hillsboro HMA.

Notes: The current date is May 1, 2016. The forecast date is May 1, 2019.

Sources: 2000 and 2010—2000 Census and 2010 Census; current and forecast—estimates by analyst

Population and Households *Continued***Figure 6.** Number of Households by Tenure in the Portland Submarket, 2000 to Current

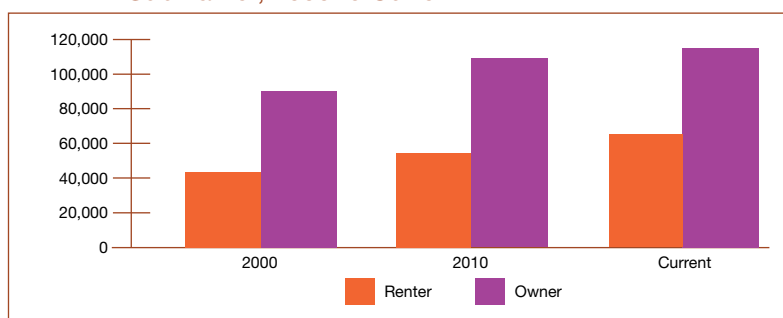
Note: The current date is May 1, 2016.

Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

Figure 7. Number of Households by Tenure in the Beaverton-Hillsboro Submarket, 2000 to Current

Note: The current date is May 1, 2016.

Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

Figure 8. Number of Households by Tenure in the Vancouver Submarket, 2000 to Current

Note: The current date is May 1, 2016.

Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

the rate of household growth was highest in the Vancouver submarket, at 3,175 households, or 2.2 percent, followed by the Beaverton-Hillsboro submarket, at 3,775 households, or 1.8 percent, and the Portland submarket at 5,275 households, or 1.2 percent. Household growth slowed from 2010 to the current date in the Beaverton-Hillsboro and Vancouver submarkets because of the prolonged effects from the national recession and the shift toward urban living, with average annual increases of 3,150 households, or 1.3 percent, and 2,425 households, or 1.4 percent, respectively. The household growth rate in the Portland submarket remained unchanged, increasing by an average of 5,750 households, or 1.2 percent. During the 3-year forecast period, the number of households in the HMA is estimated to increase to 978,200, reflecting an average annual increase of 13,850 households, or 1.5 percent. The household growth rate is anticipated to increase in each submarket, reaching 525,400, 266,500, and 186,200 households in the Portland, Beaverton-Hillsboro, and Vancouver submarkets, respectively. Figures 6, 7, and 8 illustrate the number of households by tenure in each submarket from 2000 to the current date.

Housing Market Trends

Sales Market—Portland Submarket

Current sales housing market conditions in the Portland submarket are tight, with an estimated vacancy rate of 1.0 percent, down from 2.4 percent in April 2010 (Table DP-2 at the end of this report). The decline reflects increased demand because household finances and access to credit continue to improve, and much of the excess inventory that resulted from the foreclosure crisis has been absorbed.

During the 12 months ending March 2016, 24,300 existing single-family homes, townhomes, and condominiums (hereafter, existing homes) sold in the submarket, up 17 percent from a year ago (CoreLogic, Inc., with adjustments by the analyst). By comparison, existing home sales totaled 20,700 during the 12 months ending March 2015, representing a 9-percent increase from a year earlier. Existing home sales peaked from 2003 through 2005 during a period of strong economic expansion following the collapse of the dot.com bubble, averaging 28,650 sales annually. The nationwide recession and housing market collapse subsequently caused existing sales to decline at an average annual rate of 19 percent, or 4,525 homes sold, a year from 2006 through 2009, to a low of 13,750 homes sold. Existing sales increased modestly in 2010 when job losses moderated and again in 2011 when job growth gradually returned. As the economic recovery accelerated and access to credit improved, existing home sales increased, averaging 18,150 homes sold annually from 2012 through 2014. The average sales price of an existing home increased 9 percent, to \$356,000, during the 12 months ending March 2016 compared with the previous 12 months when the average

sales price increased 5 percent, to \$325,000. The current average sales price is approximately 9 percent higher than the previous peak of \$326,400 in 2007. The national recession caused a significant amount of strain on household finances and tighter mortgage lending standards. Combined, these two factors caused a sharp reduction in the number of potential homebuyers, and demand and prices fell quickly. From 2008 through 2011, the average sales price declined at an average annual rate of 6 percent, to a low of \$254,500. The average sales price began increasing in 2012 in response to increased demand as the economy improved, and, from 2012 through 2014, the average sales price increased at an average annual rate of 8 percent.

Seriously delinquent (90 or more days delinquent or in foreclosure) loans and real estate owned (REO) properties have become a less significant part of the sales market in the submarket than they were during the worst of the housing crisis from 2009 through 2012. During March 2016, 2.2 percent of mortgages were seriously delinquent or had transitioned into REO status, down from 3.1 percent in March 2015, but still above the average rate of 1.2 percent from 2000 through 2007 (CoreLogic, Inc.). By comparison, the delinquency rate averaged 5.4 percent from 2009 through 2012. During the 12 months ending March 2016, REO sales totaled 1,175, comprising 5 percent of all existing sales. By comparison, REO sales accounted for 21 percent of total existing sales from 2009 through 2012 and only 3 percent from 2000 through 2007. The average sales price of an REO home was \$225,000 during the

Housing Market Trends

Sales Market—Portland Submarket Continued

12 months ending March 2016, approximately 38 percent less than the sales price of a regular resale home.

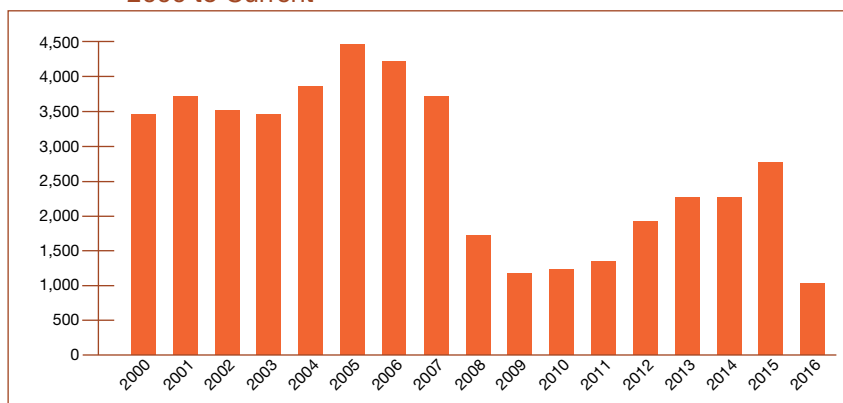
Approximately 2,175 new single-family homes, townhomes, and condominiums (hereafter, new homes) sold during the 12 months ending March 2016, up 18 percent from the 1,850 new homes sold during the previous 12 months (CoreLogic, Inc., with adjustments by the analyst). New home sales averaged 4,075 homes sold annually from 2001 through 2006, before declining at an average annual rate of 25 percent from 2007 through 2011 to a low of 1,275 new homes sold, a direct result of the nationwide recession and housing market crisis. As the economic recovery strengthened, the demand for new homes returned; sales increased an average of 25 percent a year from 2012 through 2014, averaging 1,600 homes sold annually. During the 12 months ending March 2016, the average sales price of a new home increased 5 percent from a year ago, to \$401,200, surpassing the previous peak of \$361,500 in 2008 by more than 11 percent. Sales prices increased at an average annual rate of 9 percent from 2003 through 2008 and, as a result of the national

recession, subsequently declined by an average of 10 percent a year in 2009 and 2010, to a low of \$295,100. Strong economic conditions from 2011 through 2014 led to an increase in the demand for new homes, and the average sales price increased at an average annual rate of 6 percent during this time.

New home construction, as measured by the number of single-family homes permitted, was relatively stable from 2000 through 2004, despite the economic impact of the dot.com bubble collapse; an average of 3,600 new homes were permitted annually (Figure 9). The buildup during the growth of the housing market bubble was fairly mild in the submarket, with new home construction increasing to an average of 4,150 homes permitted a year in 2005 and 2006; the limited amount of developable land in the submarket helped to constrain the amount of new home construction during this time. Conversely, the nationwide recession and housing crisis had a severe impact on new home construction in the submarket, causing permitting activity to decline an average of 35 percent annually from 2007 through 2009, to a low of 1,150 homes in 2009. New home construction stabilized in 2010 and increased gradually from 2011 through 2014, averaging 1,925 single-family homes permitted annually. During the 12 months ending April 2016, 2,725 single-family homes were permitted, up 11 percent from the 2,450 homes permitted during the 12 months ending March 2015 (preliminary data).

Nearly all new home construction in the Portland submarket is in smaller subdivisions with fewer than 50 homes, because available land is becoming harder to acquire. As

Figure 9. Single-Family Homes Permitted in the Portland Submarket, 2000 to Current



Notes: Includes townhomes. Current includes data through April 2016.

Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

Housing Market Trends

Sales Market—Portland Submarket Continued

the average sales prices continues to climb, the most common target market for new single-family homes is second- and third-time homebuyers looking to upgrade into a larger home, rather than the first-time homebuyer demographic that was most prevalent during the early stage of the housing market recovery (local developers). Numerous communities are under construction throughout the submarket, mainly concentrated in suburban cities that surround the city of Portland, and prices range considerably. New homes are typically priced higher in the city of

Portland; for example, home prices in the new subdivision of Cedar Mills in northwest Portland start in the mid-\$600,000s, whereas new homes in Legend at Villebois in Wilsonville in the southeastern part of the submarket start in the high \$200,000s. In the city of Happy Valley in the eastern portion of the submarket, two communities have new homes for sale, both with starting prices in the high \$300,000-to-mid-\$400,000 range.

During the 3-year forecast period, demand is expected for 12,750 new homes in the Portland submarket (Table 1). The 1,050 homes currently under construction and a portion of the 13,000 other vacant units that may return to the market will satisfy some of the forecast demand. Table 4 illustrates the estimated demand for new sales housing in the submarket by price range. Demand is expected to increase modestly during each year of the forecast period as economic conditions remain strong and as household finances and access to credit improve.

Table 4. Estimated Demand for New Market-Rate Sales Housing in the Portland Submarket During the Forecast Period

Price Range (\$)		Units of Demand	Percent of Total
From	To		
200,000	299,999	1,525	12.0
300,000	399,999	3,175	25.0
400,000	499,999	3,175	25.0
500,000	599,999	2,550	20.0
600,000	699,999	1,275	10.0
700,000	and higher	1,025	8.0

Notes: The 1,050 homes currently under construction and a portion of the estimated 13,000 other vacant units in the submarket will likely satisfy some of the forecast demand. The forecast period is May 1, 2016, to May 1, 2019.

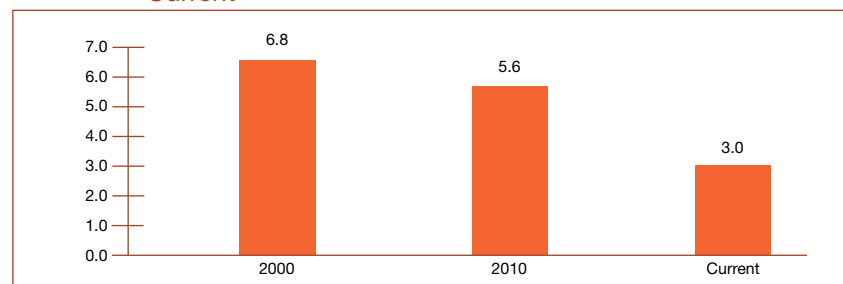
Source: Estimates by analyst

Rental Market—Portland Submarket

The current rental housing market in the Portland submarket is tight, with an overall estimated vacancy rate of 3.0 percent, down from 5.6 percent

in April 2010 (Figure 10). Along with increasingly high sales prices, strong economic growth and net in-migration in the submarket since 2010 have contributed to increased demand for rental housing. The apartment market is also tight, despite the addition of an estimated 3,200 units since the first quarter of 2015 (MPF Research). By comparison, approximately 1,125 units were added to the inventory during the first two quarters of 2014, and only 510 units during the first two quarters of 2015. Within the seven MPF-defined areas (hereafter areas) in the Portland

Figure 10. Rental Vacancy Rates in the Portland Submarket, 2000 to Current



Note: The current date is May 1, 2016.

Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

Housing Market Trends

Rental Market—Portland Submarket Continued

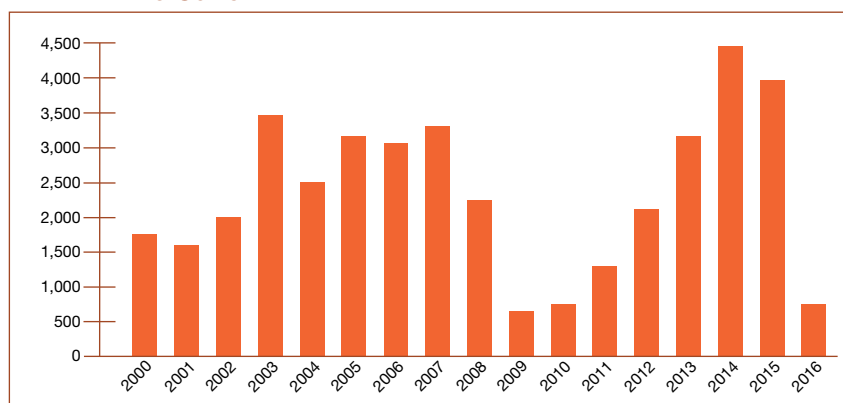
submarket, the apartment vacancy rates range from a high of 4.4 percent in the Central Portland area, up from 3.0 percent a year ago, to a low of 1.9 percent in the Gresham area, up from 1.4 percent a year ago. The increase in the vacancy rate in the Central Portland area is mainly because it is the location of more than one-third of the recently completed units in the submarket. Multifamily construction has been relatively limited in the Gresham area, contributing to the very low vacancy rate. Of the 3,200 units completed in the submarket during the past year, approximately 42 percent, or 1,325 units, were in the East Portland area, which reported a vacancy rate of 3.8 percent during the first quarter of 2016, up from 2.0 percent a year ago. Since 2010, the only area to have a vacancy rate above 5.0 percent was Central Portland during the first quarter of 2011.

Rent growth occurred in each MPF-defined area from the first quarter of 2015 to the first quarter of 2016. Except for the Central Portland area, which reported rent growth of 9 percent, all other areas in the submarket reported increases of more than 10 percent, with the largest increase in the Gresham area, at 17 percent.

The highest average asking rent was \$1,506 in the Central Portland area. Average asking rents by unit type were \$1,066 for a studio unit, \$1,406 for a one-bedroom unit, \$1,961 for a two-bedroom unit, and \$2,341 for a three-bedroom unit. The lowest average asking rent was \$1,037 in the Gresham area, where asking rents by unit type were \$867 for a studio unit, \$878 for a one-bedroom unit, \$1,067 for a two-bedroom unit, and \$1,296 for a three-bedroom unit. Average rent growth was more moderate in the submarket from 2011 through 2014, with no area reporting average annual rent growth above 10 percent. Properties offering concessions were more common in 2011 and 2012, when market conditions were not as tight; as of the first quarter of 2016, the Southwest Portland area was offering the most in concessions, at slightly more than 2 percent.

Because of job losses and reduced rental demand in the Portland submarket, multifamily construction, as measured by the number of multifamily units permitted, slowed to an average of 710 units a year in 2009 and 2010 compared with an average of 3,100 units permitted annually from 2003 through 2007, when economic growth was strong (Figure 11). Multifamily permitting began to increase after 2010 in response to increased rental demand, partially because the foreclosure crisis caused households to shift toward renting, but also because of rapidly increasing net in-migration. From 2011 through 2015, multifamily permitting increased at an average annual rate of 39 percent, averaging 3,000 units permitted each year. During the 12 months ending April 2016, approximately 4,775 multifamily units were permitted, up 25 percent

Figure 11. Multifamily Units Permitted in the Portland Submarket, 2000 to Current



Notes: Excludes townhomes. Current includes data through April 2016.

Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

Housing Market Trends

Rental Market—Portland Submarket Continued

from the 3,825 units permitted during the previous 12 months (preliminary data). Since 2010, condominium construction has comprised less than 8 percent of total multifamily construction compared with the peak period of 2000 through 2007, when approximately 37 percent of multifamily construction was intended for condominiums. Currently under construction is the 28-story condominium tower Cosmopolitan On the Park, which will feature 150 units in downtown Portland's most popular neighborhood, the Pearl District. The development is expected to be complete in August 2016, with sales prices ranging from the low \$400,000s for a one-bedroom/one-bathroom unit to \$3.8 million for the largest penthouse suites.

Within the submarket, apartment development is most popular in areas close to the downtown Portland core, including the Central Portland and the East Portland areas. Examples of developments currently under construction include the three-tower, 657-unit Hassalo on Eighth in the East Portland area and the 267-unit Modera Pearl apartments, in the Central Portland area. The first tower of Hassalo on Eighth opened in the summer of 2015, and the other two

are preleasing, with expected completion dates in late 2016 and early 2017; asking rents range from \$990 to \$1,809 for studio units, \$1,680 to \$3,225 for one-bedroom units, \$2,380 to \$3,850 for two-bedroom units, and \$3,043 to \$3,722 for three-bedroom units. Unit rents for Modera Pearl apartments are not available yet, because it will not be finished until late 2017. At the 244-unit Waterline Apartments, which was recently completed in the Central Portland area, asking rents are \$1,469 for studio units and range from \$1,560 to \$1,883 for one-bedroom units and from \$1,945 to \$2,422 for two-bedroom units.

During the 3-year forecast period, demand is expected for 10,650 new market-rate rental units in the Portland submarket (Table 1). The 4,900 units estimated to be under construction will satisfy part of the forecast demand. Demand is expected to be strongest in the first year of the forecast period and moderate in the second and third years as the new inventory is absorbed and market conditions become more balanced. Table 5 shows the estimated demand by rent level and number of bedrooms for new market-rate rental housing in the submarket during the forecast period.

Table 5. Estimated Demand for New Market-Rate Rental Housing in the Portland Submarket During the Forecast Period

Zero Bedrooms		One Bedroom		Two Bedrooms		Three or More Bedrooms	
Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand
1,000 to 1,199	470	1,100 to 1,299	1,275	1,300 to 1,499	1,675	1,500 to 1,699	230
1,200 to 1,399	530	1,300 to 1,499	1,700	1,500 to 1,699	2,150	1,700 to 1,899	85
1,400 or more	180	1,500 or more	1,275	1,700 or more	960	1,900 to 2,099	65
						2,100 or more	45
Total	1,175	Total	4,275	Total	4,800	Total	430

Notes: Numbers may not add to totals because of rounding. Monthly rent does not include utilities or concessions. The 4,900 units currently under construction will likely satisfy some of the estimated demand. The forecast period is May 1, 2016, to May 1, 2019.

Source: Estimates by analysts

Sales Market—Beaverton-Hillsboro Submarket

The current sales housing market in the Beaverton-Hillsboro submarket is tight as the demand for homes increases and prices continue to appreciate, a trend that has been sustained since 2012. The current estimated sales vacancy rate is 1.0 percent, down from 2.1 percent in April 2010 (Table DP-3 at the end of this report). During the 12 months ending March 2016, 12,650 existing homes sold in the submarket, up 29 percent from a year ago (CoreLogic, Inc., with adjustments by the analyst). By comparison, existing home sales totaled 10,100 homes sold during the 12 months ending March 2015, up 13 percent from a year earlier. The high-tech industry recovered from the dot.com bubble collapse, and the submarket experienced strong job growth from 2004 through 2005, which resulted in strong household growth. An average of 14,750 homes sold annually from 2004 through 2005. Although existing home sales remained elevated in 2006, it marked the first year of declining sales; from 2006 through 2009, existing home sales fell by an average of 28 percent annually, to a low of 6,000 homes sold. Existing home sales increased modestly in 2010, boosted by the first-time homebuyers tax credit program, but fell again in 2011 when the program expired. The economic recovery accelerated from 2012 through 2014, causing household finances to improve and banks to ease their lending standards, which resulted in increased demand for homes; an average of 9,400 homes sold annually.

The average sales price of an existing home increased 8 percent, to \$318,300, during the 12 months

ending March 2016, exceeding the previous peak of \$309,600 in 2007 by nearly 3 percent. By comparison, the average sales price increased 3 percent, to \$295,100, during the 12 months ending March 2015. The national recession caused the demand for homes to drop substantially, which put downward pressure on sales prices. From 2008 through 2011, the average sales price declined at an average annual rate of 6 percent to a low of \$241,400. Housing market conditions started to improve as the economic recovery accelerated, and, from 2012 through 2014, the average sales price increased 7 percent a year.

During 2005 and 2006, before the housing market downturn, the rate of home loans that were seriously delinquent or had transitioned into REO status in the submarket averaged 0.5 percent, and REO sales accounted for 1 percent of all existing home sales (CoreLogic, Inc.). The foreclosure crisis that resulted from the national recession had a damaging impact on the housing market, however, and the percentage of home loans that were seriously delinquent or in REO status averaged almost 5.0 percent from 2009 through 2011, and REO sales accounted for 23 percent of total existing home sales. By comparison, the delinquency rate averaged 0.9 from 2000 through 2007, during a period of strong housing market conditions, and REO sales accounted for only 2 percent of existing home sales. Housing market conditions have improved consistently since 2011 as a result of the strong economic recovery, and, as of March 2016, 1.9 percent of home loans in the submarket were seriously delinquent or in REO status, down from 2.8 percent in

Housing Market Trends

Sales Market—Beaverton-Hillsboro Submarket Continued

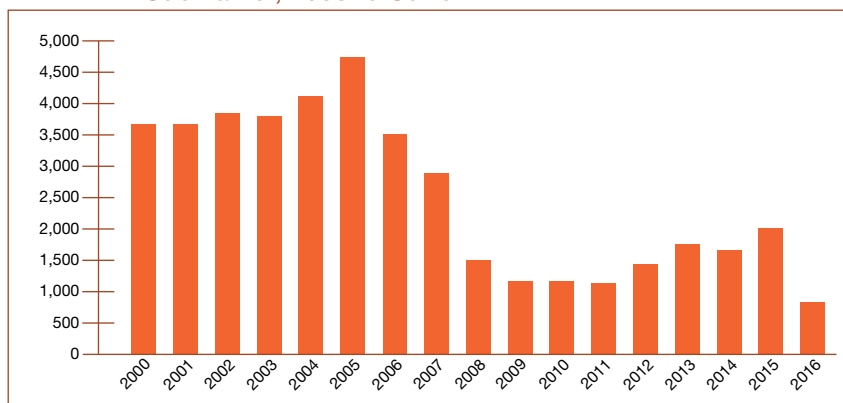
March 2015, and REO sales totaled 850, falling to 7 percent of all existing home sales. The average sales price of an REO home was \$226,500 during the 12 months ending March 2016, approximately 30 percent less than the sales price of a regular resale home.

The volume of new home sales in the submarket increased 14 percent, to 1,675 homes sold during the 12 months ending March 2016. By comparison, new home sales totaled 1,475 homes sold during the 12 months ending March 2015, up 3 percent from a year earlier. The economic expansion that occurred in the HMA from 2004 through 2007 especially benefited the submarket because of the relatively large number of rapidly expanding high-tech firms located in the submarket. New home sales peaked at an average of 4,125 homes sold annually in 2004 and 2005 and declined to an average of 3,300 homes sold a year in 2006 and 2007. Sales declined further as the housing market crisis worsened, averaging 1,335 homes sold a year from 2008 through 2010, before reaching a record low of 1,000 homes sold in 2011. The number of new home sales increased to an annual average of

1,375 homes sold from 2012 through 2014 because of strong economic growth. During the 12 months ending March 2016, the average sales price of a new home increased 4 percent from a year ago, to \$382,700, exceeding the previous peak of \$339,400 in 2008 by 13 percent. By comparison, the average sales price increased 16 percent during the 12 months ending March 2015 compared with prices during the previous 12 months. New home sales prices increased at an average annual rate of 9 percent from 2004 through 2008 and subsequently declined by an average of 5 percent a year from 2009 through 2012, to a low of \$277,200. Strong job growth and access to mortgage financing boosted the demand for new homes, causing prices to increase at an average annual rate of 13 percent from 2012 through 2014.

New home construction, as measured by the number of single-family homes permitted, has increased in the Beaverton-Hillsboro submarket since 2011 but remains below historical averages. During the 12 months ending April 2016, 2,250 single-family homes were permitted, a 36-percent increase from the 1,650 new homes permitted during the previous 12 months (preliminary data). New home construction was strong from 2000 through 2004, averaging 3,775 homes permitted annually despite the economic downturn that resulted from the collapse of the dot.com bubble, and permitting peaked in 2005, when 4,700 homes were permitted (Figure 12). Single-family home construction fell at an average annual rate of 30 percent from 2006 through 2009, to a low of 1,125 homes permitted, as a result of weakening housing market conditions and job losses brought on by the national recession.

Figure 12. Single-Family Homes Permitted in the Beaverton-Hillsboro Submarket, 2000 to Current



Notes: Includes townhomes. Current includes data through April 2016.

Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

Housing Market Trends

Sales Market—Beaverton-Hillsboro Submarket Continued

From 2010 through 2014, an average of 1,400 new homes were permitted annually. New home construction in the submarket has generally concentrated in the cities of Beaverton and Hillsboro. The most common target

market for new single-family homes is second- and third-time homebuyers looking to upgrade into a larger home or new families earning high-tech industry wages that are typically much higher than the Area Median Income (local real estate agents).

Demand is expected for 7,675 new homes in the Beaverton-Hillsboro submarket during the next 3 years (Table 1). The 820 homes currently under construction and a portion of the 3,800 other vacant units that may return to the market will satisfy some of the forecast demand. Table 6 illustrates the estimated demand for new sales housing in the submarket by price range. Demand is expected to be evenly distributed during each year of the forecast period.

Table 6. Estimated Demand for New Market-Rate Sales Housing in the Beaverton-Hillsboro Submarket During the Forecast Period

Price Range (\$)		Units of Demand	Percent of Total
From	To		
150,000	249,999	770	10.0
250,000	349,999	1,925	25.0
350,000	449,999	2,300	30.0
450,000	549,999	1,525	20.0
550,000	649,999	770	10.0
650,000	and higher	380	5.0

Notes: The 820 homes currently under construction and a portion of the estimated 3,800 other vacant units in the submarket will likely satisfy some of the forecast demand. The forecast period is May 1, 2016, to May 1, 2019.

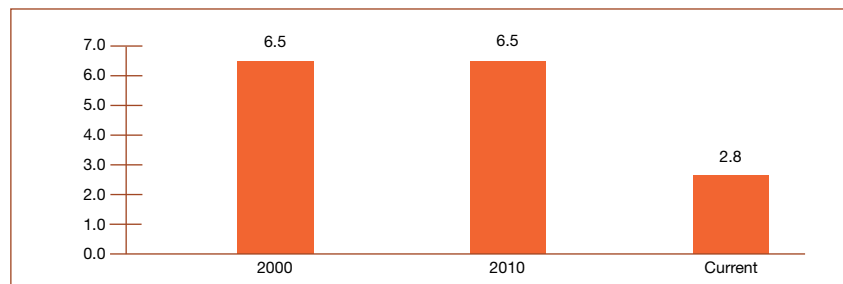
Source: Estimates by analyst

Rental Market—Beaverton-Hillsboro Submarket

As a result of increased population growth since 2010, the rental housing market in the Beaverton-Hillsboro submarket remains tight, with an overall estimated vacancy rate of 2.8 percent compared with 6.5 percent in April 2010 (Figure 13). Despite a spike in multifamily rental construction since 2012, the apartment market has also remained tight. MPF Research defines three areas in the Beaverton-Hillsboro submarket: East

Beaverton, Aloha/West Beaverton, and Hillsboro. The apartment vacancy rate increased from 2.4 to 2.9 percent in the East Beaverton area and from 3.0 to 4.8 percent in the Hillsboro area, largely because household preferences have shifted toward the Aloha/West Beaverton area, which has experienced the largest gain in new inventory during the past 3 years and is closest to the Intel Corporation and NIKE, Inc. campuses. Of the 1,900 new units that have entered the market since the first quarter of 2014, 1,200 have been in the Aloha/West Beaverton area, but the vacancy rate has continued to decline and is estimated at 2.4 percent during the first quarter of 2016, down from 3.3 percent in the first quarter of 2015. Since 2010, the vacancy rates in all three areas have remained below 5.0 percent.

Figure 13. Rental Vacancy Rates in the Beaverton-Hillsboro Submarket, 2000 to Current



Note: The current date is May 1, 2016.

Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

Housing Market Trends

Rental Market—Beaverton-Hillsboro Submarket *Continued*

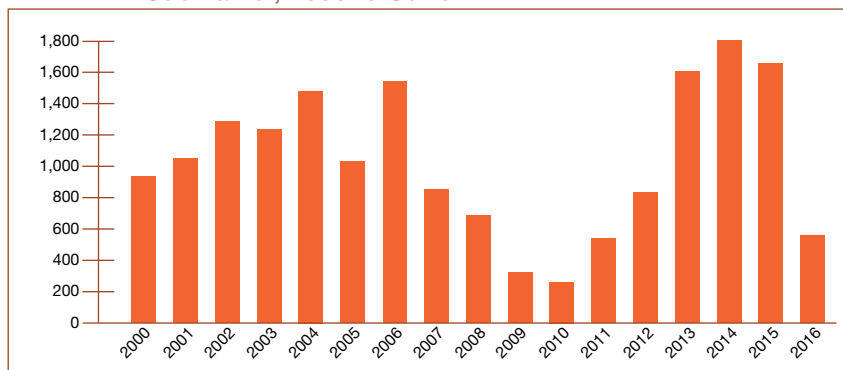
In percentage terms, the submarket has reported the strongest rent growth in the HMA from the first quarter of 2015 to the first quarter of 2016. The fastest rate of rent growth occurred in the East Beaverton area, at 19 percent, to an average of \$1,128; asking rents averaged \$848 for a studio unit, \$989 for a one-bedroom unit, \$1,182 for a two-bedroom unit, and \$1,411 for a three-bedroom unit. The average asking rent in the Hillsboro area increased 16 percent, to \$1,383, despite an increase in the vacancy rate; rents averaged \$1,180 for studio units, \$1,187 for one-bedroom units, \$1,425 for two-bedroom units, and \$1,719 for three-bedroom units. The smallest rent growth recorded in the submarket was in the Aloha/West Beaverton area, up 12 percent to \$1,226; rents averaged \$1,239 for studio units, \$1,081 for one-bedroom units, \$1,275 for two-bedroom units, and \$1,499 for three-bedroom units. Rent growth in the Aloha/West Beaverton area averaged 10 percent annually from the first quarter of 2013 through the first quarter of 2015. The East Beaverton and Hillsboro areas experienced milder average annual rent increases of 2 and 9 percent, respectively, during the same time. Studio units are most popular in newer developments,

with three-bedroom units taking the longest to lease (local property managers).

An average of 1,175 multifamily units were permitted in the Beaverton-Hillsboro submarket annually from 2000 through 2005, during a period of strong population growth (Figure 14). Multifamily permitting peaked in 2006, at 1,525 units, but subsequently declined at an average annual rate of 37 percent through 2010, to a low of 250 units permitted, because weak economic conditions resulted in reduced demand for condominiums and rental units. The foreclosure crisis fueled an increased demand for rental units, and multifamily permitting increased, averaging 670 units permitted a year in 2011 and 2012. As rental market conditions tightened further, builders responded by increasing multifamily building activity, which averaged 1,700 units annually in 2013 and 2014. During the 12 months ending April 2016, multifamily permitting decreased 6 percent, to 1,650 units permitted, compared with the number permitted during the previous 12 months (preliminary data). From 2004 through 2007, condominium construction peaked at nearly 40 percent of all multifamily building activity, as measured by the number of multifamily units permitted, in the submarket. The housing market collapse, however, caused a shift in preferences toward renting, increasing the demand for new apartment construction, and, since 2010, condominiums have comprised less than 10 percent of all multifamily units permitted.

Rental developments currently under construction or recently completed in the submarket include both affordable

Figure 14. Multifamily Units Permitted in the Beaverton-Hillsboro Submarket, 2000 to Current



Notes: Excludes townhomes. Current includes data through April 2016.

Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

Housing Market Trends

Rental Market—Beaverton-Hillsboro Submarket *Continued*

and market-rate apartment projects. Sunset View Apartments is currently under construction with an expected completion date in the summer of 2016. The development will consist of 236 affordable apartment units close to the NIKE, Inc. headquarters campus in the city of Beaverton. The 352-unit Amberglen West apartments in the Aloha/West Beaverton area is currently under construction and expected to be complete in August 2017; asking rents will range from \$1,266 to \$1,598 for one-bedroom units, \$1,352 to \$2,033 for two-bedroom units, and \$1,904 to \$1,961 for three-bedroom units. Construction of the 255-unit Rowlock Apartments was completed in August 2015 in the Hillsboro area, with rents starting at

\$1,425 for studio units and ranging from \$1,425 to \$1,580 for one-bedroom units and from \$1,915 to \$2,070 for two-bedroom units.

During the next 3 years, demand is expected for 5,325 new market-rate rental units in the Beaverton-Hillsboro submarket (Table 1). The 970 units under construction will meet a portion of the forecast demand. Demand is expected to be strongest in the first year of the forecast period and moderate in the second and third years as the new inventory is absorbed and the market becomes more balanced. Table 7 shows the estimated demand by rent level and number of bedrooms for new market-rate rental housing in the submarket during the forecast period.

Table 7. Estimated Demand for New Market-Rate Rental Housing in the Beaverton-Hillsboro Submarket During the Forecast Period

Zero Bedrooms		One Bedroom		Two Bedrooms		Three or More Bedrooms	
Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand
1,000 to 1,199	160	1,150 to 1,349	930	1,250 to 1,449	1,325	1,550 to 1,749	370
1,200 or more	110	1,350 to 1,549	470	1,450 to 1,649	800	1,750 or more	160
		1,550 or more	370	1,650 or more	400		
Total	270	Total	1,775	Total	2,525	Total	530

Notes: Numbers may not add to totals because of rounding. Monthly rent does not include utilities or concessions. The 970 units currently under construction will likely satisfy some of the estimated demand. The forecast period is May 1, 2016, to May 1, 2019.

Source: Estimates by analysts

Sales Market—Vancouver Submarket

The current sales housing market in the Vancouver submarket is tight, with an estimated vacancy rate of 1.0 percent, down from 2.1 percent in 2010 (Table DP-4 at the end of this report). Similar to trends in the other two submarkets, housing market conditions in the submarket have tightened rapidly since the economic recovery began, and most of the excess vacancies that resulted from the housing market collapse have been absorbed.

During the 12 months ending March 2016, 9,450 existing homes sold in the submarket, up 22 percent from a year ago, marking the largest number of existing homes sold since 2006 (CoreLogic, Inc., with adjustments by the analyst). From 2003 through 2005, relatively affordable sales housing in the submarket attracted new households, with an average of 11,950 existing homes sold annually. Existing home sales fell 22 percent in 2006, when economic growth began

to slow, and, from 2007 through 2010, existing home sales fell by an average of 17 percent a year, to a low of 4,925 homes sold. Economic conditions moderated in 2010, and new home sales remained unchanged. Growth in existing home sales resumed as the economy fully recovered, and, from 2011 through 2014, an average of 6,400 existing homes sold annually. The average sales price of an existing home increased 8 percent, to \$283,300, during the 12 months ending March 2016, approximately 20 and 10 percent less than the average existing home sales prices in the Portland and Beaverton-Hillsboro submarkets, respectively. The current average sales price remains 2 percent less than the peak sales price of \$289,400 in 2007. From 2008 through 2011, the average sales price declined at an average annual rate of 8 percent, to a low of \$210,500, because substantial job losses caused a sharp drop in the demand for sales homes. When job growth recovered and the demand for homes increased, the average sales price increased an average of 8 percent annually from 2012 through 2014.

Strong job growth and increasing home values during the past 3 years helped reduce seriously delinquent loans and REO properties in the Vancouver submarket and the HMA. During March 2016, 1.8 percent of all home loans in the submarket were seriously delinquent or had transitioned into REO status, down from 2.6 percent in March 2015, and REO sales declined from 6 to 4 percent of total existing home sales (CoreLogic, Inc., with adjustments by the analyst). By comparison, the delinquency rate, including homes in REO status, averaged approximately 7.0 percent from 2009 through 2011, during the

worst of the foreclosures crisis, and REO sales comprised almost one-fourth of all existing home sales. By comparison, from 2000 through 2007, the delinquency rate averaged 1.3 percent and REO sales accounted for less than 2 percent of existing home sales. The average sales prices of an REO home sale in the submarket was \$232,000 during the 12 months ending March 2016, approximately 18 percent less than the sales price of a regular resale home.

The new home sales market has improved dramatically since 2011, with home sales increasing an average of 25 percent annually. During the 12 months ending March 2016, new home sales totaled 1,700 homes sold, up 32 percent from the 1,300 new homes sold during the 12 months ending March 2015. An average of 2,875 new homes sold annually from 2003 through 2005, when economic conditions were strong and access to financing was more readily available. Following the national and regional trend, however, new home sales declined with the onset of the recession, and, from 2006 through 2011, new home sales fell at an average annual rate of 23 percent, to a low of 650 homes sold. The average sales price of a new home increased 10 percent, to \$328,400, during the 12 months ending March 2016 compared with a 7-percent increase during the previous 12 months. Sales prices increased at an average annual rate of 3 percent from 2004 through 2006 and subsequently declined an average of 9 percent a year from 2007 through 2009, to a low of \$237,600. Prices increased at an average annual rate of 5 percent from 2010 through 2014, when economic conditions improved and demand for new homes returned.

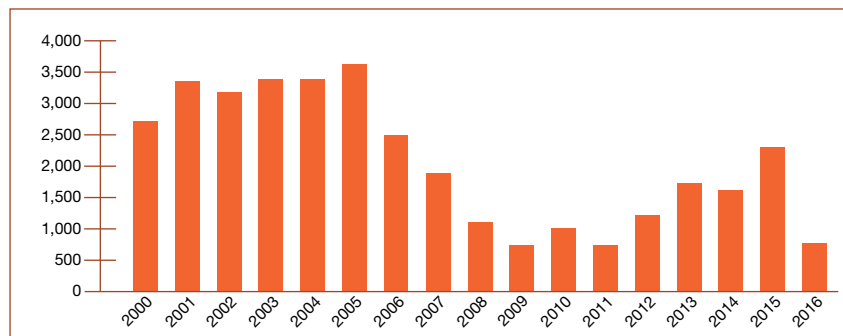
Housing Market Trends

Sales Market—Vancouver Submarket Continued

Strong housing demand and increasing sales prices have led to an increase in new home construction in the Vancouver submarket since 2011. During the 12 months ending April 2016, 2,525 single-family homes were permitted, up 45 percent from the 1,750 homes permitted during the previous 12 months (preliminary data). Single-family homebuilding was robust from 2000 through 2005, when population growth in the submarket was strongest, and an average of 3,250 single-family homes were permitted annually (Figure 15). Homebuilding dropped dramatically following the onset of the national

recession as net in-migration to the submarket plummeted. From 2006 through 2009, homebuilding activity declined at an average annual rate of 33 percent, to a low of 720 single-family homes permitted. After the economic recovery was fully under way, homebuilding increased and an average of 1,525 new single-family homes were permitted a year from 2012 through 2014. Most buyers are second- and third-time homebuyers looking to upgrade to larger homes; however, more first-time homebuyers are purchasing in the Vancouver submarket than in the Portland or Beaverton-Hillsboro submarkets because housing in the submarket is still relatively affordable (local developers and real estate agents). Single-family development is concentrated in Ridgefield in the northeastern portion of the submarket and in Camas in the eastern section of the submarket. In Ridgefield, new home prices range from the mid-\$200,000s to the upper \$600,000s. New homes in Camas start in the mid-\$300,000 range and increase to the mid-\$900,000s.

Figure 15. Single-Family Homes Permitted in the Vancouver Submarket, 2000 to Current



Notes: Includes townhomes. Current includes data through April 2016.

Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

Table 8. Estimated Demand for New Market-Rate Sales Housing in the Vancouver Submarket During the Forecast Period

Price Range (\$)		Units of Demand	Percent of Total
From	To		
150,000	249,999	680	10.0
250,000	349,999	1,350	20.0
350,000	449,999	2,375	35.0
450,000	549,999	1,350	20.0
550,000	649,999	680	10.0
650,000	and higher	340	5.0

Notes: The 940 homes currently under construction and a portion of the estimated 3,900 other vacant units in the submarket will likely satisfy some of the forecast demand. The forecast period is May 1, 2016, to May 1, 2019.

Source: Estimates by analyst

Demand is expected for 6,800 new homes in the Vancouver submarket during the next 3 years (Table 1). The 940 homes currently under construction and a portion of the 3,900 other vacant units that may return to the market will satisfy some of the forecast demand. Table 8 illustrates the estimated demand for new sales housing in the submarket by price range. Demand is expected to be evenly distributed during each year of the forecast period.

Rental Market—Vancouver Submarket

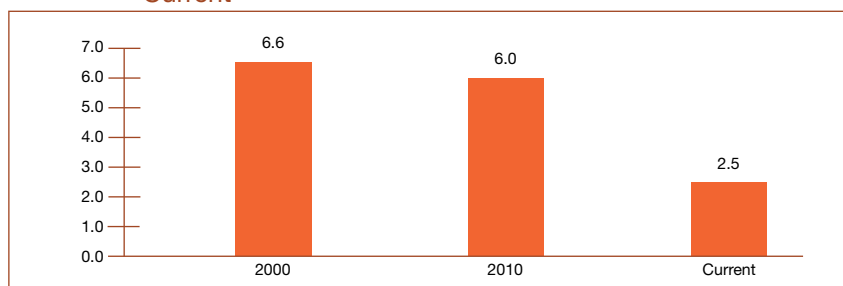
The current rental housing market in the Vancouver submarket is tight, with an overall estimated vacancy rate of 2.5 percent, down from 6.0 percent in April 2010 (Figure 16). The nationwide recession and housing market collapse caused a decrease in homeownership and a surge in demand for rental units since 2011. Although apartment construction has increased substantially during the past several years, it has not been strong enough to compensate for the record low level of construction from 2008 through 2012, and market conditions remain tight, with an estimated apartment vacancy rate of 2.5 percent during the first quarter of 2016, up from 1.7 percent a year ago (MPF Research). During the same time, the average asking rent in the submarket increased 10 percent, to \$1,068,

despite the uptick in the vacancy rate. Rents averaged \$777 for studio units, \$919 for one-bedroom units, \$1,150 for two-bedroom units, and \$1,294 for three-bedroom units. By comparison, rent growth averaged 8 percent annually from the first quarter of 2011 through the first quarter of 2014.

An average of 570 multifamily units were permitted annually in the Vancouver submarket from 2000 through 2007 (Figure 17). The national recession and housing market collapse caused multifamily construction to plummet from 2008 through 2011, when an average of 150 multifamily units were permitted annually. With increased rental demand stemming from the effects of the housing market crisis, the apartment market began to tighten quickly, and builders responded by increasing apartment construction 35 percent in 2012, to 370 units permitted. Apartment construction spiked in 2013, when 1,250 units were permitted, followed by a drop to 660 units permitted in 2014. During the 12 months ending April 2016, 1,050 multifamily units were permitted, up 33 percent from the 790 units permitted during the 12 months ending April 2015 (preliminary data). Condominium construction has accounted for less than 5 percent of total multifamily building activity in the submarket since 2010. By comparison, from 2004 through 2007, when financing was easier to obtain, condominium construction peaked at 37 percent of all multifamily building activity, as measured by the number of multifamily units permitted in the submarket.

Two of the larger developments currently under construction in the submarket are the 155-unit Columbia

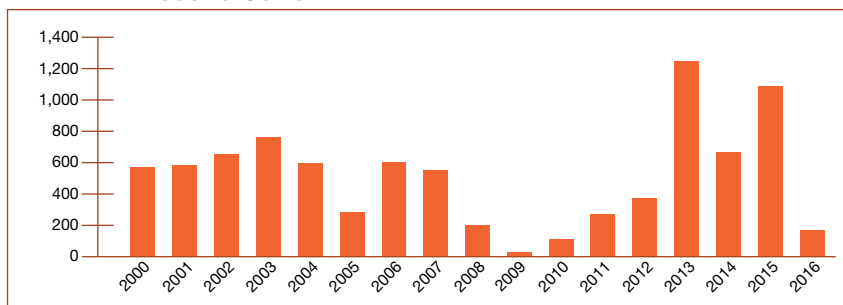
Figure 16. Rental Vacancy Rates in the Vancouver Submarket, 2000 to Current



Note: The current date is May 1, 2016.

Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

Figure 17. Multifamily Units Permitted in the Vancouver Submarket, 2000 to Current



Notes: Excludes townhomes. Current includes data through April 2016.

Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

View Apartments Phase 2 and the 156-unit Four Seasons Central. The mix of units for the Columbia View Apartments includes one-, two-, and three-bedroom units; the anticipated completion date is in late 2017, and asking rents are unavailable. Construction of the Four Seasons Central is expected to be complete in October 2016; asking rents range from \$1,199 to \$1,575 for one-bedroom units and from \$1,544 to \$1,699 for two-bedroom units and are \$1,705 for three-bedroom units.

During the next 3 years, demand is expected for 2,950 new market-rate rental units in the Vancouver submarket (Table 1). The 1,125 units under construction will meet a portion of the forecast demand. Demand is expected to be evenly distributed during each year of the forecast period. Table 9 shows the estimated demand by rent level and number of bedrooms for new market-rate rental housing in the submarket during the forecast period.

Table 9. Estimated Demand for New Market-Rate Rental Housing in the Vancouver Submarket During the Forecast Period

Zero Bedrooms		One Bedroom		Two Bedrooms		Three or More Bedrooms	
Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand
800 to 999	95	850 to 1,049	580	1,100 to 1,299	1,050	1,350 to 1,549	190
1,000 or more	50	1,050 or more	310	1,300 or more	570	1,550 or more	100
Total	150	Total	890	Total	1,625	Total	300

Notes: Numbers may not add to totals because of rounding. Monthly rent does not include utilities or concessions. The 1,125 units currently under construction will likely satisfy some of the estimated demand. The forecast period is May 1, 2016, to May 1, 2019.

Source: Estimates by analysts

Data Profiles

Table DP-1. Portland HMA* Data Profile, 2000 to Current

	2000	2010	Current	Average Annual Change (%)	
				2000 to 2010	2010 to Current
Total resident employment	1,031,816	1,084,124	1,179,000	0.5	1.6
Unemployment rate	4.5%	10.2%	5.0%		
Nonfarm payroll jobs	981,500	979,200	1,123,000	0.0	2.6
Total population	1,927,881	2,226,009	2,395,000	1.4	1.2
Total households	745,531	867,794	936,700	1.5	1.3
Owner households	469,156	535,433	559,500	1.3	0.7
Percent owner	62.9%	61.7%	59.7%		
Renter households	276,375	332,361	377,200	1.9	2.1
Percent renter	37.1%	38.3%	40.3%		
Total housing units	790,876	925,076	974,100	1.6	0.9
Owner vacancy rate	2.2%	2.2%	1.0%		
Rental vacancy rate	6.7%	5.9%	2.9%		
Median Family Income	\$52,400	\$70,000	\$73,300	2.9	0.9

*Portland-Vancouver-Hillsboro HMA.

Notes: Numbers may not add to totals because of rounding. Employment data represent annual averages for 2000, 2010, and the 12 months through April 2016. Median Family Incomes are for 1999, 2009, and 2014. The current date is May 1, 2016.

Sources: U.S. Census Bureau; U.S. Department of Housing and Urban Development; estimates by analyst

Table DP-2. Portland Submarket Data Profile, 2000 to Current

	2000	2010	Current	Average Annual Change (%)	
				2000 to 2010	2010 to Current
Total population	1,042,437	1,160,677	1,239,000	1.1	1.1
Total households	416,674	469,513	504,500	1.2	1.2
Owner households	258,366	281,474	294,100	0.9	0.7
Percent owner	62.0%	60.0%	58.3%		
Rental households	158,308	188,039	210,400	1.7	1.9
Percent renter	38.0%	40.0%	41.7%		
Total housing units	443,087	502,475	527,000	1.3	0.8
Owner vacancy rate	2.2%	2.4%	1.0%		
Rental vacancy rate	6.8%	5.6%	3.0%		

Notes: Numbers may not add to totals because of rounding. The current date is May 1, 2016.

Sources: U.S. Census Bureau; U.S. Department of Housing and Urban Development; estimates by analyst

Table DP-3. Beaverton-Hillsboro Submarket Data Profile, 2000 to Current

	2000	2010	Current	Average Annual Change (%)	
				2000 to 2010	2010 to Current
Total population	530,334	628,903	683,400	1.7	1.4
Total households	197,894	235,660	254,800	1.8	1.3
Owner households	122,467	146,604	152,800	1.8	0.7
Percent owner	61.9%	62.2%	60.0%		
Rental households	75,427	89,056	102,000	1.7	2.3
Percent renter	38.1%	37.8%	40.0%		
Total housing units	209,183	249,560	263,100	1.8	0.9
Owner vacancy rate	2.3%	2.1%	1.0%		
Rental vacancy rate	6.5%	6.5%	2.8%		

Notes: Numbers may not add to totals because of rounding. The current date is May 1, 2016.

Sources: U.S. Census Bureau; U.S. Department of Housing and Urban Development; estimates by analyst

Table DP-4. Vancouver Submarket Data Profile, 2000 to Current

	2000	2010	Current	Average Annual Change (%)	
				2000 to 2010	2010 to Current
Total population	355,110	436,429	472,200	2.1	1.3
Total households	130,963	162,621	177,350	2.2	1.4
Owner households	88,323	107,355	112,600	2.0	0.8
Percent owner	67.4%	66.0%	63.5%		
Rental households	42,640	55,266	64,750	2.6	2.6
Percent renter	32.6%	34.0%	36.5%		
Total housing units	138,606	173,041	184,000	2.2	1.0
Owner vacancy rate	2.0%	2.1%	1.0%		
Rental vacancy rate	6.6%	6.0%	2.5%		

Notes: Numbers may not add to totals because of rounding. The current date is May 1, 2016.

Sources: U.S. Census Bureau; U.S. Department of Housing and Urban Development; estimates by analyst

Data Definitions and Sources

2000: 4/1/2000—U.S. Decennial Census
 2010: 4/1/2010—U.S. Decennial Census
 Current date: 5/1/2016—Analyst's estimates
 Forecast period: 5/1/2016–5/1/2019—Analyst's estimates

The metropolitan statistical area definition in this report is based on the delineations established by the Office of Management and Budget (OMB) in the OMB Bulletin dated February 28, 2013.

Demand: The demand estimates in the analysis are not a forecast of building activity. They are the estimates of the total housing production needed to achieve a balanced market at the end of the 3-year forecast period given conditions on the as-of date of the analysis, growth, losses, and excess vacancies. The estimates do not account for units currently under construction or units in the development pipeline.

Other Vacant Units: In the U.S. Department of Housing and Urban Development's (HUD's) analysis, other vacant units include all vacant units that are not available for sale or for rent. The term therefore includes units rented or sold but not occupied; held for seasonal, recreational, or occasional use; used by migrant workers; and the category specified as "other" vacant by the Census Bureau.

Building Permits: Building permits do not necessarily reflect all residential building activity that occurs in an HMA. Some units are constructed or created without a building permit or are issued a different type of building permit. For example, some units classified as commercial structures are not reflected in the

residential building permits. As a result, the analyst, through diligent fieldwork, makes an estimate of this additional construction activity. Some of these estimates are included in the discussions of single-family and multifamily building permits.

For additional data pertaining to the housing market for this HMA, go to huduser.gov/publications/pdf/CMARtables_Portland_Vancouver_HillsboroOR_WA_16.pdf.

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This analysis has been prepared for the assistance and guidance of HUD in its operations. The factual information, findings, and conclusions may also be useful to builders, mortgagees, and others concerned with local housing market conditions and trends. The analysis does not purport to make determinations regarding the acceptability of any mortgage insurance proposals that may be under consideration by the Department.

The factual framework for this analysis follows the guidelines and methods developed by HUD's Economic and Market Analysis Division. The analysis and findings are as thorough and current as possible based on information available on the as-of date from local and national sources. As such, findings or conclusions may be modified by subsequent developments. HUD expresses its appreciation to those industry sources and state and local government officials who provided data and information on local economic and housing market conditions.

For additional reports on other market areas, please go to huduser.gov/portal/ushmc/chma_archive.html.

APPENDIX D - USEFUL REPORTS

Portland State University Center for Real Estate. "In Search of the Missing Condos: An Analysis of Condo Development in the Portland Area," August 2016.

IN SEARCH OF THE MISSING CONDOS: AN ANALYSIS OF THE CONDO DEVELOPMENT MARKET IN THE PORTLAND AREA

ADAM SEIDMAN

Portland State University

Since the Great Recession, there has been significant multifamily development activity in the Portland metropolitan area and across the country – but it has almost exclusively been rental housing and not for-sale multifamily (i.e. condominium) product. This article will attempt to uncover the main causes of this lack of condominium development in the local market and will also seek to answer if this trend is likely to continue over the next few years. In addition, we will explore if these issues are unique to the Portland market.

The analysis revealed that there are three core reasons underlying the lack of condominium development in the Portland metro:

1. A significant shift towards rental housing demand since the Great Recession, due to factors such as demographics, shifting preferences, changing home and work patterns, higher quality rental supply, and increased standards for qualifying for home mortgages.
2. The impact of failed or challenging condo projects on regulations and perceptions (for the developer, investor, and lender), and the resulting difficulty in

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obtaining capital for condo projects in the current cycle – both for developers and for prospective buyers of condo units.

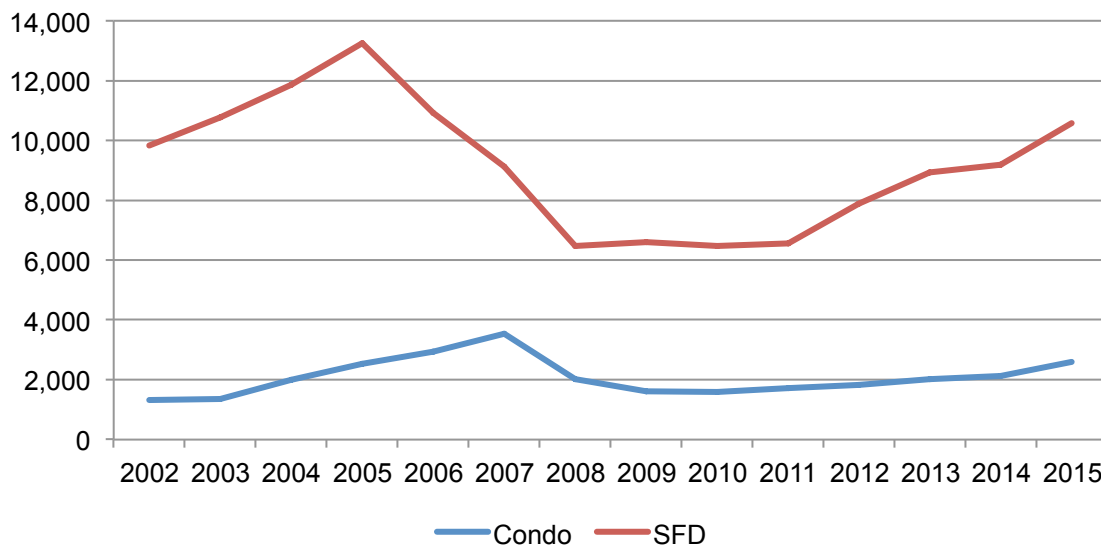
3. The impact of construction defect liability claims on developer perceptions and on project risk and financial feasibility.

We will first examine the current state of Portland's condo market and will then dive deeper into each of the core issues outlined above.

PORTLAND'S CONDO MARKET

After peaking at 3,500 sales in 2007, condo sales (of existing and new product) declined in Multnomah County for three straight years before beginning a steady five-year rebound, according to RMLS. Sales volume increased 22% in 2015 to 2,600 sales. Similar trends can be seen in sales of single family homes in Figure 1.

Figure 1: Total Sales Volume, Multnomah County, 2002-2015



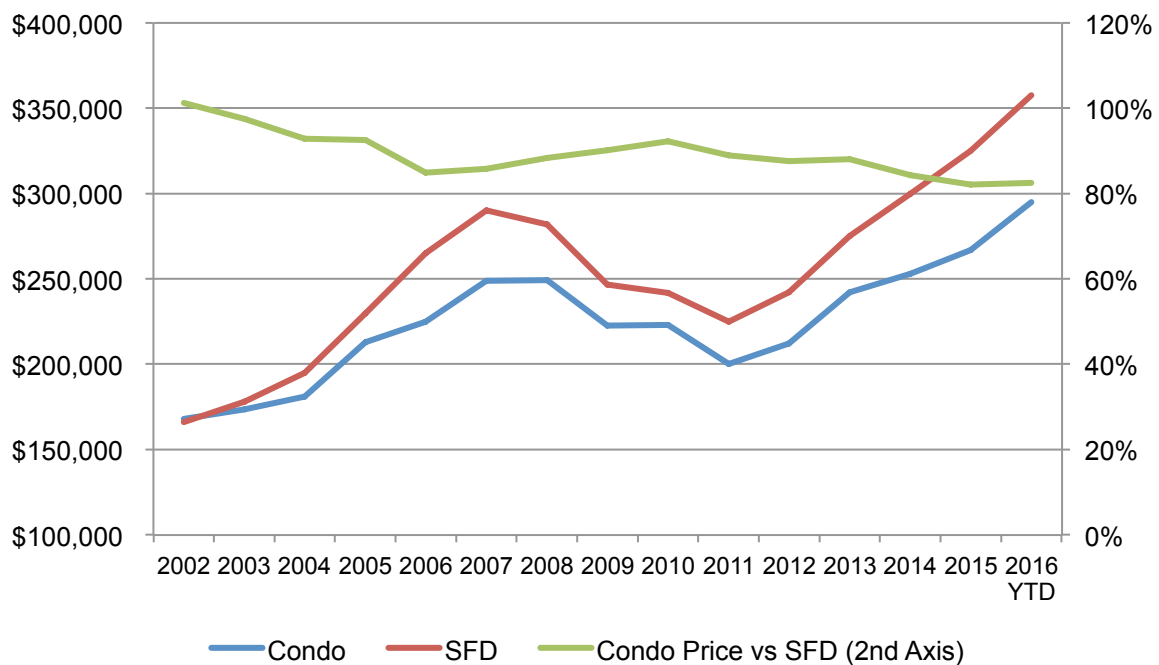
Source: RMLS

As with sales volume, median condo prices have been rising for five straight years. At nearly \$300,000 as of the first quarter of 2016, values have risen above the pre-recession peaks. A similar trend can be seen in the single family market, although prices have been rising at a faster rate – putting median condo prices at just over 80% that of single family homes, the lowest ratio in 15 years (RMLS).

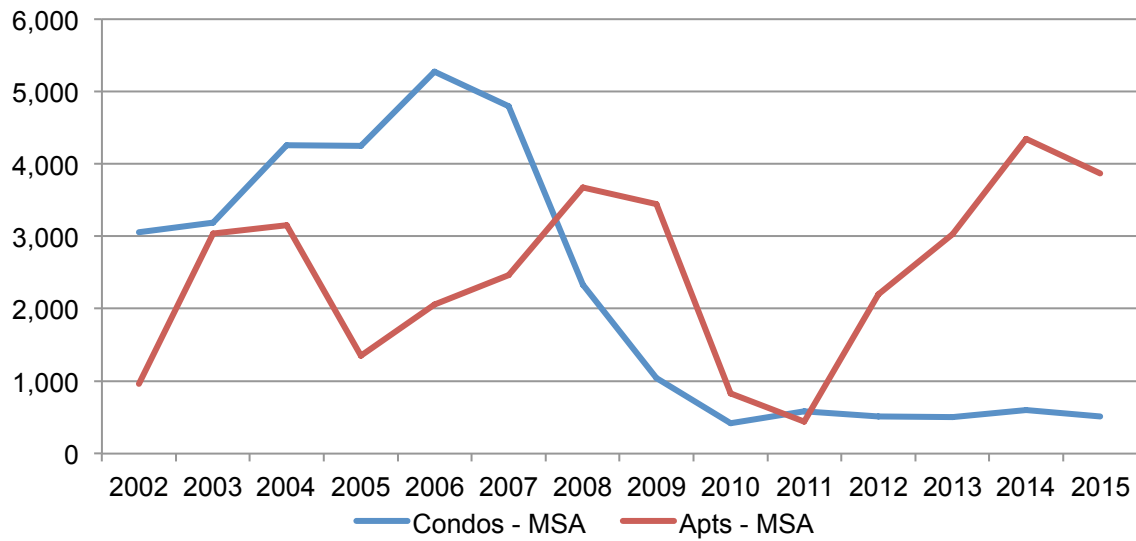
As with sales volume, median condo prices have been rising for five straight years. At nearly \$300,000 as of the first quarter of 2016, values have risen above the pre-recession peaks. A similar trend can be seen in the single family market, although prices have been rising at a faster rate – putting median condo prices at just over 80% that of single family homes, the lowest ratio in 15 years (RMLS).

One of the reasons that condo prices have been rising more slowly than single family prices may be due to the age of the housing stock – there have been very few new condos built since 2008. According to RMLS, after averaging nearly 3,900 new condo units built per year between 2002 and 2008, the Portland metropolitan area has since seen the average plummet to 600 units built per year. Multnomah County has seen only 160 new condo units built per year between 2009 and 2015. In contrast, apartment production has ramped up significantly in the MSA and the County since 2011 (CoStar).

Figure 2: Median Sales Price, Multnomah County, 2002-2016 YTD



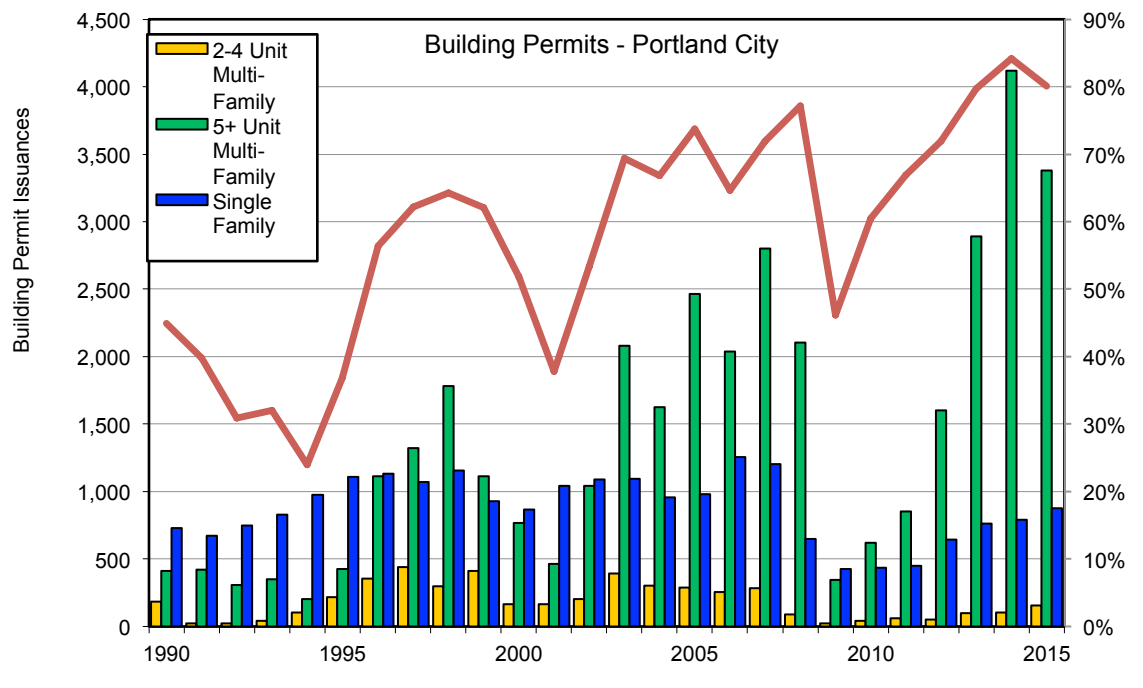
Source: RMLS

Figure 3: Housing Units Built, Portland MSA, 2002-2015

Source: RMLS, CoStar

This trend looks set to continue, as multifamily permits are at or near record highs in Portland – but nearly all of the planned units are rentals and not for-sale condos (SOCDS).

Figure 4: Building Permits Issued, Portland City, 1990-2015

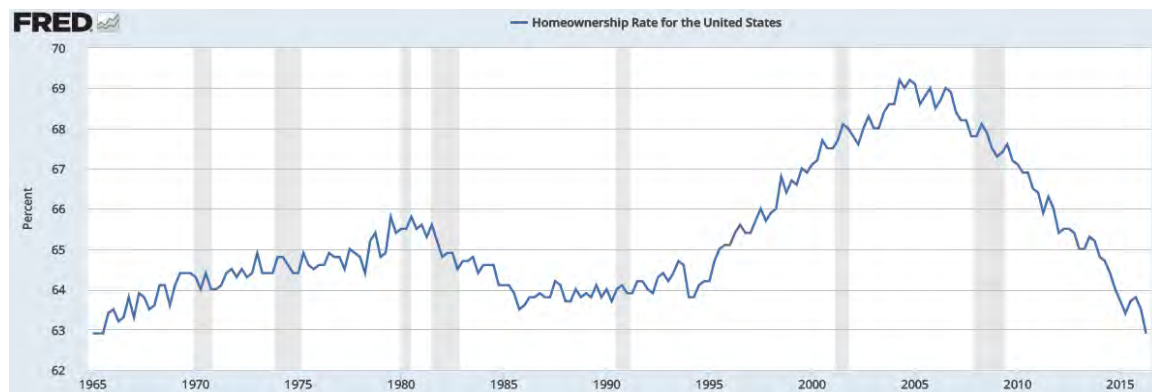


Source: SOCDS (HUD)

SHIFT TOWARDS RENTAL HOUSING

Since the financial crisis and Great Recession that began in late 2007, homeownership in the United States has declined from a peak of 69% to under 63% in the second quarter of 2016 - levels not seen since 1993, according to the most recent U.S. Census figures.

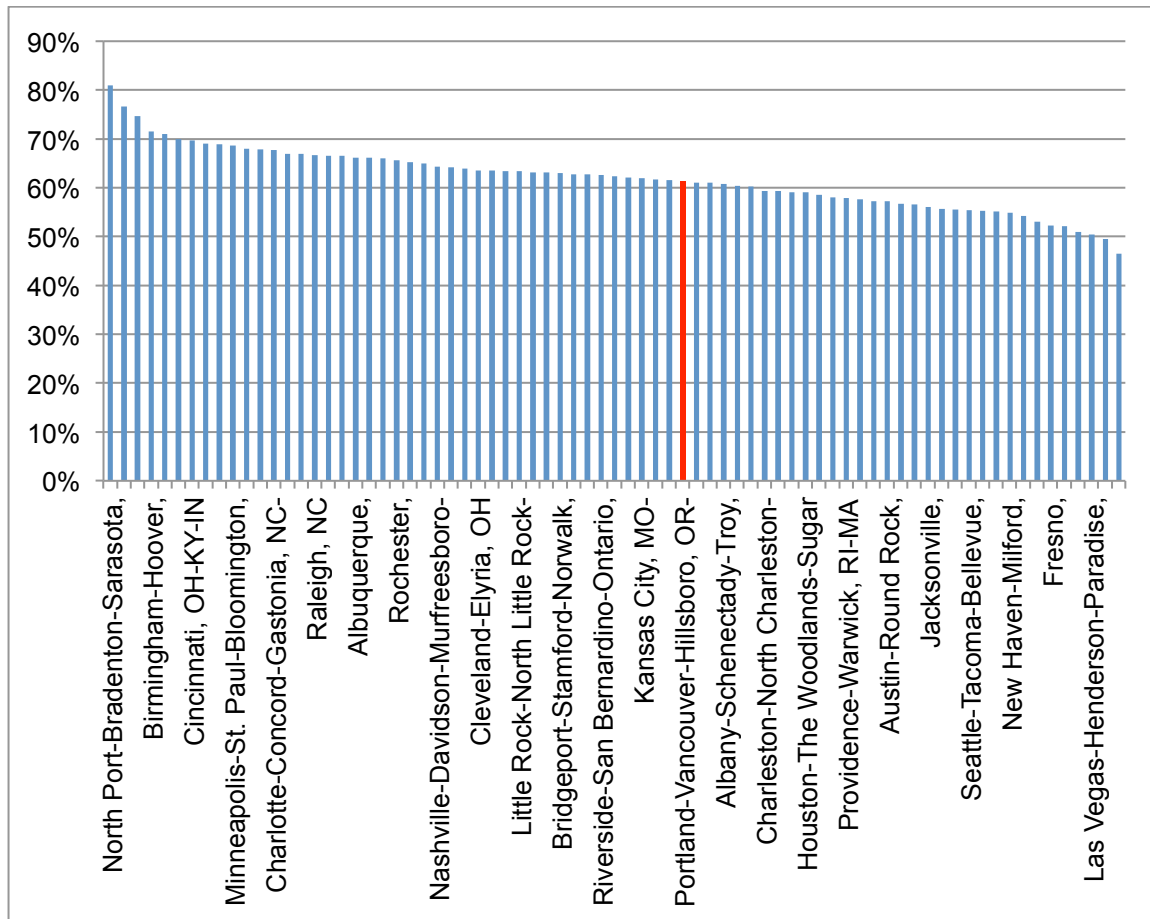
Figure 5: Homeownership Rates, United States, 1965-2016



Source: U.S. Census Homeownership Report

Oregon and the Portland MSA have largely followed this trend, and as of the second quarter of 2016 the homeownership rate in the Portland metro sits at just over 61% - down from a peak of nearly 73% in 2005. The Portland MSA is about in the middle of the pack in terms of homeownership rates compared to other metros.

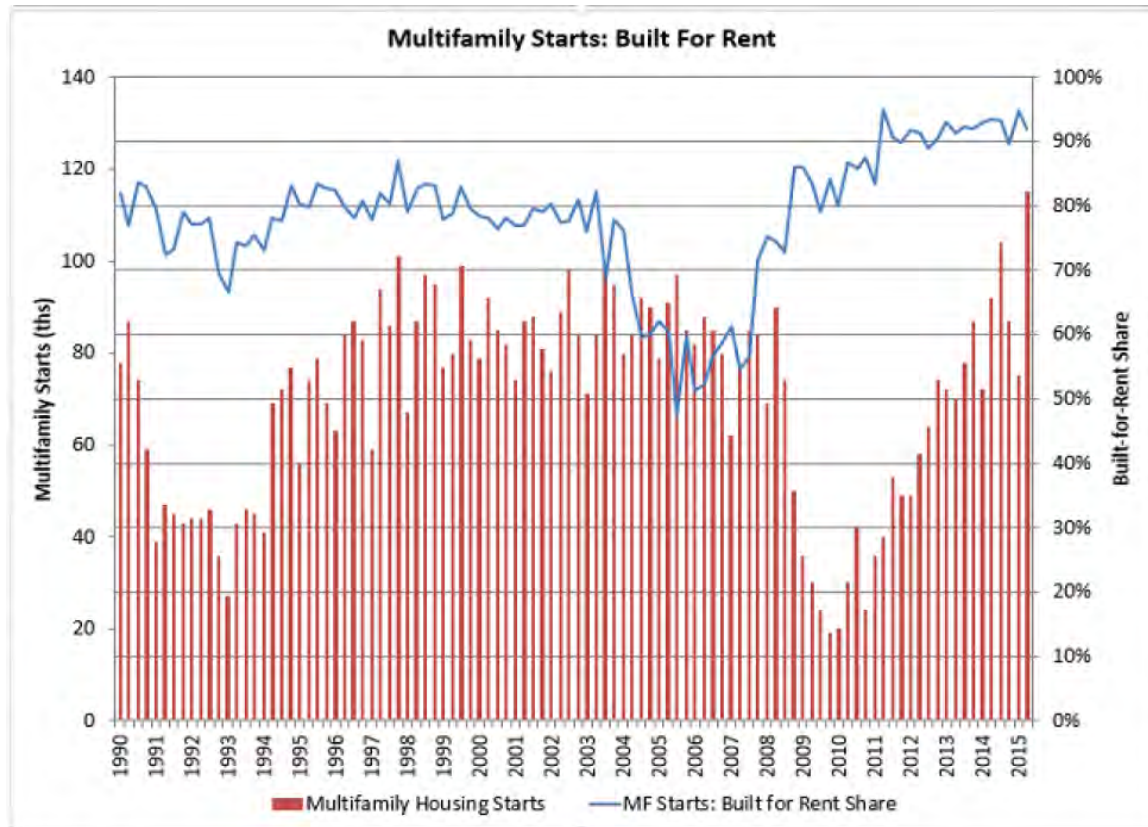
Harvard's Joint Center for Housing Studies' "State of the Nation's Housing" report outlines some of the reasons for the decline in national homeownership rates, including: the negative impacts of the Great Recession on potential or existing homeowners (such as reductions in homeowner equity and credit scores), tighter lending requirements, declines in household incomes, increases in student debt, the aging of both the Baby Boomer and Millennial generations, and shifts in household composition (i.e. more singles and unmarried couples). In addition, changes in work type and tenure and in attitudes towards renting have also likely impacted the overall homeownership rate trend (Harvard 2015).

Figure 6: Homeownership Rates, Top MSAs, United States, Q2 2016

Source: U.S. Census Quarterly Vacancy and Homeownership Rates

Because of many of the reasons cited above, key target groups for condo developers, including first-time homebuyers, are increasingly choosing to rent instead of own their housing. This trend has been a headwind against new condo development in the Portland market and nationally. The result is that multifamily development has been dominated by rental product – nationally, accounting for over 90% of all multifamily starts over the past 5 years, versus a historical average of 80% (and a dip to 50-60% during the condo development boom in the mid-2000s). Overall, construction of condo units is running at about half of its pre-boom pace (Anderson 2015; Dietz 2015).

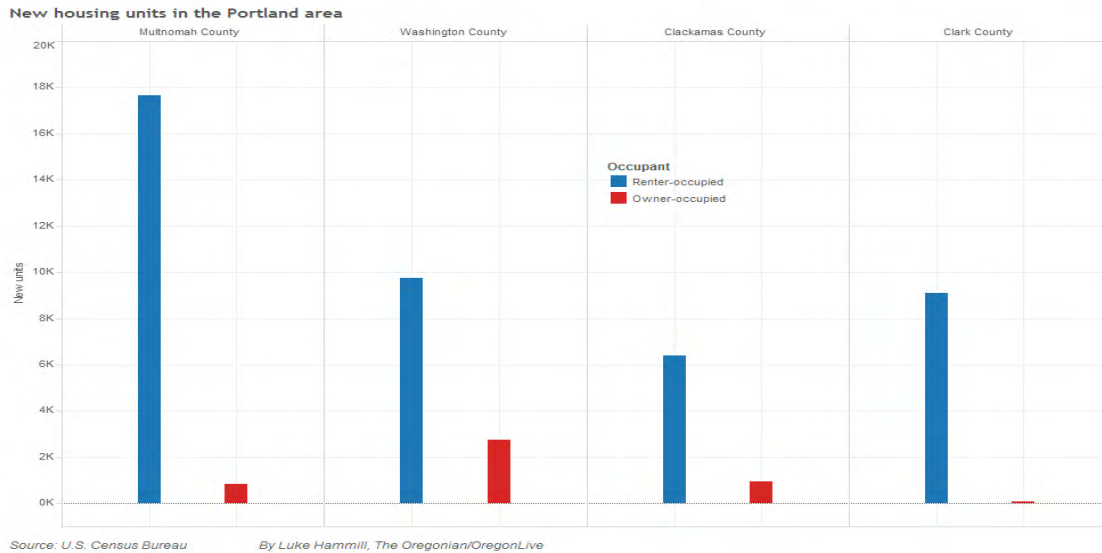
Figure 7: Multifamily Housing Starts and Apartment Share, United States, 1990-2015



Source: U.S. News & World Report, based on data from U.S. Census

This also has been the case in the Portland metro, as we saw in our review of Portland's condo market. In fact, an analysis of new housing units in the metro's largest counties reveals that most of the new housing units built in the past 5 years have been renter-occupied – suggesting that in addition to the purpose-built rental products (i.e. apartments) in the market, renters have also been occupying new units traditionally built for ownership (i.e. single family homes) (OregonLive).

Figure 8: Occupancy Type of New Housing Units, Top Counties, Portland MSA, 2005-2014



Source: Oregonlive, based on data from U.S. Census

RESTRICTED CAPITAL

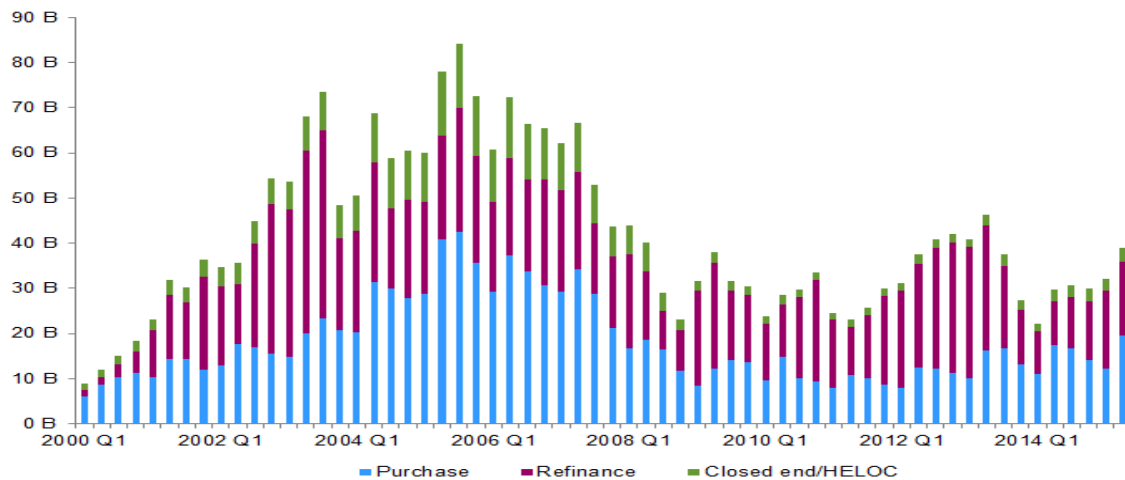
The Great Recession clearly had a significant impact on condo development in Portland and nationally. Condos were disproportionately impacted during the downturn, as many investors who speculated on price increases in condo towers were unable to make loan payments once demand (from both potential renters and future buyers) froze up, or in some cases walked away from purchases before closing. This impacted perceptions and subsequent actions of banks, developers, and government entities. Many banks, especially ones that had to deal with foreclosed condo units, simply stopped lending to both developers (for construction) and prospective buyers (for purchases of units). Most developers, unable to receive traditional financing and concerned about lack of demand for units, stopped developing condo projects.

Perhaps most significantly, the main Government Sponsored Enterprises – Fannie Mae, Freddie Mac, and the FHA – changed their policies after the Great Recession in ways that made it harder to purchase condo units. As the main purchasers of mortgages in the United States, accounting for half of all mortgage securitization nationally, these policy changes impacted all lenders. These policies included restricted limits on such things as the percentage of units that could be rented in a project, the number of units that could be owned by a single entity, and the percent of units late in paying their condo association dues. The result of these policies is that many condo projects became “unwarrantable” – in other words, the GSEs would not “warrant” them because they did not fit the new criteria – and this meant that

loans effectively couldn't be made on units in these projects (U.S. HUD 2015; Fannie Mae 2014; Freddie Mac; Gibbs 2014; Glink 2013).

As financing became difficult or impossible to find for purchasing condos, the share of units purchased entirely with cash (and no loan) nationally increased from around 27% prior to the downturn to a peak of 62% of all units in 2012 (Yao 2015). The past few years have seen an increase in loan originations for condos and a decrease in all-cash purchases, in part a result of the GSEs easing up their policies. However, financing remains difficult to access, and all-cash sales are still significantly higher than prior to the downturn.

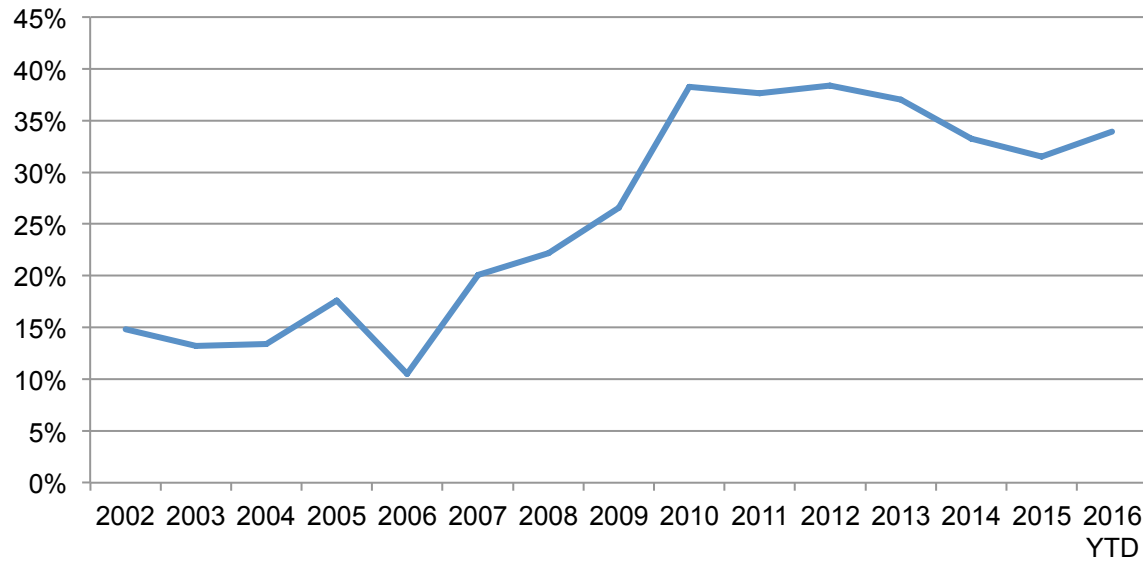
Figure 9: Condo/Co-Op Mortgage Originations, United States, 2000-2015



Source: CoreLogic

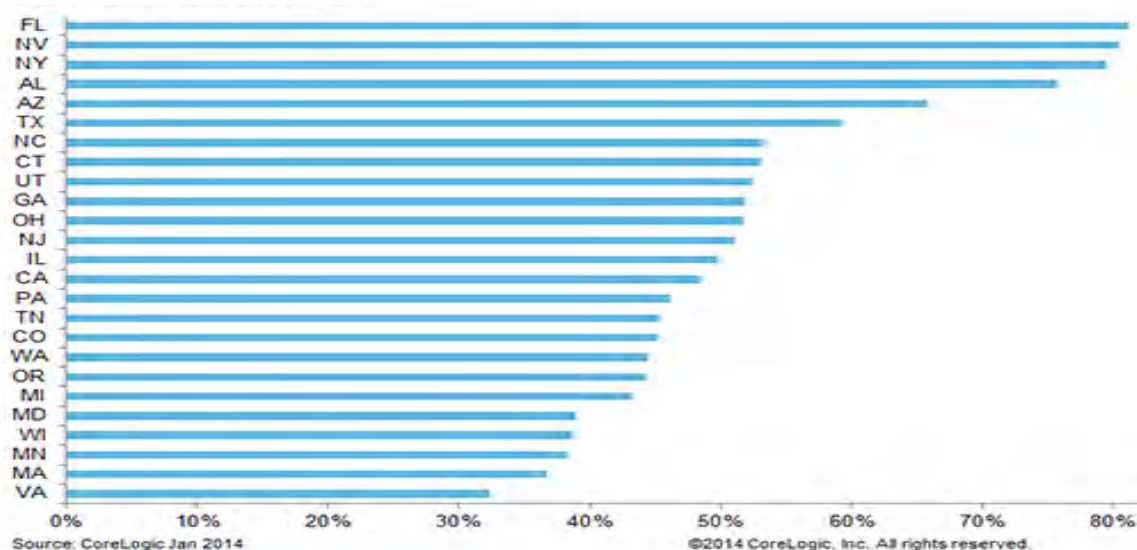
Multnomah County reflects these national trends: all-cash sales have been between 30%-40% of all condo sales since 2009, compared to rates below 20% before 2007 (RMLS).

Figure 10: All-Cash Share of Total Condo Sales, Multnomah County, 2002-2016 YTD



Source: RMLS

Nationally, there are a number of core condo markets (including Florida, Nevada, and New York) whose all-cash sales have been between 70%-80% of total condo sales – a sign that in the more built-up markets that had more distressed sales after the downturn, financing for purchasing a condo unit is especially difficult (Vitlo 2014).

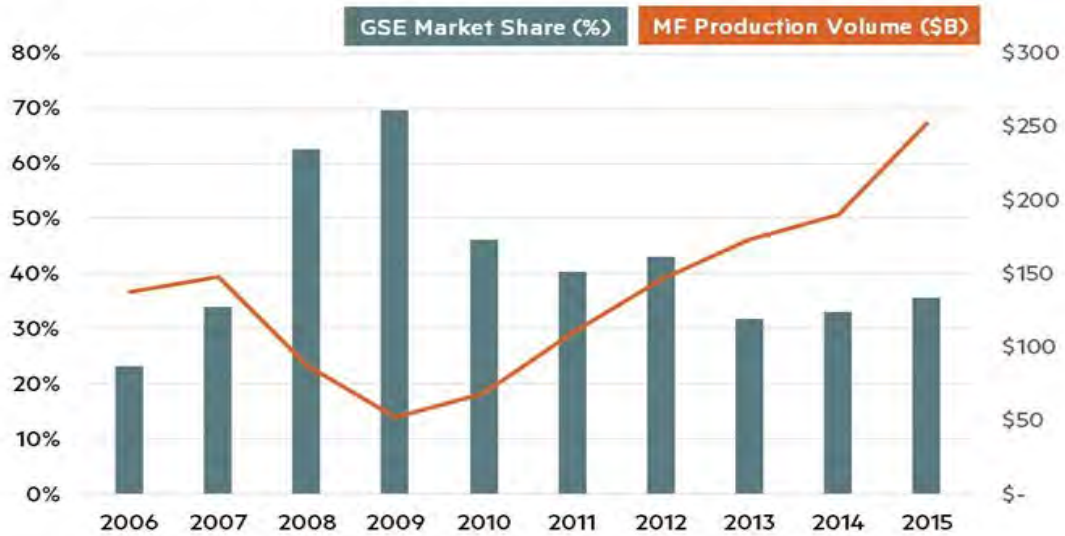
Figure 11: All-Cash Share of Total Condo Sales, Various States, 2014

Source: CoreLogic

The John Ross Tower in Portland is a local example of the impact of the Great Recession on condo development. The 303-unit tower in Portland's South Waterfront neighborhood opened its sales office in 2005 – and took reservations for 229 units in 6 days. However, as the beginning elements of the recession and housing downturn came on in 2007, many of those reservations backed out of their sales closings. Unit buyers couldn't get mortgages, and some got scared that prices would no longer keep going up. By 2009, the project's developers lost the project to its lender, which then proceeded to auction off units at prices that were 50% off the original list prices. The developers lost their property (and the investment of their equity partners), the bank had to auction off the units at cut-rate prices, and early buyers saw their home values plummet once the auction re-established market prices for the building (Frank 2010). Fast forward to the present: Homer Williams, owner of one of the development companies behind the John Ross project, told the Portland Business Journal that condo development is "not a path that we're on at all." According to Williams, many developers got stung in the downturn and have not warmed to the idea of a large condo project (Bell 2015). In addition, margins can be higher for apartment projects, which also have fewer complications (i.e. liability) as compared to condo projects.

Banks and other capital providers (including the GSEs) have increased multifamily lending every year since 2009 (Urban Institute 2016). However, as apartments now represent over 90% of multifamily starts nationally, the bulk of this financing for development is going towards building apartments and not towards condos.

Figure 12: Multifamily Mortgage Market and GSE Share, United States, 2006-2015



Source: Urban Institute, using data from GSEs and MBA

LIABILITY ISSUES

In addition to the challenges presented by changes in demand and in available capital, developers of condo projects must also face another obstacle – liability issues. Following the Great Recession, there was an uptick nationally and in Oregon in construction defect lawsuits brought on by homeowner associations against developers and contractors. In Oregon, there is a 10-year statute of limitation on liability (the “statute of repose”), so developers and their insurers have a responsibility for a decade after a project is developed. In fact, it is common for homeowner associations to bring on lawsuits around Year 8 or 9, just prior to the end of the statutes of limitations, and in many cases the associations may even be found liable for breach of fiduciary duty if they do not file lawsuits within this timeline (Oregonlaws.org; Eyth 2016).

Developers can mitigate their risk by purchasing “wrap-up” insurance policies (also known as Owner or Contractor Controlled Insurance Product), where one policy covers all the participants in a development, including the developer, his general contractors, and sub-contractors. However, these policies often have various limits and exclusions which can still leave developers open to legal liability. In addition, these policies are an added cost – and can be a burden on the financial pro forma, especially for smaller projects or developments with lower-priced units. For larger projects, the cost per unit in Oregon tends to be \$2,000-\$4,000, or generally about 1%-2% of the unit sales price, and coverage is typically \$25,000-\$50,000 per unit (Page 2016). The added cost and risk and coverage limits likely favors the develop-

ment of higher-priced condo units and larger developments in many markets – and that is what we are seeing in Portland. Hoyt Street's Cosmopolitan project is the first significant condo project in the Portland metro since the financial downturn. The 28-story tower in the north end of the Pearl District features 150 luxury units – 36 of which are priced over \$1 million, in a market which saw just 48 condo sales of over \$1 million in 2015 (Abragan 2016).

The potential liability, as well as the time and cost that could be involved in litigation, can be a deterrent of development. Chris Nelson, Principal of Portland-based developer Capstone Partners, told the Portland Business Journal: “the insurance, the reserves you have to set aside for future claims and the management of all that stuff, I have no interest” (Bell 2015). The Portland market has seen its share of construction defect lawsuits, including an ongoing case involving leaky plumbing valves in multiple buildings. Importantly, when a project is involved in litigation – which could take years, as is the case with the plumbing lawsuits – lenders will typically not issue loans for units in the project (Njus 2015). This leads to difficulty in selling units and is one of the reasons that all-cash purchases have become increasingly common in Portland and across the country.

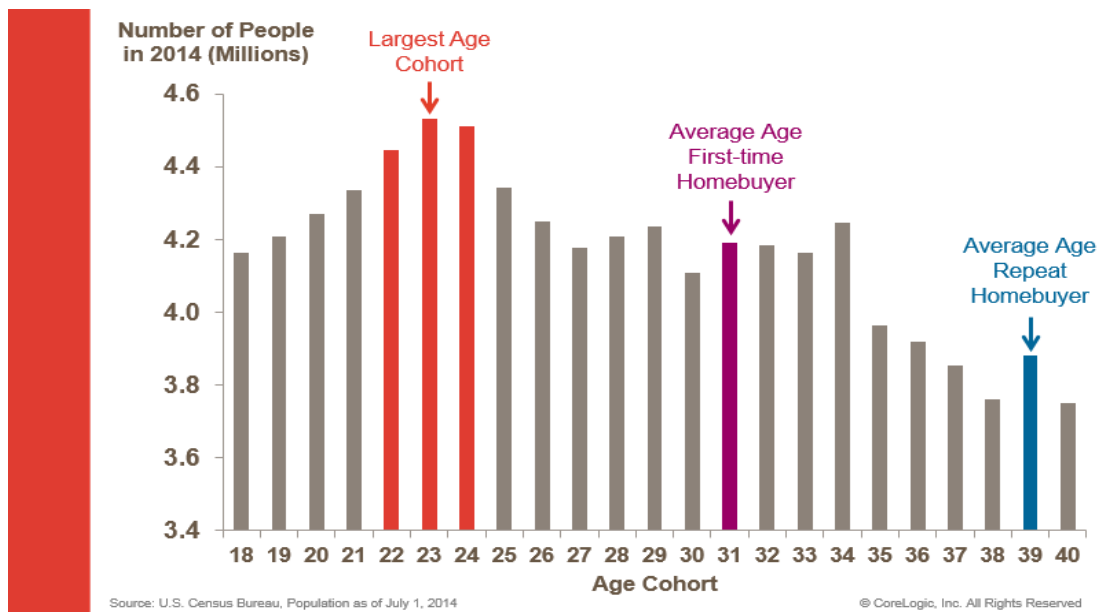
Developers in other states must also deal with construction defect liability issues, and there have been recent attempts to mitigate the impact of these laws. Nevada passed the Homeowner Protections Act in 2015, which restricts the definition of what constitutes a home defect, repeals a provision allowing attorney fees and costs in a home defect judgment, requires specific descriptions of defects, and, importantly, reduces the statute of limitations to 6 years (from up to 10 years in current law) (Hudson 2015). Cities across Colorado have also recently enacted legislation to mitigate construction defect laws, with the express intent of encouraging condo development, especially at relatively affordable price points. Denver's City Council adopted a law at the end of 2015 that requires consent of a majority of homeowners (and not just Board members) before litigation can be pursued, requires alternative dispute resolution (arbitration or mediation), eliminates technical code violations as causes for action, and requires that actual damages, injury, or risk be demonstrated (Fernandez 2015).

LOOKING AHEAD

Despite the challenges outlined in the above sections, there are many potential tailwinds that should help to boost condo development in Portland and across the country. First, demographics favor homeownership in the long-term. According to CoreLogic, household formation across the country doubled in 2015 compared to 2014 as an improving economy allowed more young people to get into the labor force and out of their parent's house. The youngest members of the Millennials, who are helping to drive growth in the rental markets, will enter prime first-time homebuying years over the 5-8 years – and surveys consistently show that members of this generation have similar desires to own homes as their parents' generation. Affordability issues, delayed family formation, and desire for proximity to work and amenities should mean that many of these future first-time buyers will be looking at condo units as

choices for homes – if they can find condos that meet their needs and budgets. In fact, the NAR reports that the older segment of Millennials are currently the largest group of home buyers, but that they are not finding affordable product in city centers; the NAR's chief economist, Lawrence Yun, noted that “limited inventory in Millennials’ price range, minimal entry-level condo construction and affordability pressures make buying in the city extremely difficult for most young households” (NAR 2016). In addition, the largest cohort of Baby Boomers will reach retirement age in the next 5-8 years, and should fuel demand for “empty-nester” condos. These trends should impact Portland as well as other major metro areas across the country (Nothaft 2015).

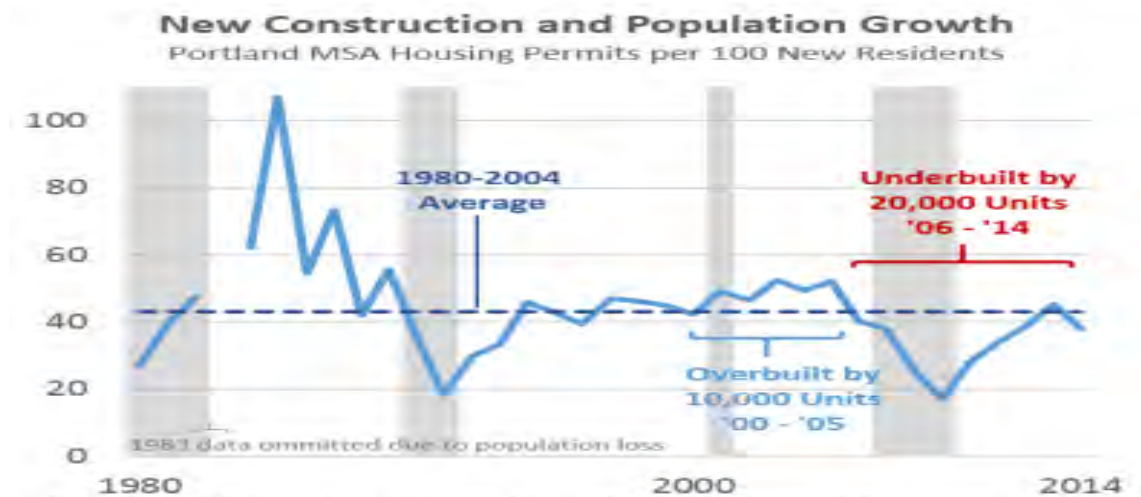
Figure 13: Population by Age Cohort, United States, 2014



Source: CoreLogic, based on data from U.S. Census

In fact, Portland is currently playing “catch-up” in building its housing stock, as the Oregon Office of Economic Analysis estimates that despite overbuilding 10,000 units between 2000 and 2005, the MSA “underbuilt” by 20,000 units between 2006-2014 (taking into account the historical number of housing permits per new residents) (Lehner 2015). This helps to explain the strong price growth seen in condo and single family prices the past few years, as demand is likely out-stripping existing supply – and suggests that new development, especially of lower-priced units, would be successful even in today’s market.

Figure 14: Housing Permits per 100 New Residents, Portland MSA, 1980-2014



Source: Oregon Office of Economic Analysis, based on data from U.S. Census, Portland State University, and State of Washington

Second, the main GSEs – Fannie Mae, Freddie Mac, and FHA – have either relaxed, or signaled that they would ease, the stringent regulations imposed on condo units (and condo projects) in the wake of the Great Recession (Dawson 2014; Harney 2016). This should lead to more projects that are “warrantable” – and therefore to more condo units that can get traditional financing, including FHA loans, which are especially important for first-time buyers. This will likely have a ripple effect – as the GSEs increase the number of financeable condo units, more buyers will be able to purchase units, which will help convince banks that they can lend on the construction of new condo projects. With limited new inventory in most markets, the easing of financing should help to stimulate the development of new units.

Third, the wave of legislation in various municipalities across the country that is reining in construction defect lawsuits could spread to other areas – including to Oregon or Portland. As cries for affordable housing in the Portland metro increase in intensity, it is conceivable that lawmakers could help to mitigate the litigation issues that are keeping some developers on the sidelines. Liability issues will also keep many apartment projects from converting to condos as demand ramps up, as many contractors require that owners and developers agree not to convert their projects to condos during the statute of limitations period – providing more of a boost for new condo development (Eyth 2016).

And lastly, in Portland there is discussion currently in the City Council about “middle housing” zoning options for increased density within single family neighborhoods. If adopted in the upcoming Comprehensive Plan, this re-zoning of certain areas of the city could encourage small-scale condo development, in the form of pro-

jects of 2-4 units (Redden 2016). Portland has also seen a rise in the development of accessory dwelling units, or ADUs, on single family home lots. These ADUs have typically been used by the homeowner or rented out, but there are a few developers who have turned ADUs (and the home with which they share a lot) into condos, bringing a relatively affordable for-sale option into close-in areas that have seen rapid price growth (Law 2016)

Condo development has indeed come back in certain parts of the country, such as Miami and New York City. Nationally, the condo share of all home sales is approaching pre-recession levels of around 12% (Khater 2014). In Portland and Seattle, the first condo projects are nearly completed, and have had success with pre-sales. It is unlikely that Portland will experience a condo boom like the mid-2000s, but there are many reasons to believe that it and the rest of the country will continue to see a resurgence of condo development as long as strict financial regulations (such as FHA mortgage rules) are eased and frivolous construction defect lawsuits are mitigated. ■

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APPENDIX E - USEFUL REPORTS

Portland State University Center for Real Estate. "Portland's Seismic Retrofit Project," May 2016.

PORTLAND'S UNREINFORCED MASONRY SEISMIC RETROFIT PROJECT

WALT McMONIES

Lane Powell P.C.

In late 2014, the City of Portland set up a taskforce intended to expedite the seismic retrofitting of unreinforced masonry (“URM”) buildings in Portland.¹

There is a one in three (37 percent) probability of Portland experiencing a massive (magnitude 8.7 to 9.2) subduction earthquake (the “Big One”) in the next 50 years,² although the epicenter will likely be at least 100 kilometers distant along the Cascade Subduction Zone. Because of proximity, a large (M 6.5) crustal quake on the

¹ A URM building is defined by the City of Portland as a building with at least one masonry bearing wall containing little or no reinforcement.

² “Anticipating the Next Mega Quake” CBS NEWS, 3/6/2016 quoting Prof. Chris Goldfinger, OSU Paleo Seismologist and leading researcher on the Cascade Subduction Zone.

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Portland Hills fault, although much more localized, might be as damaging to the inner west side of Portland.

URM buildings are vulnerable to a high level of damage or collapse in a large magnitude earthquake,³ and they can suffer parapet wall damage and wall/floor separation even in a moderate magnitude earthquake.⁴ The City's some 1,800 URM buildings⁵ include some of the City's most historically significant structures, and provide cultural character, moderate-rate housing for 8,000 to 10,000 people and incubator office and creative commercial space for thousands more.

Fortunately, it is technically feasible to seismically retrofit a URM.⁶ However, is it cost effective to do so? Whether as an individual owner or as public policy (risk management)? The City anticipated this question and is relying on a 1995 analysis prepared for the City by Geologist Ken Goettel (the "Goettel Study") which found that retrofitting URMs sufficiently to allow occupants to survive a quake and to exit a building (Life/Safety standard) will cost less than the benefits in terms of lives saved and economic losses avoided in an earthquake, i.e. the upgrade cost will be less than the public (including owner) benefits which result in terms of lives saved and economic losses avoided in an earthquake.⁷ Unfortunately the Goettel Study is so dated in methodology and data that it is not a reliable basis for the conclusion in 2016, that seismic retrofitting of a URM building in Portland to Life/Safety standards is cost beneficial.⁸

³ URMs are vulnerable to earthquakes because (a) brick, cinderblocks, etc. tend to shear and crack under the lateral and uplift forces of an earthquake; (b) most URMs in Portland were constructed at least 80 years ago and typically their mortar has not been well maintained; (c) non-structural elements like parapet walls, chimneys and building ornamentation abound and are prone to falling off in a quake and injuring fleeing residents and bystanders; (d) floor and roof joists typically rest in but are not attached to notches of bearing walls; (e) floor and roof diaphragms are often overly flexible, such that in a quake the floors deflect and joists pull free causing floors to collapse ("pancake"); and (f) bearing walls typically lack steel or other reinforcement and therefore are not resistant to lateral loads such that they sometimes collapse.

⁴ Written comments to Author from Amit Kumar, SE, PE, Senior Structural Engineer, Portland Bureau of Development Services, March 28, 2016.

⁵ Unreinforced Masonry Database published by Michael R. Hagerty, SE, then Chief Engineer, Office of Planning, April 23, 2001.

⁶ In Los Angeles, that City's mandatory URM upgrading program was tested in the 1994 Northridge Earthquake (M 6.7), and the retrofitted buildings performed well and far better than un-upgraded URMs. See FEMA Publication P-774, Unreinforced Masonry Buildings and Earthquakes (2009). In the 2003 San Simeon quake (M. 6.5): "[Of the] 53 unreinforced masonry buildings in Paso Robles...none of the nine URM buildings that had been retrofitted experienced major damage. Many of the others were damaged so extensively that they were subsequently demolished."

⁷ K. Goettel & G. Horner, Earthquake Risk Analysis, Final Report to the City of Portland, Vol. One (1995); see also FEMA Publication-156, Typical Cost for Seismic Rehabilitation of Existing Buildings (1994).

⁸ Conversation on April 6, 2016, between the Author and Goettel.

In contrast to the public benefit analysis of Goettel, the typical URM building owner would analyze a major expenditure like a seismic upgrade on a more limited “money invested, money repaid” (“Payback”) basis. Looking at seismic upgrading on a Payback basis, URM Life/Safety upgrades in Portland are currently at best marginally cost effective as upgrading will take in the range of 20 to 25 years to payback the owner’s investment through higher rents and lower expenses (in particular, less costly earthquake insurance and a lower cost of mortgage funds).

In contrast, retrofitting an older apartment building with in-unit washer dryers might have a five-year Payback. Also, the 20 to 25 year Payback assumes that the building owner has or can borrow sufficient funds to pay seismic retrofit cost of (say) \$35 to \$45 a square foot, a doubtful assumption for those URM owners who have significant debt relative to the value of their buildings.

Focusing to the public benefit analysis used by Goettel, he concluded that:⁹

- For buildings of any construction type (including URM) on rock sites, the earthquake death risk was very low. So arguably no seismic upgrading of URM buildings in rock soils need occur;
- For URM and precast concrete buildings on firm soils, the earthquake death risk is about 2 times higher than an acceptable level; and
- For buildings of any of the most vulnerable building types (including URM), on soft soils, the earthquake death risk is 2 to 6 times higher than an acceptable level.

Assuming *arguendo* that a Life/Safety seismic retrofit of most URM buildings is called for in Portland, what progress has been made in retrofit efforts?

CURRENT UPGRADE SYSTEM AND ALTERNATIVES

Title 24.85 of the Portland City Code adopted in 1995, and modified in 2004, gives a building owner an alternative to compliance with the seismic rehabilitation requirements of the Oregon Structural Specialty Code. Under current Title 24.85, seismic upgrades to an existing building are required only when the owner activates a “passive trigger,” for instance (1) when the owner changes the occupancy or use¹⁰, or (2) when the owner undertakes a major renovation which exceeds a specific cost

⁹ Goettel considers two main kinds of benefits: (a) life safety benefits which are the dollar value of avoided casualties and (b) non-life safety benefits which are the value of avoided or reduced economic damages and losses, specifically building damages, contents damages, displacement costs, business income losses, rental income losses, and loss of non-profit services. Using this approach Goettel concluded that the benefits of a seismic rehabilitation of a URM building outweigh the costs, unless occupancy is less than one person per 1,000 sq. ft. or unless the building is built on solid rock and hence will suffer little damage.

¹⁰ Resulting in more than 33 percent of the building’s changing to a higher seismic hazard classification or resulting in an increased occupant load of more than 149 people.

threshold, etc. Also, roof upgrades, in particular parapet wall bracing, is required or (3) when more than 50 percent of the roof is re-roofed within five years.

Contrast with Mandatory System. The City's Bureau of Development Services ("BDS") estimates that in the 20 years since Title 24.85 was adopted less than 20 percent of the identified URMs in Portland have been seismically upgraded or demolished.¹¹ Portland's slow rate of URM upgrading is consistent with the data on those California cities that, in response to that state's Unreinforced Masonry Building Law (1986)¹², elected to employ a voluntary system, establishing retrofit standards and only requiring owners to evaluate the seismic risks in their buildings rather than mandating the owners to make seismic upgrades of URMs. These voluntary programs were only 19 percent effective at achieving compliance, while California cities which chose to mandate seismic upgrades of URMs had an overall compliance rate of 81 percent as of 2003.¹³

RECOMMENDATION OF PORTLAND TO ADOPT A MANDATORY SYSTEM

The City, desiring to keep its citizens safe and to increase post-quake resilience, and encouraged by Goettel's conclusion that the seismic upgrading of URMs to a Life/Safety standard is cost effective and BDS's finding that URMs are not being seismically upgraded quickly with a voluntary compliance system, set up the URM Seismic Retrofit Project ("Taskforce").

The initial step was to appoint a Retrofit Standards Committee to determine what upgrades should be made to what URM buildings in what timeframes. After deliberation, the Standards Committee recommended the City modify Title 24.85 Seismic Design Standards for Existing Buildings, to mandate some level of seismic upgrade for all URMs, except one and two family dwellings, with the degree of upgrade depending on occupancy load, the use or function of the building, building height and size. (Notable in their absence from the matrix were soil stability and/or liquefaction risk.) The Committee also recommended closing loopholes in Title 24.85, including that which allows owners to avoid parapet wall bracing by replacing a roof incrementally over more than five years. As modified, bracing would be required if a roof is replaced within 15 years.

¹¹ This conclusion was corroborated by a 2015 BDS pilot study of 147 presumed URM buildings. In three areas of the City (E. Burnside, S.E. Foster Road and Chinatown) the study found that of 147 buildings, 13 had been demolished and 13 had received some upgrading, but only 4 had received a full upgrade (at best an 18 percent compliance rate).

¹² Section 8875 et seq. of California's Government Code (CA, 1986) required local governments to inventory URMs, establish a loss reduction program to their own specifications and report progress to the State.

¹³ "Status of URM Building Law," 2003 Report to the Legislature of the Seismic Safety Commission at page 8. Note that cities with voluntary programs without any incentives had only a 12 percent compliance rate.

The Standards Committee divided commercial URM buildings into five classes.¹⁴ Private owners will typically find their buildings falling into Classes 3, 4 and 5.

- Class 3, taller (4 or more stories) or high occupancy (300 or more) structures or large apartments (100 or more units) (estimate 188 buildings) would be retrofitted to Life/Safety standards.
- Class 4, lower buildings (1-3 stories) with fewer (10-300) occupants (estimate 736 to 800 buildings of which 650 would require upgrading) would be retrofitted either to Life/ Safety or less stringent “Bolts Plus” standards.¹⁵
- Class 5, one or two stories, low risk occupancy (usually 10 or fewer) (estimate 700 buildings) are given ten years to brace parapets and if needed to attach exterior and bearing walls to floors and roof. Wall bracing will only be required if the building is deemed a collapse risk.

Exemptions. If a building is of masonry construction but had significant¹⁶ reinforcement throughout dating from its construction, it is not a URM and as a result would not be subject to the City’s proposed mandatory seismic upgrade requirements. Also, previously retrofitted URM buildings would be excluded from the new mandatory upgrade requirements (“Grandfathered”).¹⁷

What is A Life/Safety Retrofit? A Life/Safety retrofit is designed to ensure that building occupants survive a quake and can exit the building.¹⁸

¹⁴ Class 1 consists of hospitals and emergency facilities (estimate 10 buildings). These need to be upgraded so they will be ready for “Immediate Occupancy” after a quake. Class 2, schools and public assembly facilities (estimated to be more than 40 buildings). These need to be upgraded beyond Life/ Safety, to the “Damage Control Standard.”

¹⁵ “Bolts Plus” is a standard developed in San Francisco that allows the owner to forego strengthening of exterior walls as required to achieve Life/Safety because the building has characteristics generally shown to provide improved seismic performance and increased safety from collapse, specifically if the height to thickness ratio of the walls is sufficient and the building qualifies as “rugged.”

¹⁶ *Albeit* less than would be required in a new building by current Code.

¹⁷ The Grandfathered buildings: (a) Buildings in URM Classes 3, 4 and 5 that have undergone a “full seismic upgrade to ASCE 31 or 41 (or equivalent) standards”; (b) Buildings that have been fully upgraded to Seismic Zone 3 standards under the Oregon Structural Specialty Code; and (c) Buildings with a currently approved Phased Seismic Agreement with the City for a full seismic upgrade as long as the Building remains in the same or “lower” URM Class.

¹⁸ Life/Safety status often entails (a) strengthening the floor and roof diaphragms, as needed, (b) attaching most floor and roof joists to the exterior or load bearing walls, (c) tying back and bracing parapet walls, ornamentation, and reinforcing chimneys, (d) reinforcing bay windows, entrance canopies and skylights, (e) bringing masonry and mortar into a well maintained condition, using a flexible mortar, (f) securing the load bearing walls to the footings or foundation, and (g) reinforcing the exterior and load bearing walls to survive substantial lateral force.

Retrofit Timeline. For the typical three or four story URM apartment building, whether URM Class 3 or 4, the Retrofit Standards Committee proposes that the owner will be given three years from notification that the City classifies his/her building as a URM to complete an ASCE 41 seismic assessment, 10 years to brace parapets and tie the roof to the walls and 25 years or (if a hardship is demonstrated) 30 years to complete all mandatory upgrades.¹⁹ Note that as originally proposed the timeframes were significantly less favorable to owners.²⁰

A retrofit to Life/Safety standards is not a guaranty that building damage can be readily repaired, much less that the building can be immediately occupied after a large quake. If it is a high priority to an owner either to avoid major damage or to retain rental income, then the owner may determine to retrofit to (say) the Class 2 standard (“Damage Control”). Note, the City will encourage Class 3 and 4 buildings to upgrade beyond Life/Safety through incentives, but will not require such additional upgrades.

Proposed Financial Assistance. The Retrofit Standards Committee’s report was presented to the Support (or aka Incentives) Committee which commenced work in June 2015; the author served on that Committee. That Committee eventually had two charges, namely: (1) to determine the cost of a typical seismic upgrade and (2) to make recommendations as to appropriate financial assistance to owners to make an upgrade economically feasible.

As to the cost of a seismic retrofit, BDS had developed some retrofit costs, relying on an updating of the same 20 year old FEMA study used by Goettel.²¹ Surprisingly, the resultant numbers adjusted for inflation were fairly consistent with the hard costs of some current Portland seismic retrofit projects. Seismic upgrade hard costs (ignoring soft costs like tenant relocation, rent loss, debt service, etc.) to bring a typical URM to Life/Safety standards were estimated to be \$35 to \$40 a gross square

¹⁹ Deadlines as follows:

- Step 1. An ASCE 41 seismic assessment and geotechnical report, if in a high liquefaction zone, is to be completed within three years of notification from the City that it believes the owner’s building is a URM;
- Step 2. Parapet, cornice, and chimney bracing and wall to roof attachment are to be completed within 10 years of notification;
- Step 3. All bearing and exterior walls to floor joist attachments and wall strengthening within 20 years; and
- Step 4. Full retrofit within 25 years (or within 30 on a showing of hardship).

²⁰ The draft proposal of the City first proposed to the Retrofit Standards Committee would have imposed a higher standard of retrofitting, a much shorter timeframe for compliance (15 years) and no hardship extension. The final upgrade proposal from Retrofit Standards reduced the required standard of upgrading to Bolts Plus for some buildings with characteristics generally shown to provide improved seismic performance and increased safety from collapse, lengthened the time to come into compliance for most buildings to 25 years, proposed a five-year hardship extension and strongly recommended financial assistance to owners.

²¹ see FEMA Publication 156. Typical Costs for Seismic Rehabilitation of Existing Buildings, Second Edition (1994).

foot, or for a 40,000 square foot Class 3 building, \$1.4 million to \$1.6 million. The cost to bring a URM to the higher Damage Control standard were estimated to be \$44 to \$51 a square foot and the cost to bring a URM to the even higher “Immediate Occupancy” standard was \$63 to \$74. Total cost including soft costs is typically the hard cost plus \$30 a square foot.

Regarding financial assistance to owners, the committee recommended various proposals, including a state tax credit for a percentage of seismic expenditures, a property tax abatement or assessment freeze, a grant to cover initial expenses, possible low interest loans and allowing owners of non-historic buildings to sell their excess FAR.²² The City, in the 2015 Legislature, did manage to get SB 85 passed, allowing local jurisdictions to use the proceeds of general revenue bonds to make seismic retrofit loans. The Committee spent time discussing both affordable housing and historic properties. The tax credit and property tax freeze do not help affordable housing as typically the developer is a non-profit. Historic properties already have access to the federal historic tax credit and a property tax assessment freeze.

WHAT LIES AHEAD?

In early 2016, the work of the Standards and Support Committees was given to the Seismic Policy Committee to consider and balance all these issues and develop a final set of recommendations to City Council by early summer 2016. Council intends to adopt a final package of regulatory changes for URM over the summer.

So what could all this mean to a URM building owner? Prospective owner? Lender? or Insurer?

Effect on Individual Building Values. If and when the City mandates URM retrofitting, lenders, buyers and insurers of apartments and commercial buildings will

²² A grant program to pay some of the cost of a seismic retrofit, such as the cost of an ASCE 41 seismic analysis and upgrade plan; a low interest loan program possibly through private lenders and/or SBA utilizing revenue bond funds, such loans to supplement private loans so as to achieve a low, blended rate construction/mini-perm loan; a fund to provide credit enhancement for privately financed retrofits; a fund to be used to buy-down the interest rate on seismic retrofit loans; a permit fee reduction on seismic work; a broader FAR transfer program, expanded so any URM building, not just an historic building, could sell its excess FAR; a broader “no piggy backing” stricture aimed in particular to prevent Water Bureau impositions at the time of a seismic permit application; a 25 percent state seismic upgrade tax credit, allowing the owner a saving of Oregon income taxes equal to one quarter of seismic upgrade expenditures once the work is completed (similar to bill SB 565 introduced by Restore Oregon in the 2015 session); a property tax abatement, once a seismic upgrade has been completed, running for (say) 10 years such that the assessed value of the property cannot increase; a LEED-like rating system showcasing completion of seismic upgrades, either the new program administered by the US Resiliency Council or a similar one sponsored by the City; an incentive to owners who comply ahead of time (early adopt); and a BDS fast track for seismic permits and an ombudsman or concierge to assist in the approval process, and post disaster expedited permit issuance to support recovery, waiver of non-conforming use limitations on rebuilding, etc.

likely want to know the seismic condition of any Portland URM buildings with which they are dealing. This, in turn, will create an incentive for URM owners to have a structural engineer prepare an ASCE 41-13 seismic assessment of their buildings.

If the ASCE 41 indicates a need for major upgrades, one might assume that, as with hazards disclosed by an environmental Phase One, the owner may be asked to commit to perform the prescribed seismic upgrading work prior to a purchase or loan closing or at least obtain bids for such work and potentially escrow funds to pay for it.

Unless or until cured, identified seismic deficiencies may arguably reduce the building's value. For instance, assume a 4-story, 48 unit URM apartment building of 40,000 square feet, with a seismic retrofit cost of \$35 a gross square foot, or \$1.4 million. One could argue that the building's value would be reduced by a 50 to 90 percent of said cost until the retrofit was substantially completed.²³

Financial Impact on City's Housing Stock. Of the some 1,800 URM in Portland, by the Author's count about 200 of these are multistory apartment buildings. There are about another 95 historic apartments which are not URM, as they have some seismic reinforcing, but less than needed to meet the Life/Safety standard, seismic reinforcing. Together, these nearly 300 apartment buildings, totaling approximately 6.0 million square feet, are worth something like \$650 million.²⁴

Of course some URM buildings will end up being demolished, but even 200 apartment buildings averaging 20,500 square feet each would cost at a minimum \$103 million to upgrade to a Bolts Plus standard (\$25 a square foot) and \$185 million to upgrade to a Life/Safety standard (\$45 a square foot) all in 2016 Dollars. That is a lot of money, but the alternative of losing 300 apartment buildings valued at \$650 million and averaging 30 units each (9,000 units), as well as the cultural impact of their loss, would be devastating to the housing inventory and aesthetics of the City, costing upwards of \$1 Billion to replace the units alone, ignoring the aesthetic loss, the deaths and injuries and the loss of productivity.

CONCLUSION

Obviously it is essential that any mandatory URM retrofit program adopted by the City be flexible in its impositions on URM owners and include substantial financial help to the owners so the Payback is positive. Still, given the credible and peer-reviewed science indicating an impending "Big One," it is likely that an owner of a Class 3 or 4 URM building not situated on rock or firm soil will eventually have to do one of the following: (1) seismically upgrade; (2) sell to or joint venture with

²³ Why not 100 percent of the cost? Because some buyers will not take the earthquake threat seriously.

²⁴ According to the Multnomah County Assessor they were worth \$579.1 million in 2010 Dollars (or \$96.50 per square foot). So assuming 3 percent appreciation annually they are worth something like \$651.8 million in 2015 Dollars (or \$108.60 per square foot).

someone who can afford to and will seismically upgrade; or (3) demolish the building.

Lenders and Insurers. Lenders and insurance companies, especially given the wide dissemination among opinion leaders of The New Yorker Magazine article by Kathryn Schulz entitled “The Really Big One,”²⁵ may, absent seismic upgrading, in the future become more hesitant respectively to loan on URM buildings or to insure them against earthquakes.

The lenders and insurers on URM buildings may in future want to see an ASCE 41 report on each. If a lender determines to make a loan on a URM, he/she may modify the loan terms to lower their risk and increase the return.²⁶ Insurers will have similar goals and adjustments.²⁷

URM owners who want to weigh in and express their views should follow City Council agendas and the project website:
<http://www.portlandoregon.gov/pbem/66418>. ■

²⁵ June 28, 2015.

²⁶ Lower the allowed loan to value ratio and insist upon greater debt coverage, a shorter amortization and term, and a higher interest rate. Also lenders making loans collateralized by URM apartments will likely want the owners; (b) to carry earthquake insurance; (c) to complete a seismic upgrade; and/or (d) to be personally liable on the loan and have a net worth well in excess of the loan.

²⁷ Insurance companies will likely (a) require an ASCE 41 seismic analysis on any URM buildings to be insured, (b) reduce the amount and scope of earthquake coverage on Portland URM, (c) increase the premiums, (d) increase the deductible, and potentially (e) require the seismic upgrades to be commenced.

APPENDIX F - USEFUL REPORTS

Portland State University Center for Real Estate. "Multifamily Market Analysis," February 2017.

MULTIFAMILY MARKET ANALYSIS

CARLO CASTORO

Portland State University

Last year was a year of extremes for the Portland metro area. New sales records were set with \$1.5 billion in the fourth quarter and a total slightly over \$3 billion for 2016 year end. Annual effective rent growth for 2016 was less than one third of 2015 falling from 11.4 percent down to 3.5 percent on average. Meanwhile, the Bureau of Labor and Statistics reports that unemployment hit 4.0 percent for the first time in the past 16 years.

As you'll see in this report, full employment sounds great but has undeniable effects on rent growth which is a cornerstone for developers when determining their plans moving forward. Combine this with new inclusionary zoning legislation and rising interest rates and the outlook points to moderation on many levels.

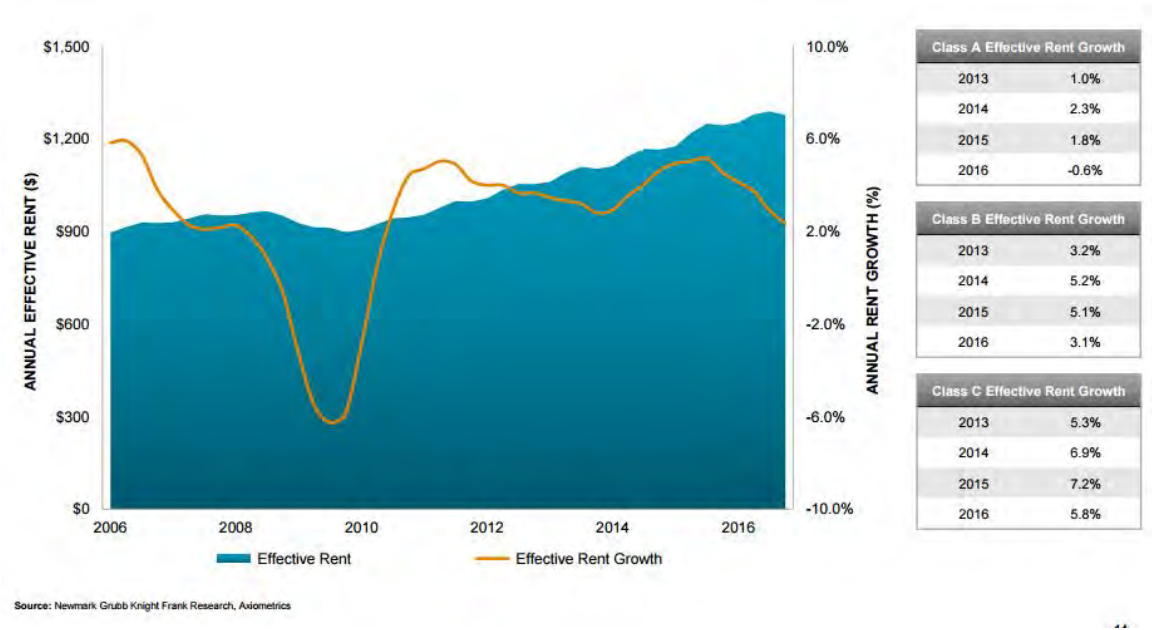
■ **Carlo Castoro** is a current Master of Real Estate Development candidate through a joint program of Portland State University's School of Business Administration and School of Urban Studies and Planning. He is a full time Assistant Manager for Gerding Edlen and part time residential broker with Cascade Sotheby's International Realty. He is the 2017 Multi-Family Graduate Student Fellow at PSU's Center for Real Estate. Any errors or omissions are the author's responsibility. Any opinions expressed are those of the author solely and do not represent the opinions of any other person or entity.



According to Axiometrics, fourth quarter 2016 national rent growth was less than half of the same time last year falling from 4.6 percent to 2.1 percent. This brings the rate below the long-term average of 2.2 percent for the first time since 2010.

Unemployment and job growth indicators continue to improve nationally. According to the U.S. Bureau of Labor Statistics, seasonally adjusted unemployment fell from 4.9 percent in January to 4.7 percent by the end of 2016. The U.S. economy added, and 124,000 jobs in October, 164,000 jobs in November, and 157,000 jobs in December.

The mid-term outlook signals a regression to the mean in effective growth projections for apartment rents. National Class A effective rent growth has slowed the most, Class B shows above average growth, and Class C shows strong growth figures.



PORTLAND APARTMENT MARKET OVERVIEW

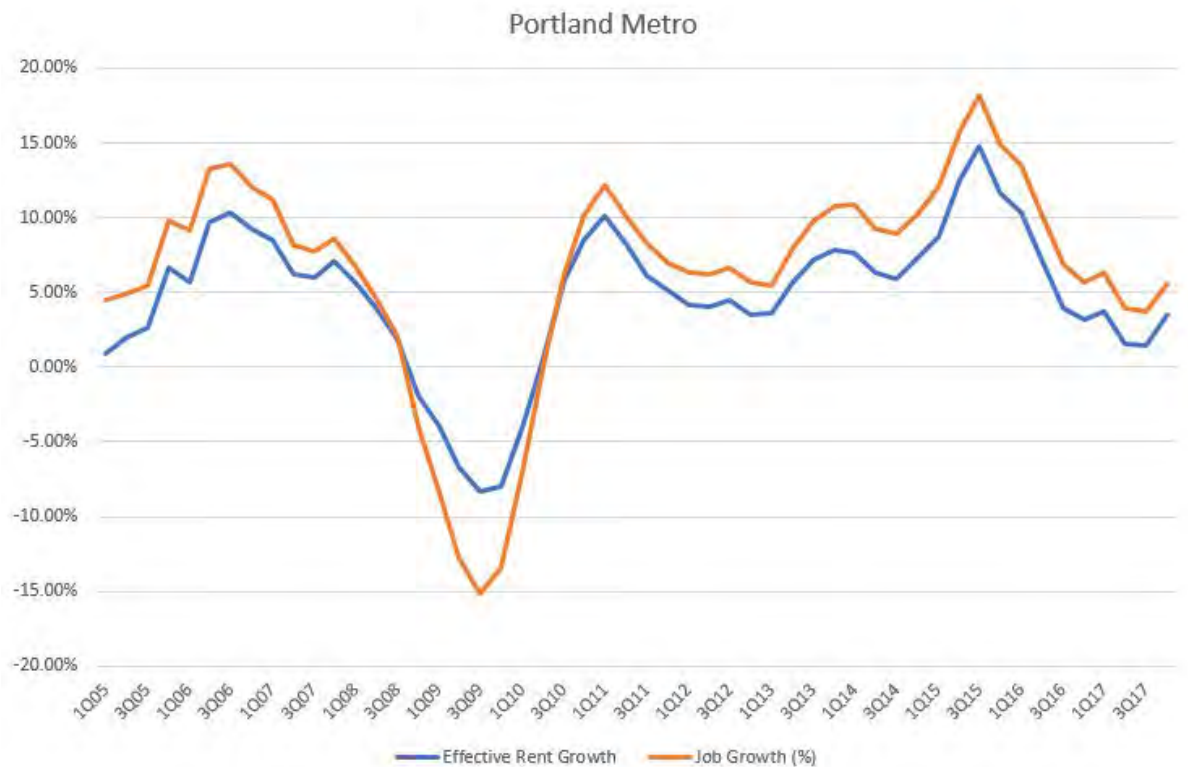
After a steady decline in rent growth since its nation leading peak of 14.78 percent in the third quarter of 2105, the Portland Metropolitan Statistical Area has slid down to 3.16 percent in fourth quarter of 2106. Based on the BLS statistics below, unemployment hit 4.0 percent for the first time in the past 16 years.



When looking for the culprit in declining effective growth rates, the finger is typically pointed at supply side issues which tend to be more visible to the public eye. However, when training your eye on the data, perhaps the strongest correlating fac-

tor to rent growth is the growth rate in jobs. Certainly, individual submarkets are affected by deliveries but entire MSA's tend to ebb and flow with job growth.

If Portland has reached full employment and effective rent growth is tied to job growth it stands to reason that effective rent growth will remain suppressed moving forward. As in migration continues to remain strong in Portland, the question lingers as to whether there will be sufficient jobs to greet newcomers upon arrival.



The decline in Portland effective rent growth rates is often discussed but the numbers show this effect is largely localized to Class A city core submarket. Portland suburbs specifically Gresham, Milwaukie, Vancouver, and Tigard/Oswego/Wilsonville had an outstanding fourth quarter and overall 2016. Costar forecasts this trend to significantly moderate in 2017 and beyond. Meanwhile, rent growth in the Northwest submarket dipped into negative territory due to the onslaught of deliveries in 2016.

Effective Rent Growth Ranking

Submarket	Rank	4Q16	LTA*	Forecast	
				2016	2017-2020
East Gresham	1	8.1%	3.7%	11.2%	3.8%
Milwaukie/Oregon	2	8.0%	3.4%	8.8%	3.3%
Vancouver	3	7.2%	3.2%	8.0%	3.7%
Tigard/Oswego/Wilsonville	4	5.5%	3.1%	8.2%	3.3%
Beaverton	5	2.8%	3.3%	7.0%	3.0%
Northeast	6	-0.5%	3.7%	2.0%	2.6%
Northwest	7	-1.6%	3.0%	-0.1%	2.9%
Market Average		4.2%	3.3%	6.4%	3.3%

*LTA - Long term average 1996 (or available) to current

Occupancy Ranking

Submarket	Rank	4Q16	LTA*	Forecast	
				2016	2017-2020
Vancouver	1	96.2%	95.1%	96.5%	95.2%
East Gresham	2	95.6%	96.4%	96.4%	95.2%
Milwaukie/Oregon	3	95.4%	94.0%	96.1%	96.0%
Tigard/Oswego/Wilsonville	4	95.1%	94.1%	95.7%	95.4%
Beaverton	5	94.5%	94.0%	95.5%	95.3%
Northeast	6	92.7%	95.4%	94.4%	95.6%
Northwest	7	92.7%	94.0%	93.6%	94.1%
Market Average		94.6%	94.7%	95.5%	95.3%

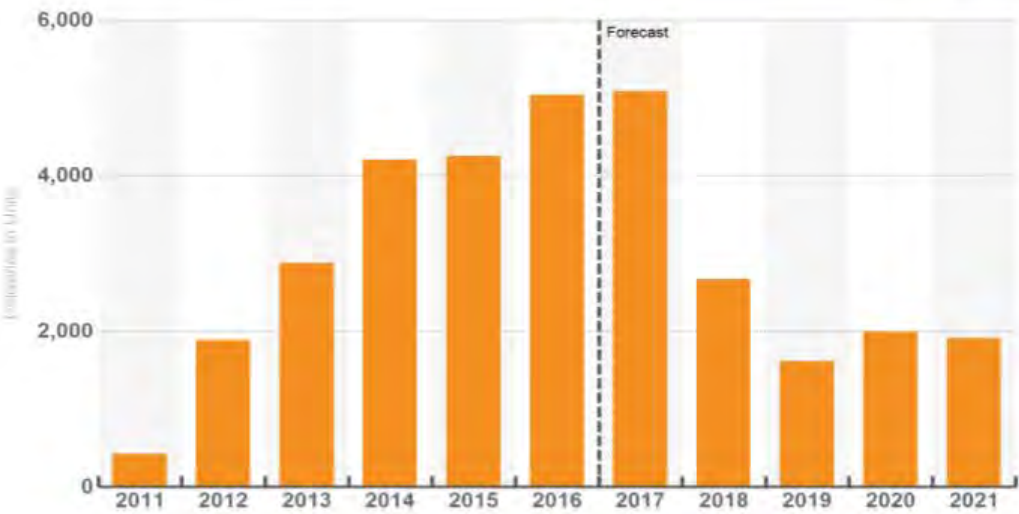
*LTA - Long term average 1996 (or available) to current

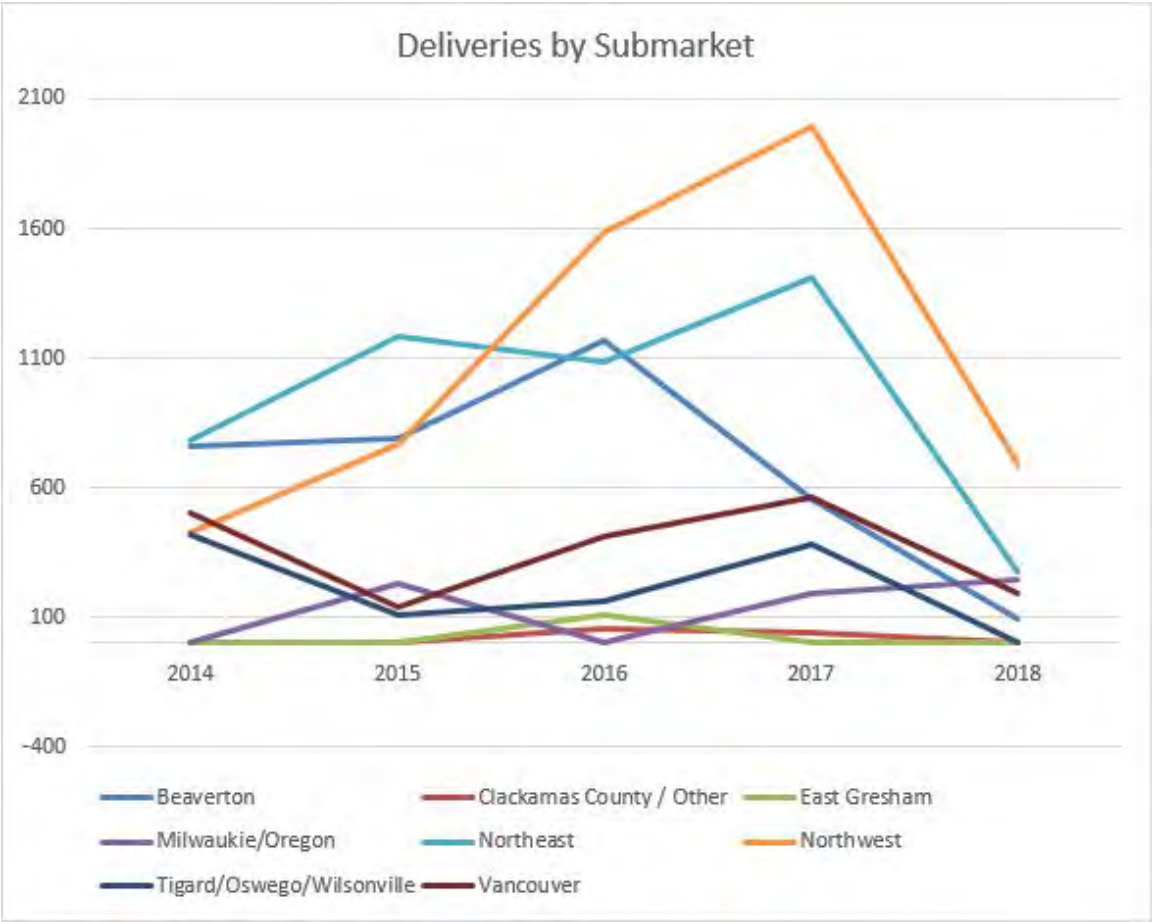
Overview

Portland OR Apartment

NET DELIVERIES

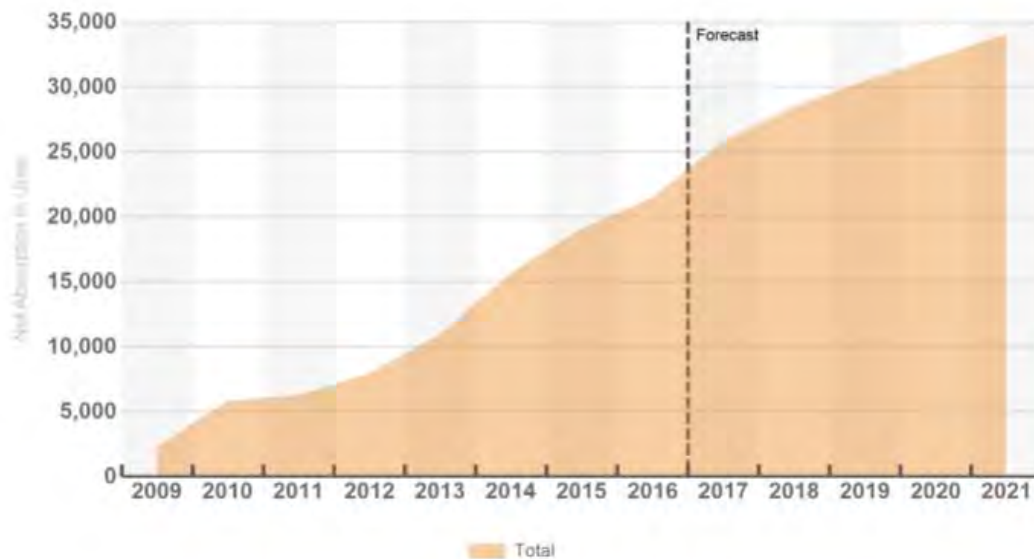
As of end 2016 Q4





CUMULATIVE NET ABSORPTION

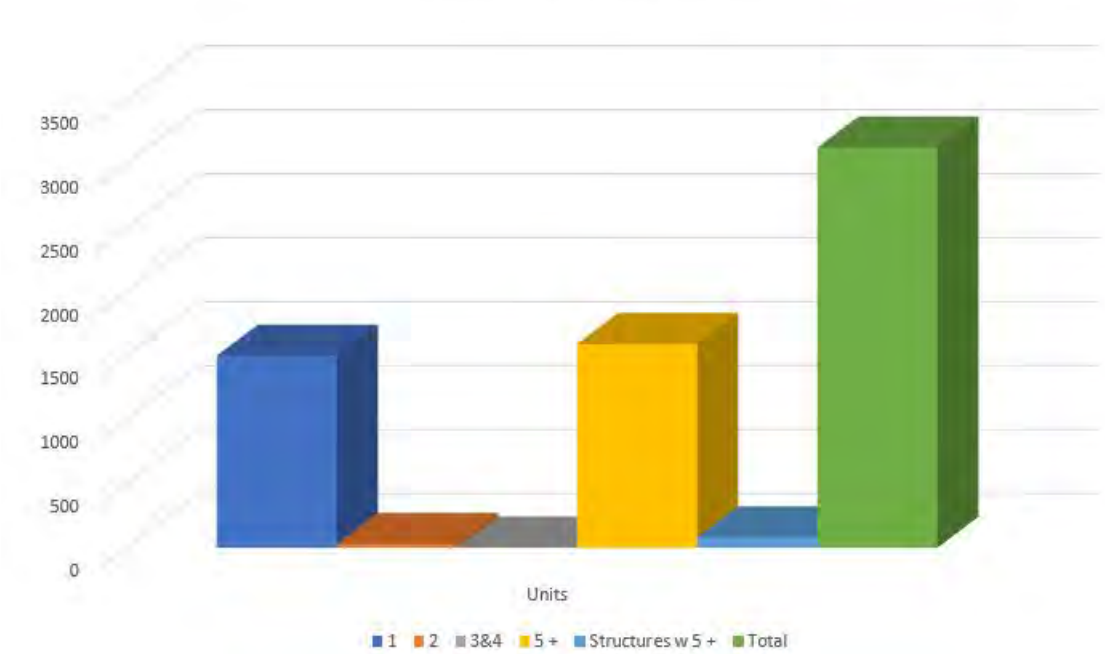
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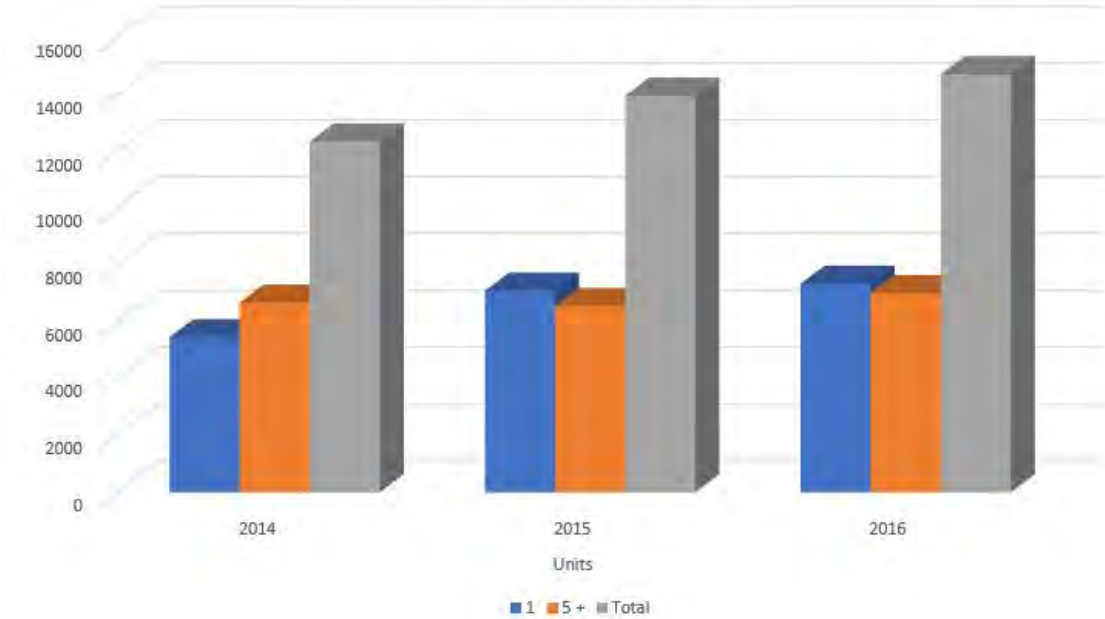
PERMITS & CONSTRUCTION

The following information pertains to building permit issuances for the fourth quarter of 2016 and year-to-date totals for projects with 1, 2, 3&4, 5+, and structures with 5+ units as tracked by the U.S. Census Bureau. Year-to-date totals show that the Portland-Vancouver-Hillsboro area issued 81 building permits for structures of five units or more, equaling to 1,594 units. This brings the 2016 annual multifamily unit total to 7,014 which is slightly less than the single family total of 7,344. Total permits have climbed steadily in the past 3 years, clocking in at 12,356 in 2014, 13,967 in 2015, and 14,723 in 2016.

Portland Metro Area Permits



Annual Portland Metro Permits



TRANSACTIONS

Listed below is a table of significant multifamily transactions, courtesy of Colliers International, that have occurred in the Portland MSA/4Q2016.

PORTLAND MULTIFAMILY MARKET							
SIGNIFICANT SALES							
PROPERTY	ADDRESS	SALE DATE	SALE PRICE	# UNITS	PRICE/UNIT	PRICE/SF	YEAR BUILT
LaSalle Apartments	15021 SW Millikan Way	11/10/2016	\$140,000,000	566	\$247,350	\$136.30	1997
The YARD	22 NE 2nd Ave	12/14/2016	\$126,848,480	284	\$446,650	\$551.52	2016
Eddylane Bridgeport	18049 SW Lower Boones Ferry Rd	11/18/2016	\$118,100,000	367	\$321,798	\$344.40	2014
Seven West at the Trails	14790 SW Scholls Ferry Rd	11/30/2016	\$96,000,000	423	\$226,950	\$276.47	1996
Alara Hedges Creek	8900-8975 SW Sweek Dr	12/1/2016	\$93,000,000	408	\$227,941	\$246.28	1998
The Terraces ¹	19000 NW Evergreen Pky	12/1/2016	\$78,340,000	373	\$210,026	\$207.63	1989
One Jefferson ²	1 Jefferson Pky	10/14/2016	\$78,000,000	348	\$224,138	\$214.38	1987
The Club ³	2323 NW 188th Ave	12/1/2016	\$72,980,000	352	\$207,329	\$221.55	1989
Domaine at Villebois	28900 SW Villebois Dr	10/27/2016	\$63,250,000	274	\$230,839	\$237.56	2008
Rowlock ³	6380 NE Cherry Dr	10/4/2016	\$57,844,293	255	\$226,840	\$179.54	2015
Sofi at Cedar Mill	11785 NW Timberview Ln	10/11/2016	\$55,000,000	238	\$231,092	\$121.43	2010
Vector Apartments ³	967 NE Orenco Station Loop	10/4/2016	\$52,173,283	230	\$226,840	\$248.44	2016
Walnut Grove Landing ⁴	4701 NE 72nd Ave	12/9/2016	\$49,671,233	296	\$167,808	\$163.66	1990
HUB 9 ³	980 NE Orenco Station Loop	10/4/2016	\$28,128,205	124	\$226,840	\$248.45	2015
Carriage House ⁴	4714 NE 72nd Ave	12/9/2016	\$26,849,315	160	\$167,808	\$165.21	1993
Carriage Park ⁴	5000 NE 72nd Ave	12/9/2016	\$21,479,452	128	\$167,808	\$169.08	1993

1 - 2 properties transacted as part of a \$1.8B multi-state Office, Industrial, and Multifamily portfolio from Alecta (Swedish pension fund) to Blackstone.

2 - The sale of 1 Jefferson was initially reported in Q3 and will not be double counted in sales volume total.

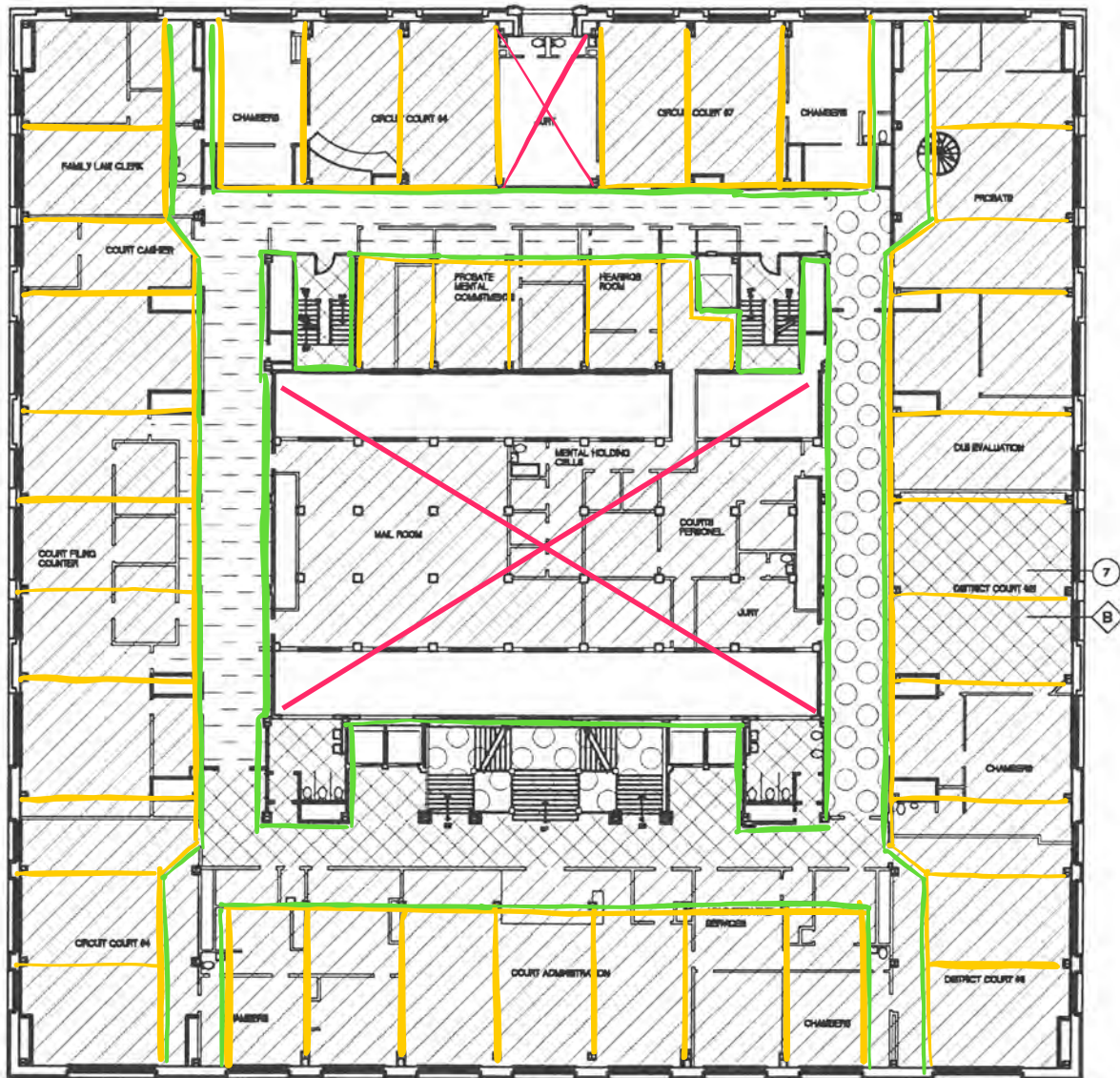
3 - 3 properties transacted as part of a \$317M 4-property portfolio from Holland Partner Residential to Blackstone, 4th property in Seattle.

4 - These comprise a 3-property \$98M Multifamily sale from Security Properties to Apartment Realty Advisors.

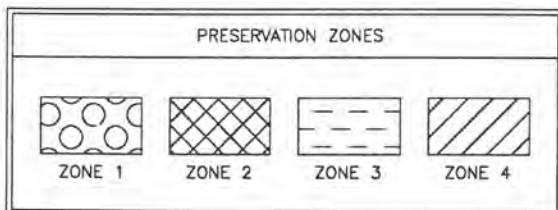
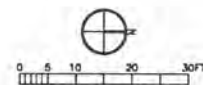
Here are additional transactional fundamentals from ABR Winkler Real Estate Services comparing year-end totals between 2015 and 2016.




	December 2016	December 2015
Median Price Per Sq Foot ▲	\$129.82	\$120.96
Median Cap Rate ▼	5.50%	5.60%
Dollar Volume ▲	\$2,792,208,889	\$2,071,999,063
Median Gross Rent Multiplier ▼	9.58	9.64
Median Price Per Unit ▲	\$112,250	\$106,667
Average Price ▲	\$9,972,175	\$7,453,234
Average No of Units ►	48	48

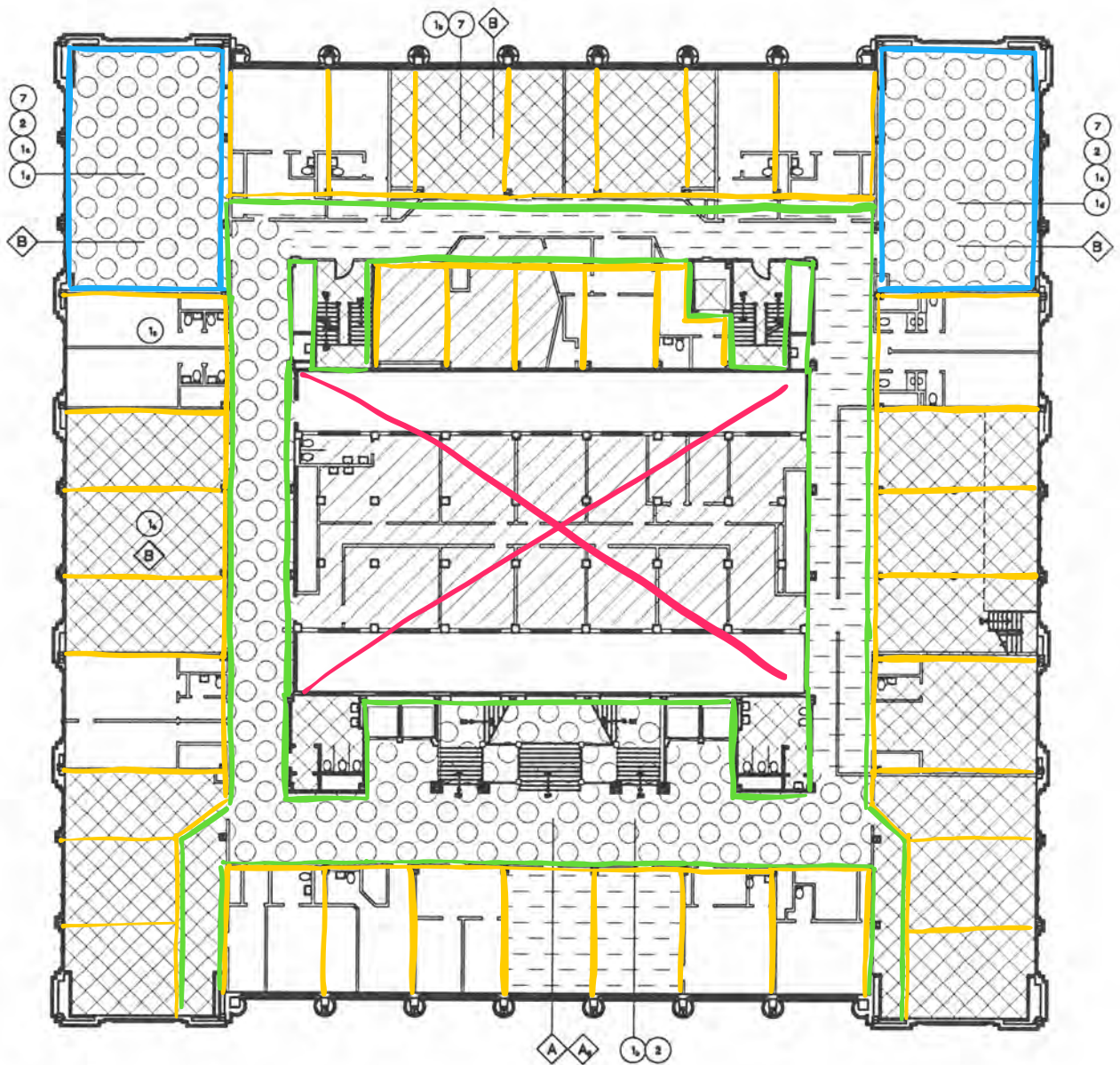
APPENDIX G - PROPOSED USE PLANS
Residential Use



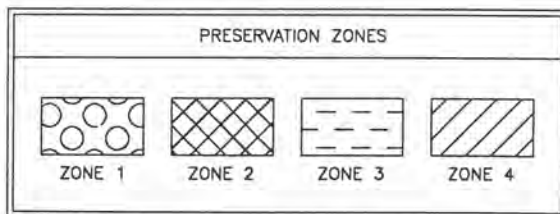
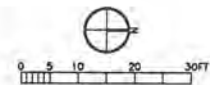
SECOND FLOOR PLAN



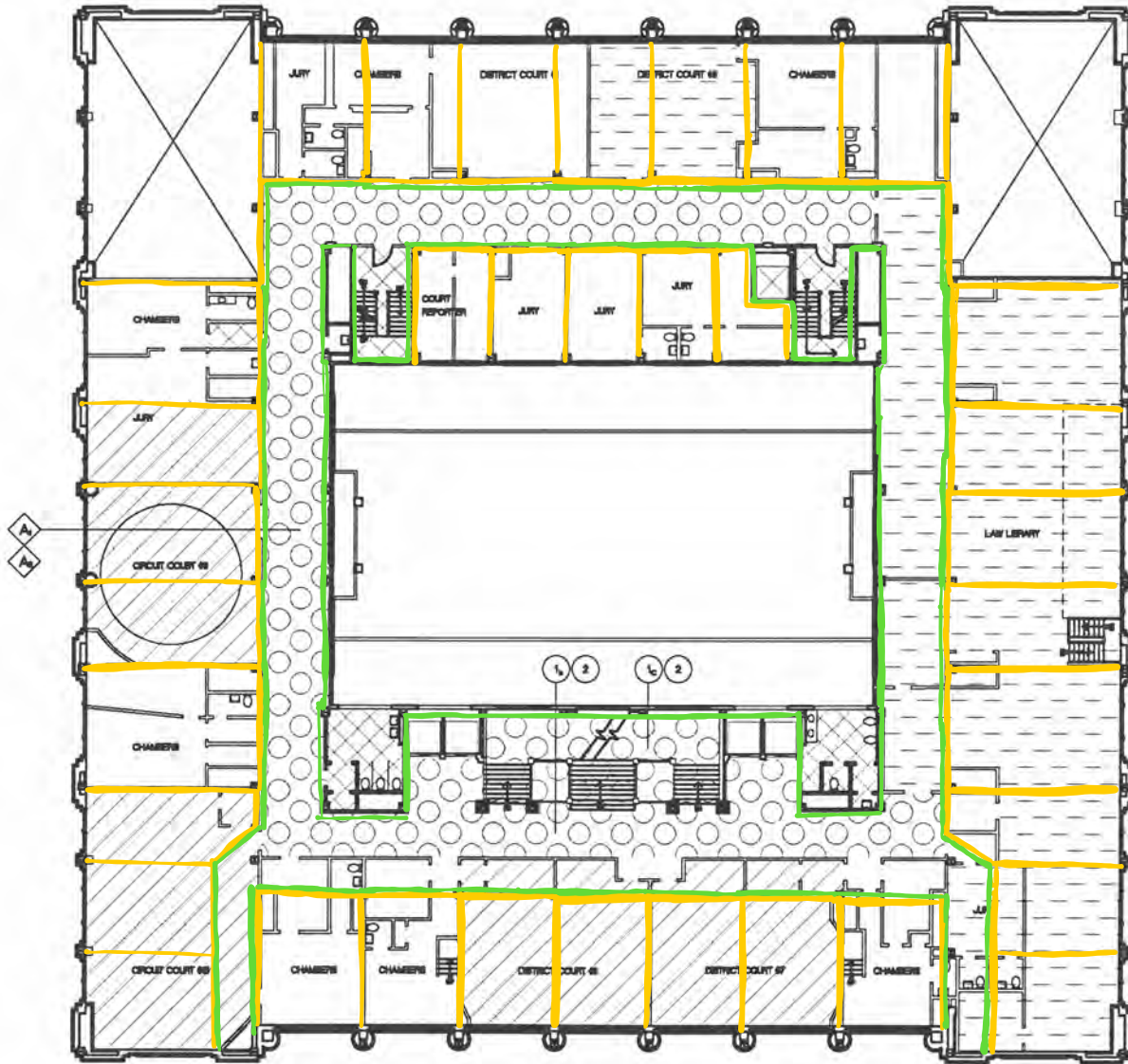
-  Portions that will be removed
-  Proposed residential units (40)
-  Circulation spaces



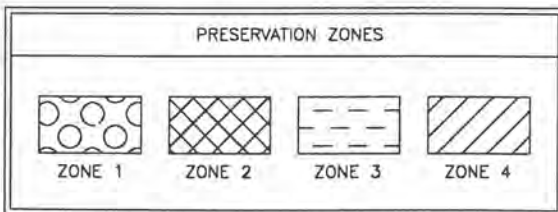
THIRD FLOOR PLAN





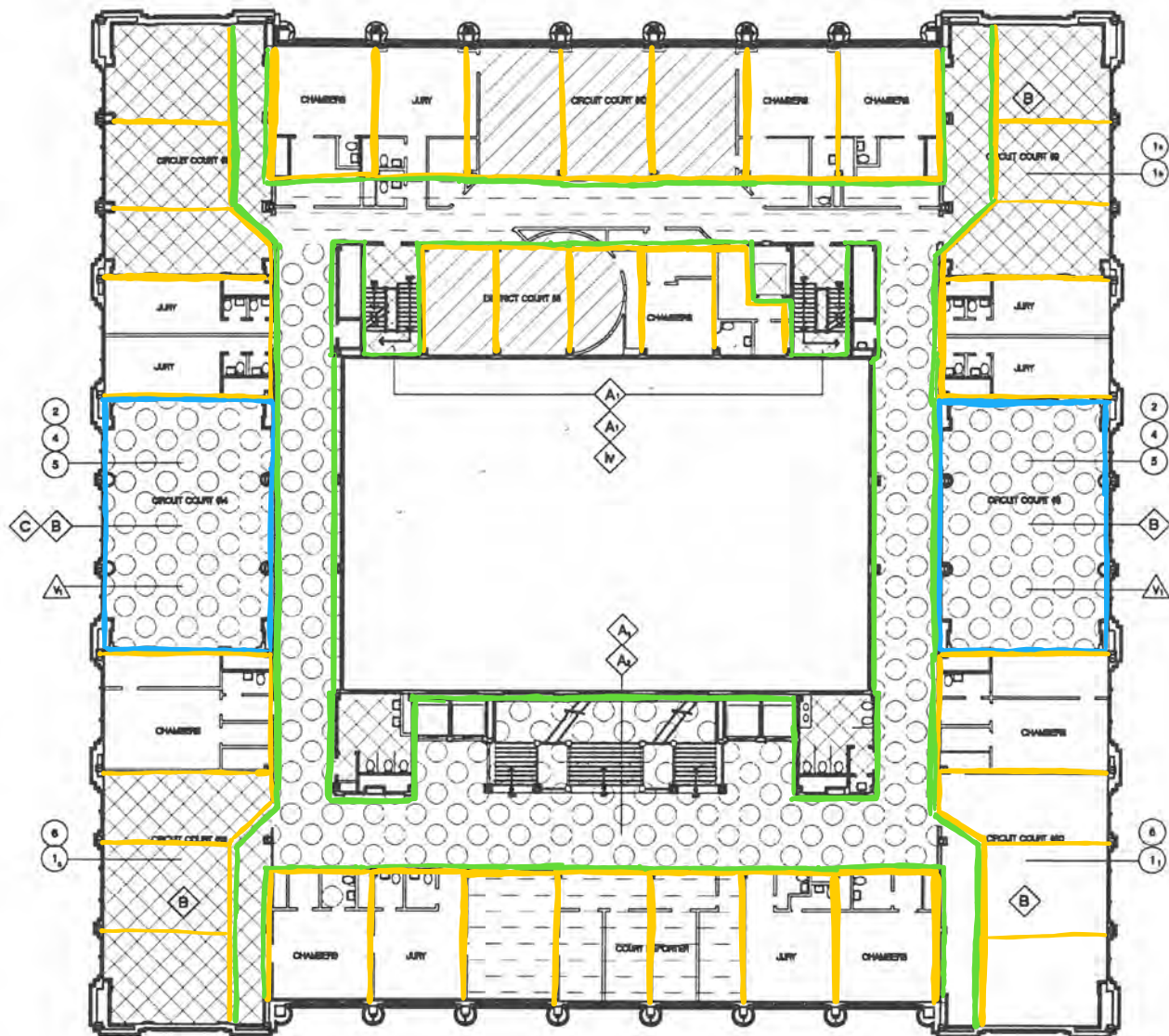
- Historic double-height spaces that will be retained
- Portions that will be removed
- Proposed residential units (35)
- Circulation spaces



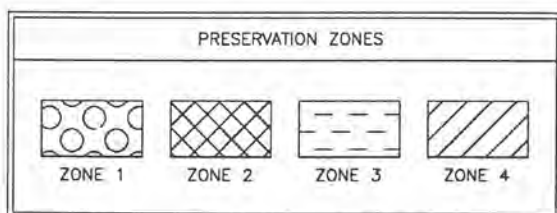
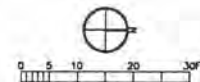
FOURTH FLOOR PLAN



-  Proposed residential units (35)
-  Circulation spaces



FIFTH FLOOR PLAN



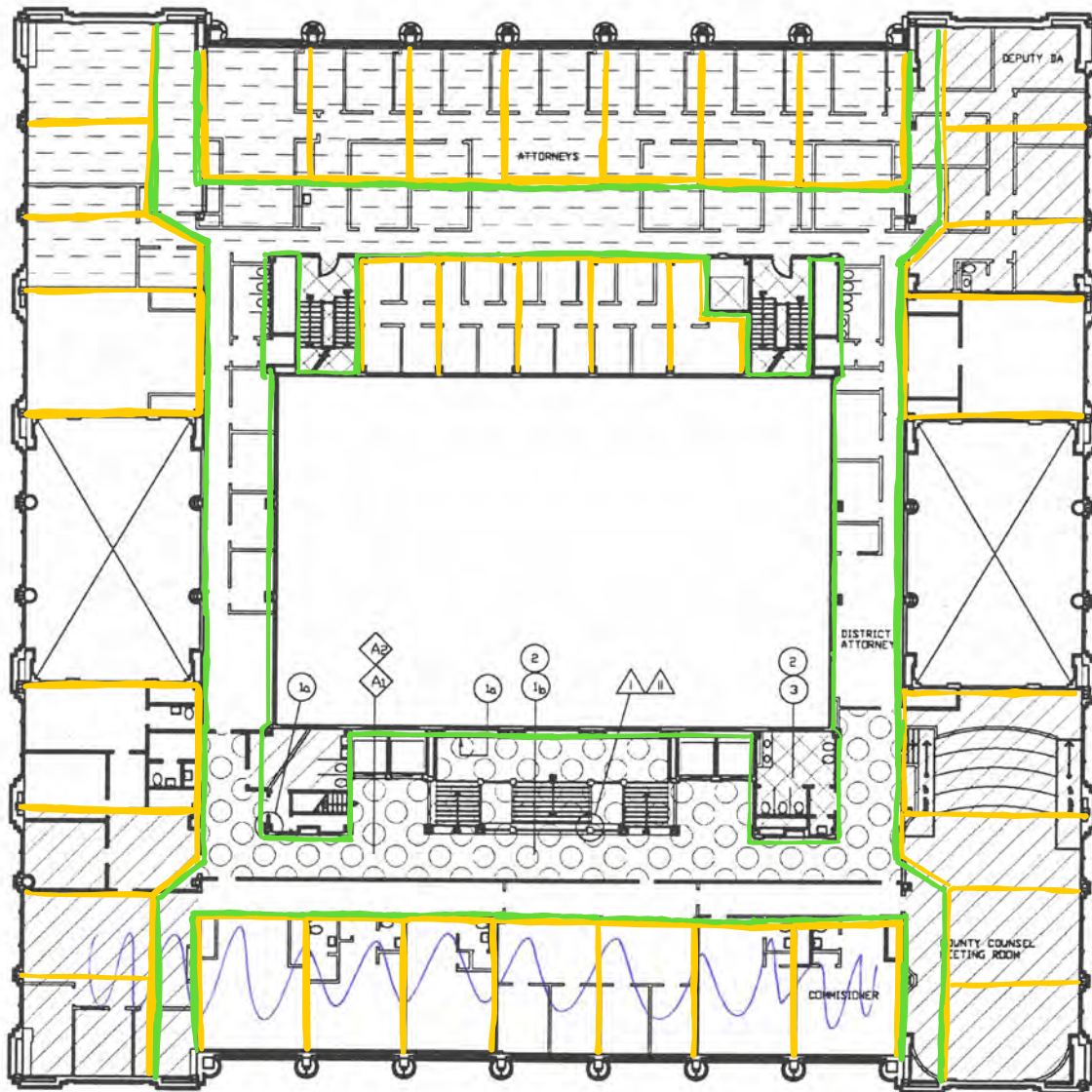
Historic double-height spaces that will be retained



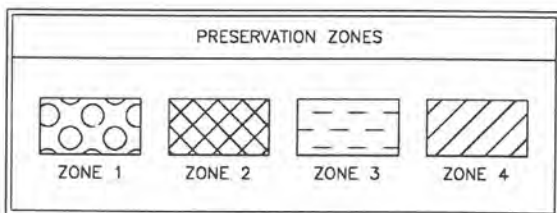
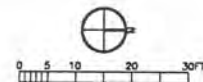
Proposed residential units (35)



Circulation spaces



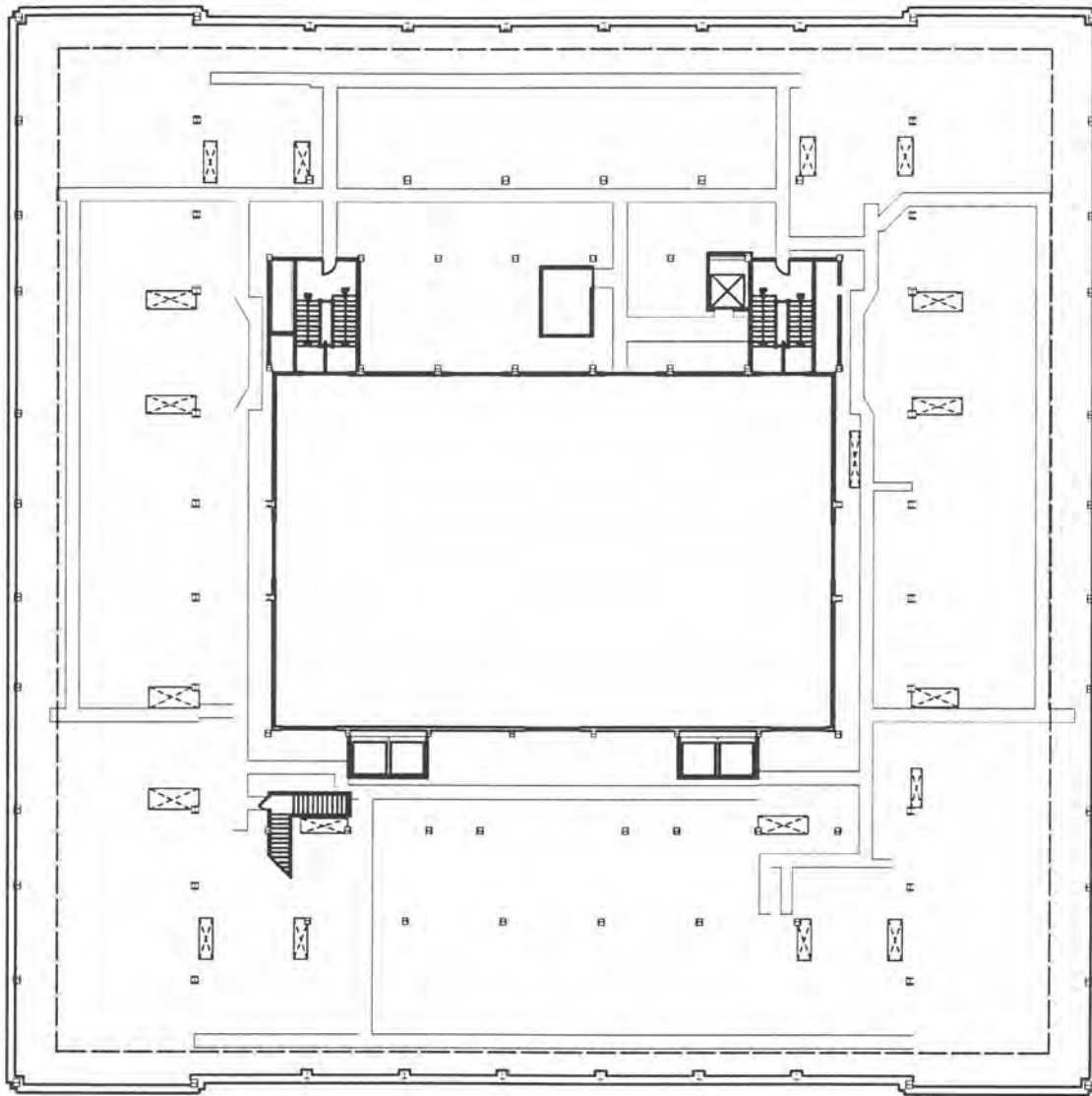
SIXTH FLOOR PLAN



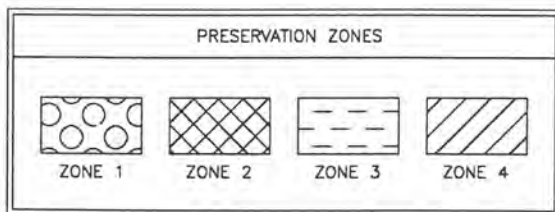
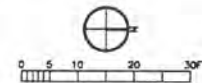
Proposed residential units (35)



Circulation spaces

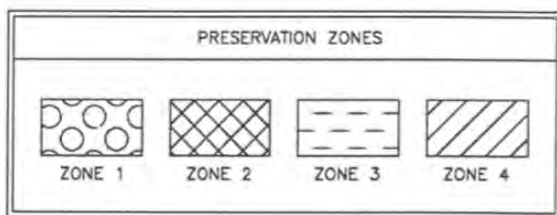
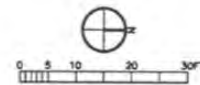





LOFT FLOOR PLAN (=6.5)

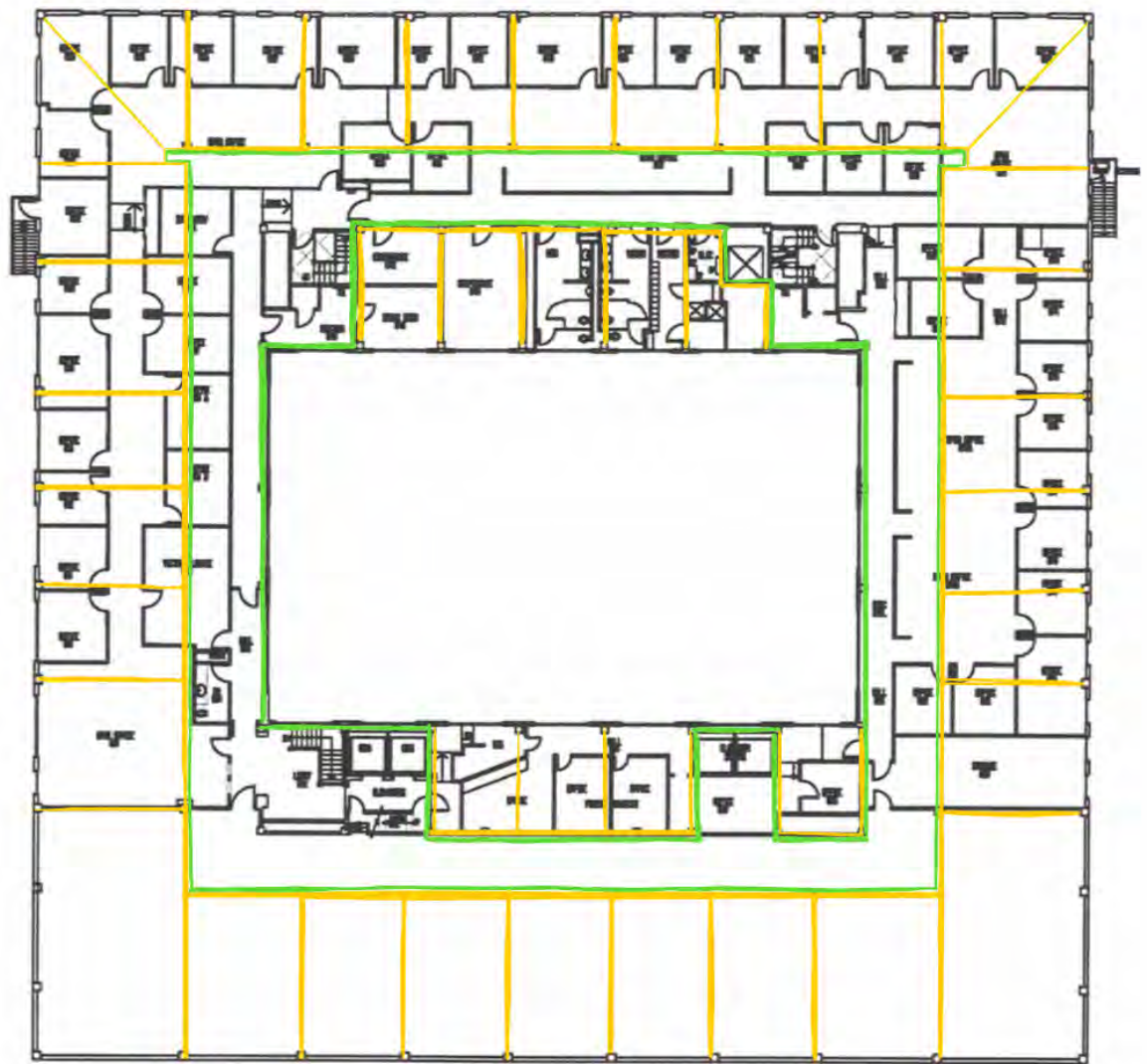




SEVENTH FLOOR PLAN

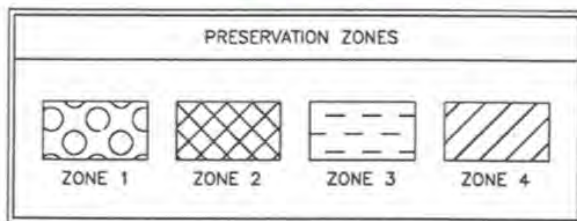
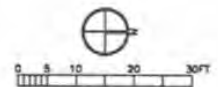


-  Historic jail and proposed museum
-  Proposed residential units (22)
-  Residential circulation spaces



41 apts

EIGHTH FLOOR PLAN

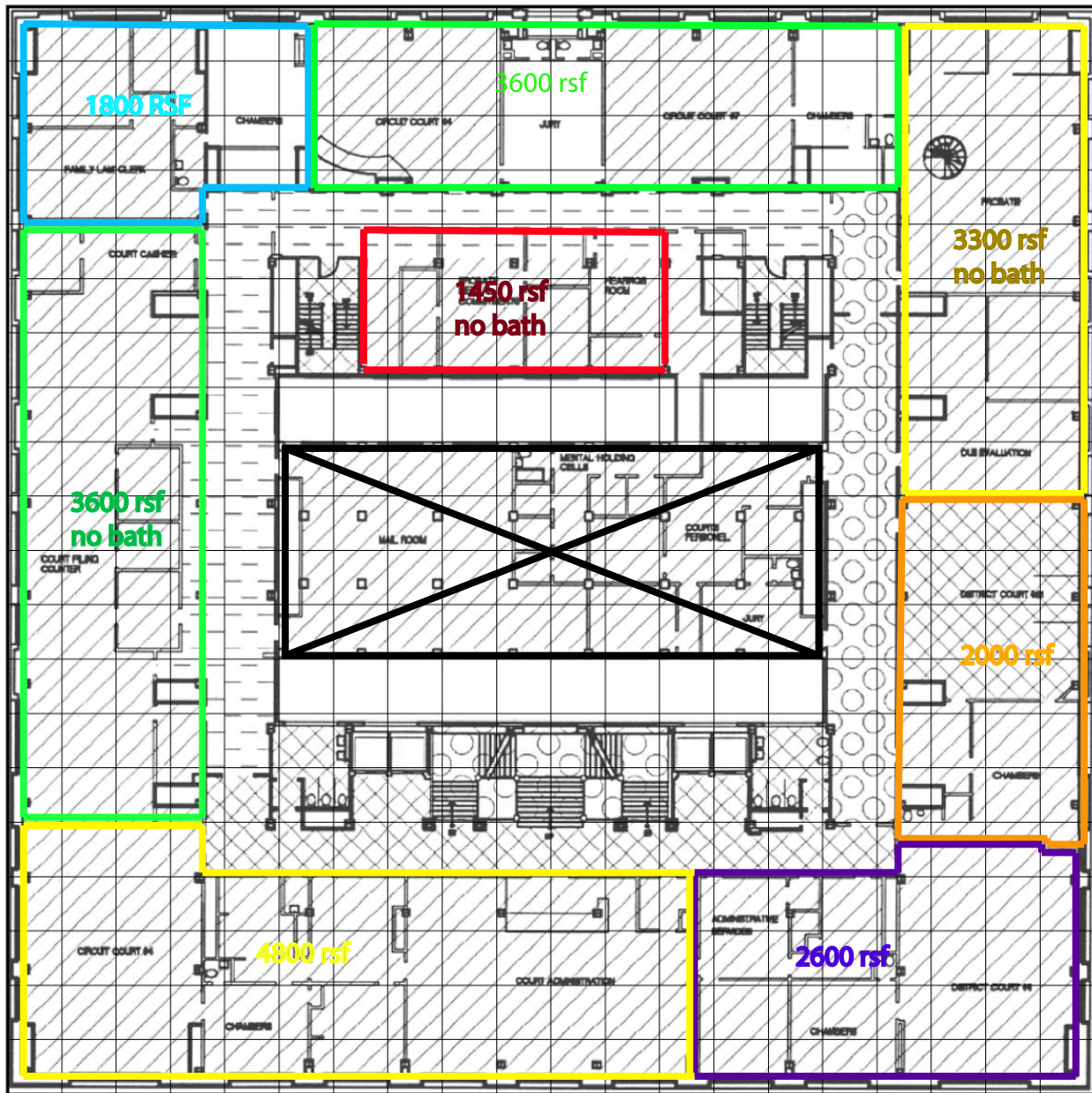


Proposed residential units (41)



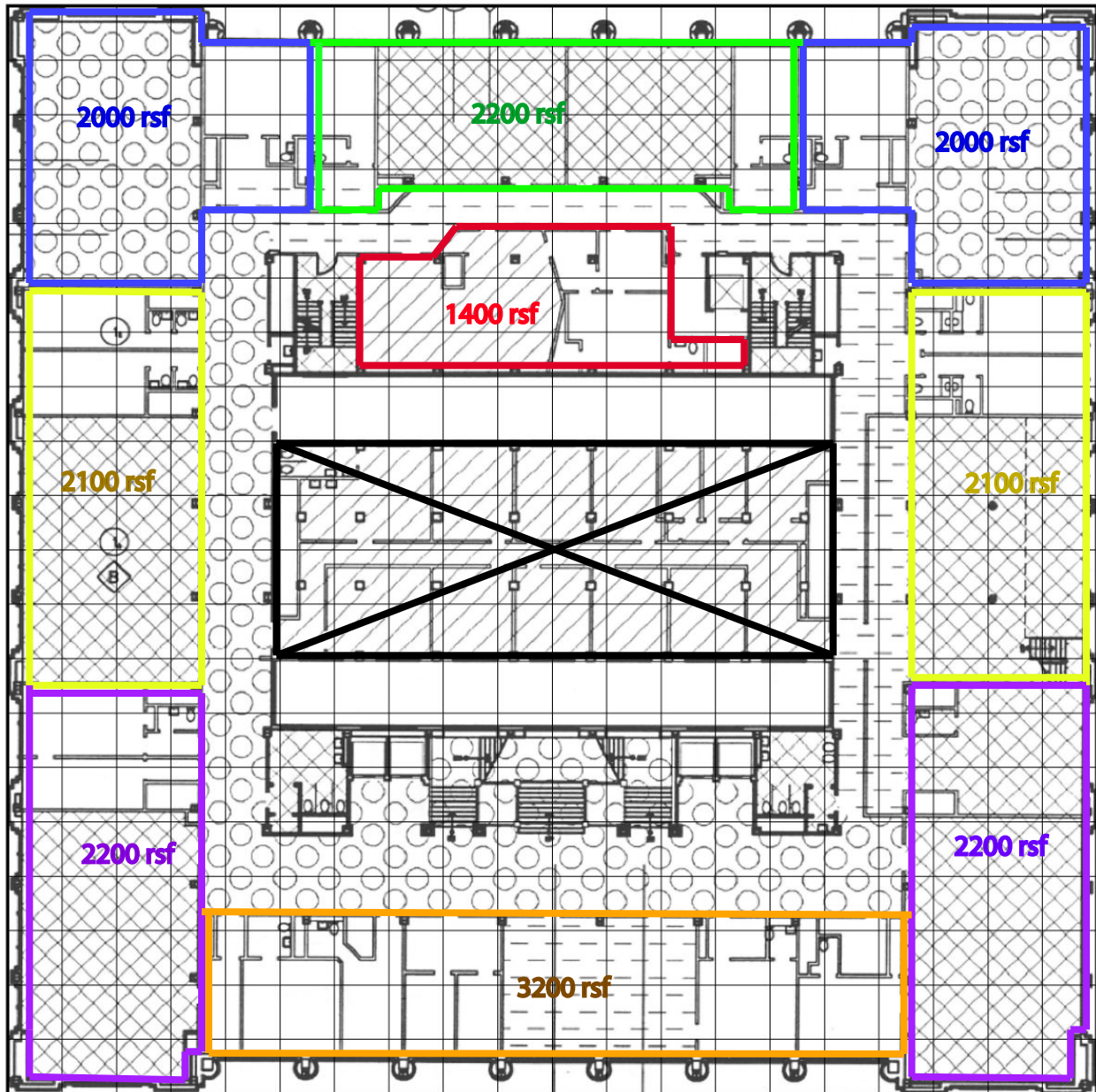
Circulation spaces

APPENDIX H - PROPOSED USE PLANS
Office Use



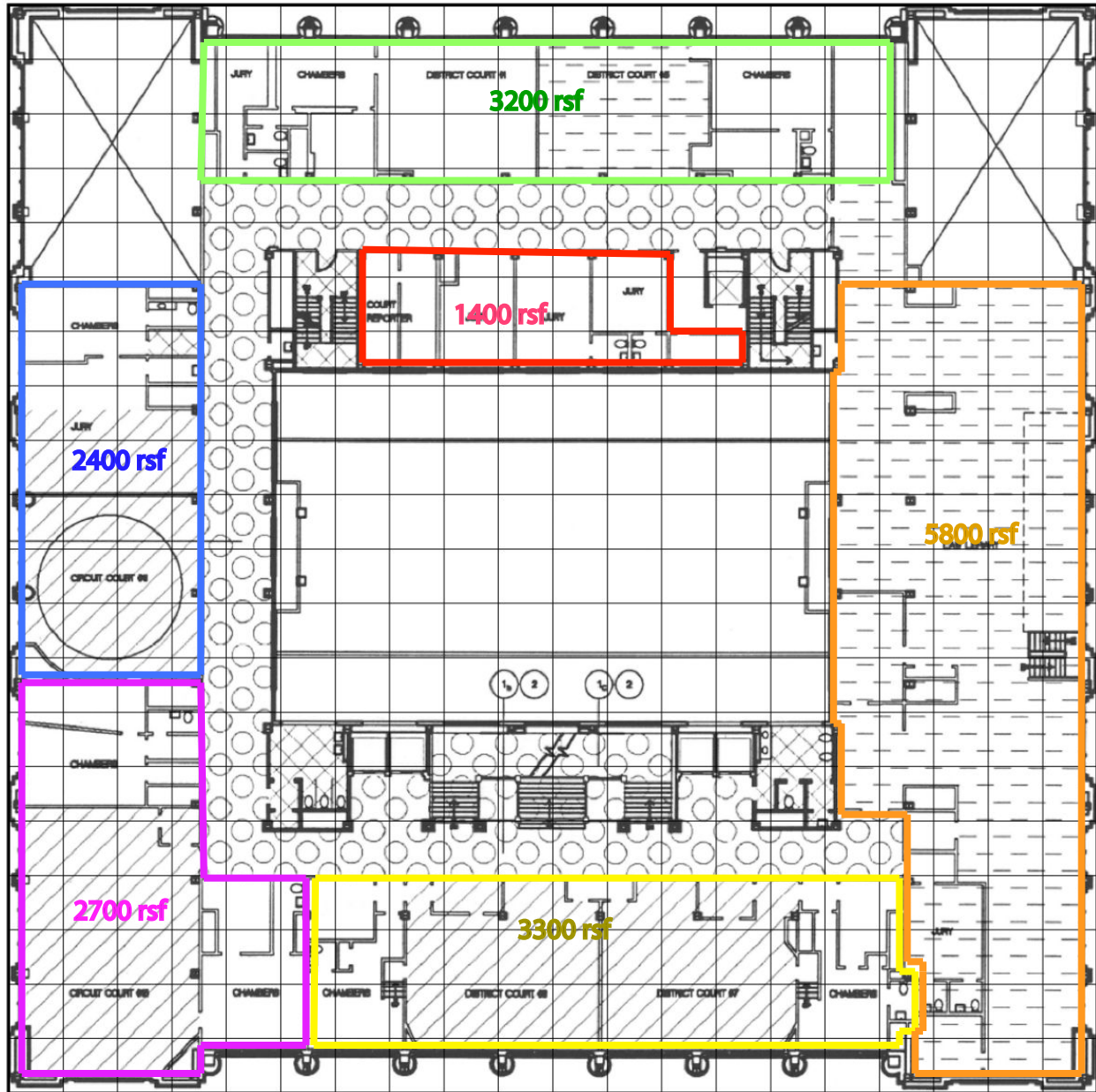
FLOOR 2

Program: 8 Large offices - total 23150 rsf
1450 rsf, 1800 rsf, 2000 rsf, 2600 rsf
3300 rsf, 3600 rsf, 3600 rsf, 4800 rsf
Public Restrooms: 2 (500 sf)
Circulation: 7200 sf (halls, stairs, elevators)



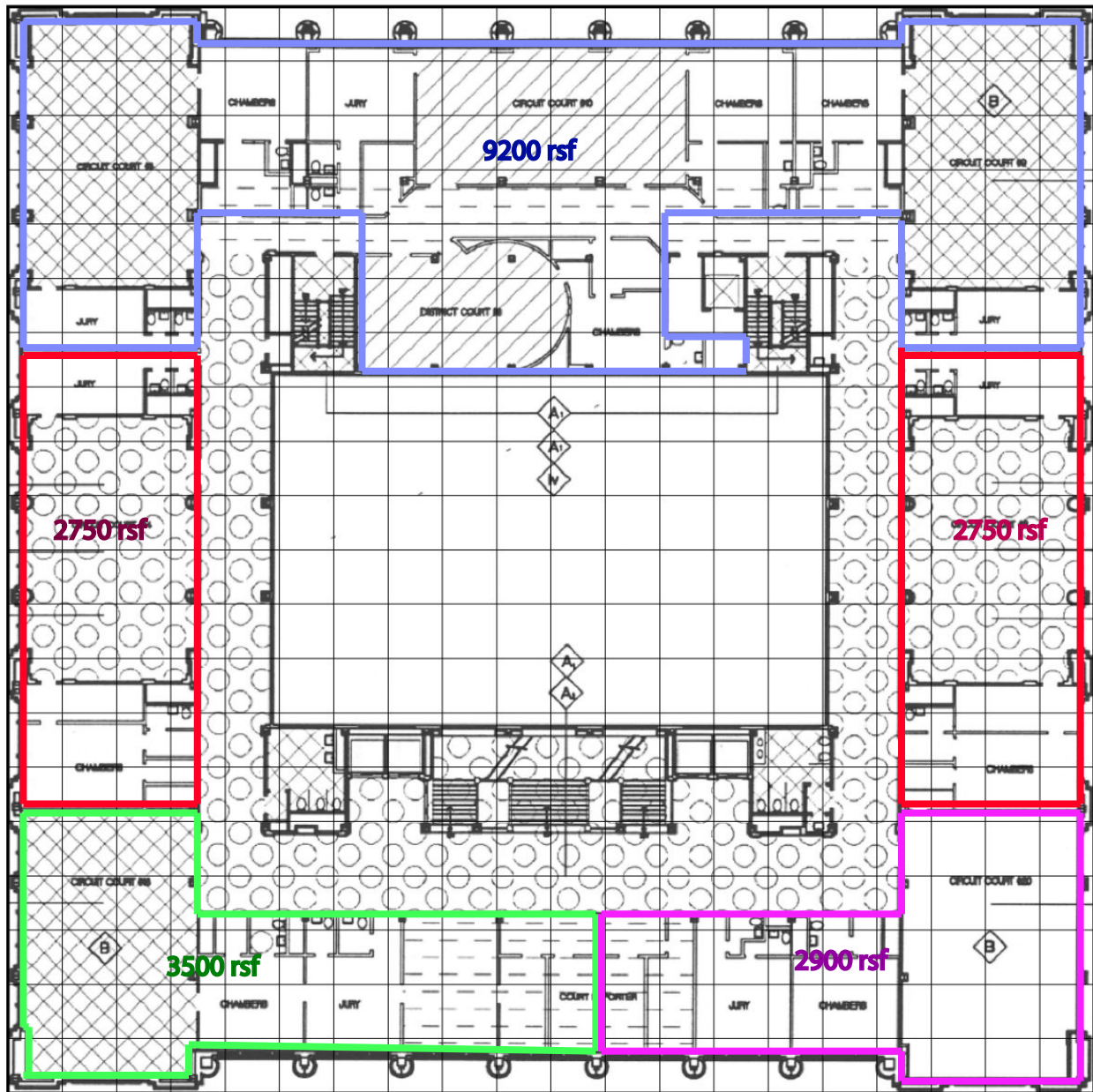
FLOOR 3

Program: 9 Large offices - total 19400 rsf
1400 rsf, 2000 rsf, 2000 rsf, 2100 rsf, 2100 rsf
2200 rsf, 2200 rsf, 2200 rsf, 3200 rsf
Public Restrooms: 2 (250 sf each)
Circulation: 8200 sf (halls, stairs, elevators)



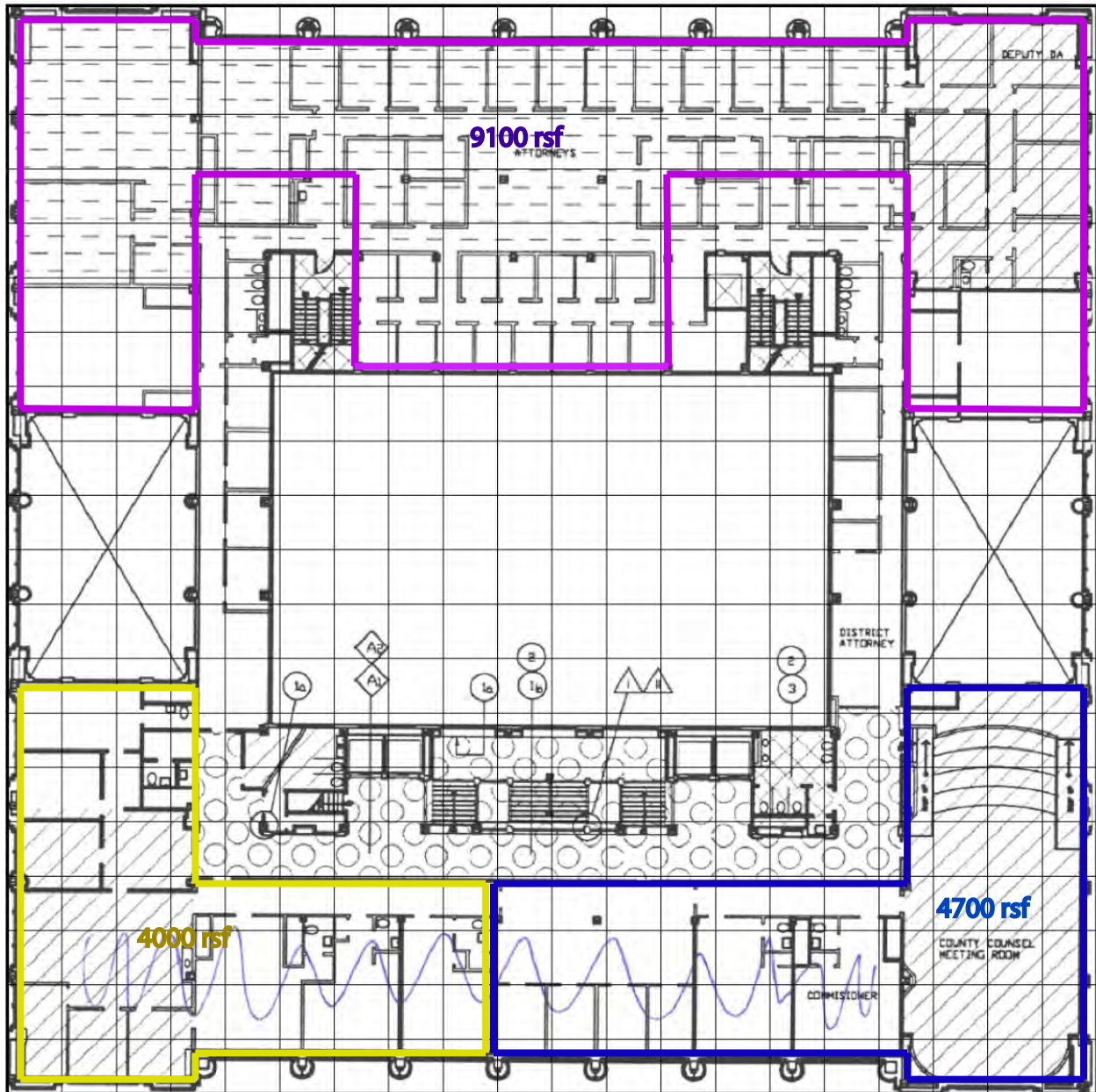
FLOOR 4

Program: 6 Large offices - total 18800 rsf
1400 rsf, 2400 rsf, 2700 rsf,
3200 rsf, 3300 rsf, 5800 rsf
Public Restrooms: 2 (250 sf each)
Circulation: 6000 sf (halls, stairs, elevators)



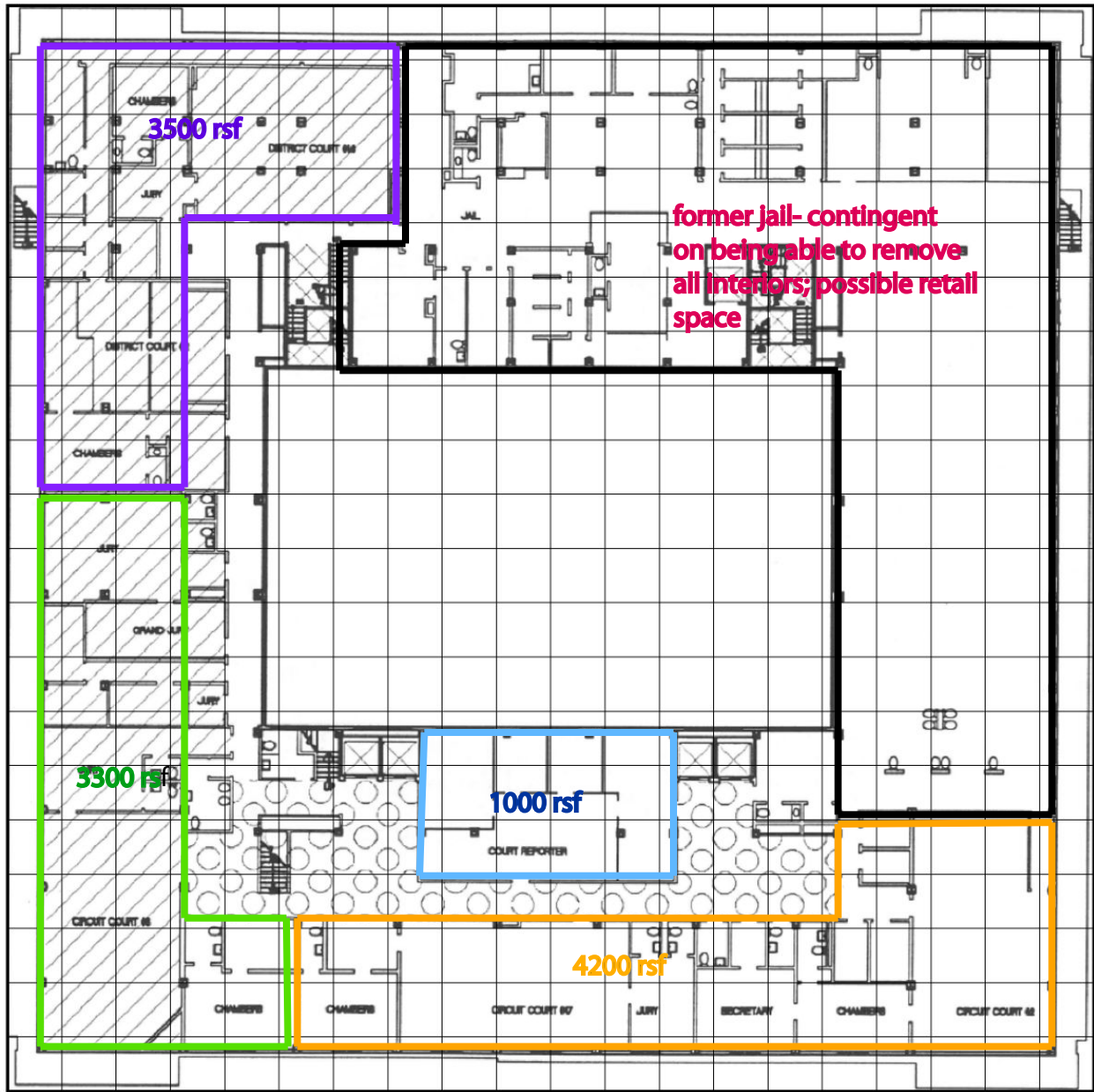
FLOOR 5

rogram: 5 Large offices - total 21100 rsf
2750 rsf, 2750 rsf, 2900 rsf, 3500 rsf, 9200 rsf
Public Restrooms: 2 (250 sf each)
Circulation: 6450 sf (halls, stairs, elevators)



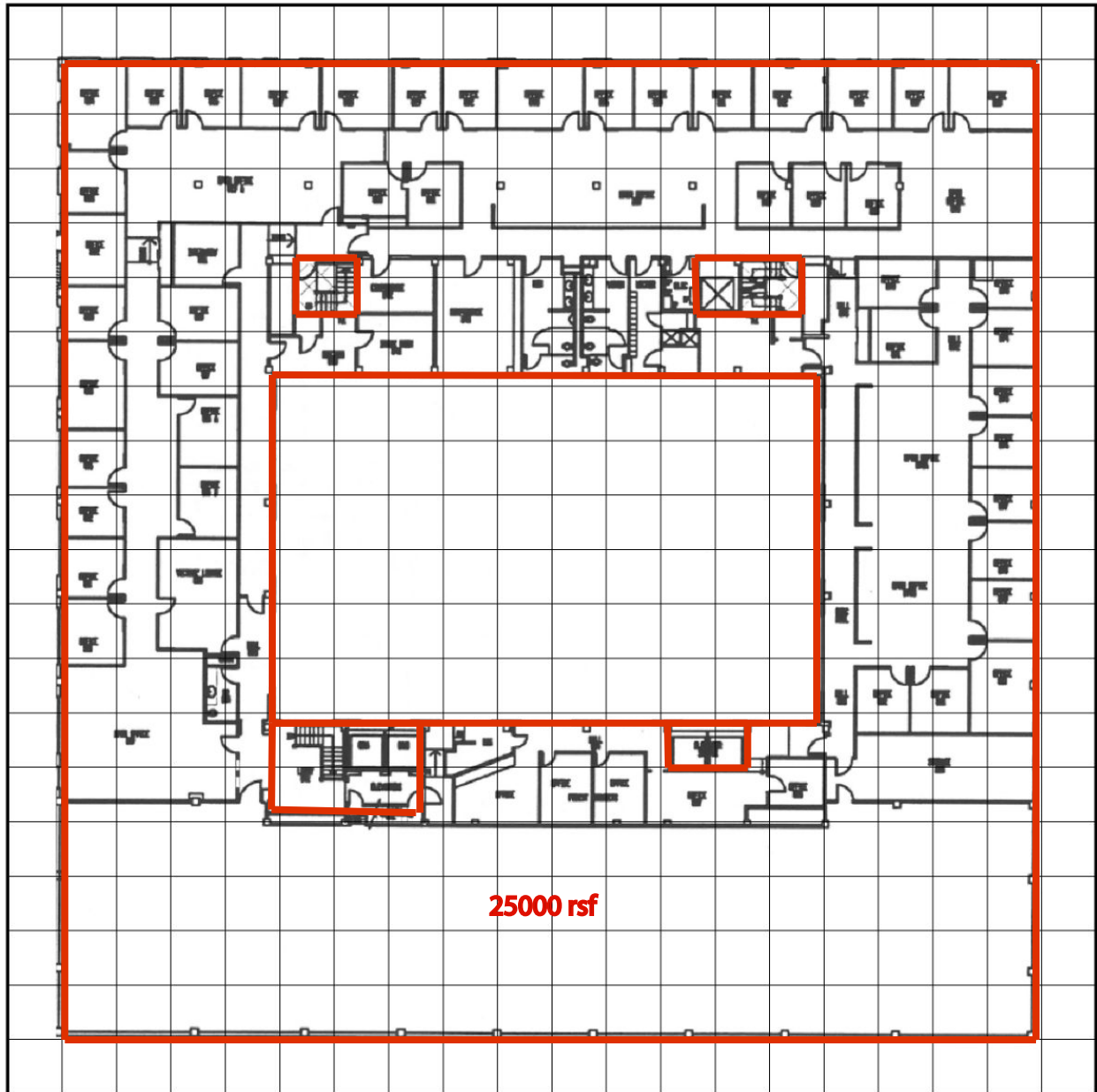
FLOOR 6

Program: 3 Large offices - total 17800 rsf
4000 rsf, 4700 rsf, 9100 rsf
Public Restrooms: 2 (250 sf each)
Circulation: 7400 sf (halls, stairs, elevators)



FLOOR 7

Program: 4 Large offices - total 12000 rsf
1000 rsf, 3300 rsf, 3500 rsf, 4200 rsf
Jail: (retail?) 11000 sf
Public Restrooms: 2 (250 sf each)
Circulation: 4000 sf (halls, stairs, elevators)



FLOOR 8

Program: 1 large office (entire floor)
25000
Public Restrooms: 0
Circulation: 1000 sf (halls, stairs, elevators)

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