SUMMARY AND EDITORIAL

The economy is facing the turbulence of turnaround. Each new piece of economic data invites the question, “Is this a blip or a trend.” Many signs point to a recovering economy. Even so, several other signs suggest it will not be an easy recovery.

The most recent employment figures are the biggest piece of good news. Private sector employment increased by 268,000 and the U.S. saw the seventh straight month of employment gains. Even the increase in the unemployment rate may be viewed as a positive sign. It may be a sign that “discouraged” workers are becoming encouraged enough to re-enter the workforce. Despite the positive employment news, it should be kept in mind that U.S. employment is about 7.0 million below the relatively full employment we saw just before the recession.

Business performance is another bright spot. Corporate profits are healthy and small business incomes are seeing slight increases. At the same the time, the stifled employment environment has worked its way through many sectors of the economy. For example, retail sales have provided mixed news. On the one hand, retail sales were up for the tenth month in a row. On the other hand, much of the recent increase was because of rising gasoline prices. Sales at general merchandise stores, a category that covers both department stores and big retailers such as Wal-Mart, edged up a modest 0.1 percent. And department store sales actually fell 0.2 percent. Sales at furniture stores fell 1.1 percent in April, which is likely a reflection of continued weakness in home sales.

Residential real estate has been blamed for being the first sector to enter the financial crisis (and drag the rest of the economy with it), and it looks like it may be one of the last to get out. Home prices have seen a slight dip from what was hoped to be the first signs of a recovery. The Portland market has been listed as one of the markets with the steepest drop in home prices since the beginning of the year. Research from Zillow show that more than one-third of Portland area homes are now underwater.

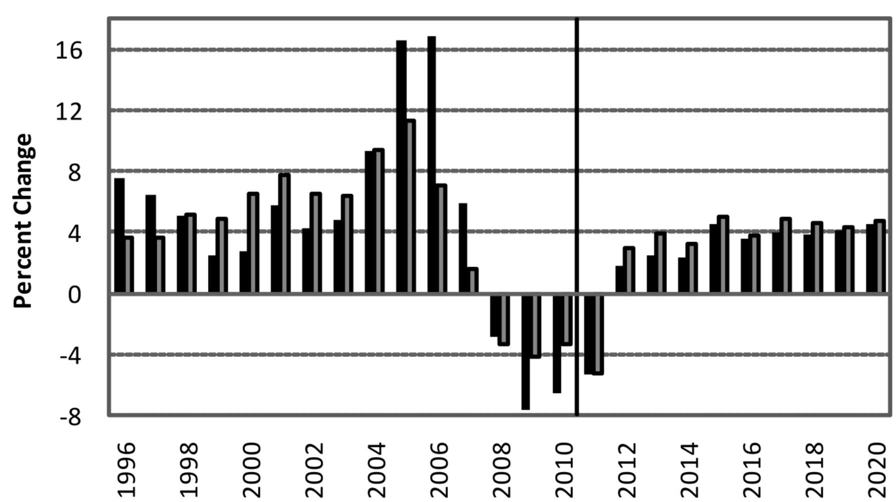
Oregon's Office of Economic Analysis warns that the housing market may be the biggest threat to a sustained economic recovery in Oregon. The state identifies several factors inhibiting recovery in the housing market:

- **An oversupply of houses** on the market, driven by income uncertainty and the a backlog of foreclosures. This oversupply is reflected in new construction activity. The state's economists find that, relative to last year, single family home permits are down 21.4 percent in the first quarter. At the same time, multi-family markets appear to be improving with permits up by more than 250 percent since the same time last year.

- **Further declines in home prices**. Figure 1 shows that the state predicts home prices will decline by another five percent this year.

- **Foreclosures and delinquency rates** are still relatively high. According to RealtyTrac, Oregon is now one of the top 10 states for foreclosure filings. While foreclosure activity seems to have slowed in the past few months, RealtyTrac cautions that the slowdown is largely the result of massive delays in processing foreclosures rather than the result of a housing recovery that is lifting people out of foreclosure.

Figure 1: House price forecast, U.S. and Oregon, through 2020



Source: Oregon Office of Economic Analysis; light bar represents Oregon, dark bar represents U.S.

In contrast to residential real estate, commercial real estate may be one of the first real estate areas to emerge from the recession. **Chris Lee** is one of the keynote speakers at the Portland State University Center for Real Estate's Annual Conference. Mr. Lee is also the editor of *Strategic Advantage*, a monthly electronic newsletter that has a futurist perspective of the real estate industry. In this issue of the *Quarterly*, Mr. Lee describes the existence of real estate cycles and the extent to which they can be predicted. Also in this issue, **Bill Conerly** predicts a coming "mini-boom" in commercial real estate. He argues that the small pipeline of new projects will meet an expanding economy. The result will be decreasing vacancy rates and increasing rents. Dr. Conerly cautions, however, that a true boom requires easy money and the return of easy money is still a long way away.

Brian Owendoff explains the potential impacts of FASB 13 changes on the commercial real estate participants. He expects the proposed changes will impact landlord, tenants, as well as commercial real estate brokers who will have to deal with more complex lease agreements and pressure from tenants to execute shorter term leases.

As part of a discussion of the role real estate development may play in potential climate change **Todd Littman** describes some research on the impacts of "smart growth" policies. He concludes that such policies can provide various economic, social and environmental benefits.

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