

SUMMARY AND EDITORIAL

While the recession has been declared officially over for more than a year, many parts of the economy are waiting for recovery. Real estate is one of those parts. Much of the real estate market is relatively flat. Even so, some market participants are beginning to see improvement. For example, this journal's **residential market analysis** finds that an increase in sales activity has been partially offset by a slight decline in median prices. At the same time, our **multifamily market analysis** reports that owners and managers are seeing improved conditions to the point that some have scaled back the use of concessions and introduced modest rent increases. This issue of the *Real Estate Quarterly* focuses largely on the causes and consequences of what has been called the "Great Recession."

Real estate markets, and housing in particular, have taken much of the blame for the current recession. Many hope that fiscal and monetary policies can correct what they see as failures in the market. **Randall Pozdena** takes a different approach. He argues that monetary and other government policy interventions set the housing market up for a fall. In addition, the "bail out mania" that has dominated federal policies in the wake of the recession has gotten in the way of the forces of supply and demand and may have the effect of dragging out the recession rather than stimulating the economy.

The recession's impact on credit markets has produced a paradox. We are now in an era of rock bottom interest rates and high levels of liquidity. At the same time, we are in an era of constrained credit in which borrowers can neither take advantage of the low rates nor obtain loans to pursue their projects. For borrowers that can overcome the cash costs and other challenges of refinancing, however, **John Petersen** sees some sparks of activity.

Julie Serote reports that the disappearance of financing and equity from the real estate market means that developers are no longer following business models from years past. She finds that developers who continue to survive utilize their entrepreneurial and creative skills to form new business models in order to keep the lights on.

On the fiscal side of the economy, Oregon again faces challenges from its public employee retirement system, known as PERS. From reporter at *Willamette Week* to Oregon's secretary of state, **Phil Keisling** has spanned the state. In this issue, he writes on the future of the state's public employee pension system. He finds that a combination of factors—especially the recent recession which has impaired PERS' investment returns—mean public employers will face steep increases in payroll costs over the next decade. These increases will likely exacerbate future state and local budget problems as employee costs rapidly rise. In turn, state and local governments will be pressured to increase revenues through higher taxes, fees, and charges.

Turning away from the economy, **Walter McMonies** examines an overlooked and under-reported issue affecting many Oregon buildings. Portland is home to numerous unreinforced masonry apartment buildings, many of which has historic or architectural importance. At the same time, Western Oregon and Washington have been identified as being subject to massive if infrequent “subduction zone” earthquakes. Mr. McMonies reports that the owners of unreinforced masonry apartment buildings can expect to face pressure from casualty insurers, mortgage lenders, and the local government to seismically reinforce their buildings. He explains that in many cases such efforts do not “pencil out” in that the costs of the reinforcement likely exceed the expected incremental cash flows from the effort. He argues that building owners, architectural preservationists, structural engineers, mortgage lenders and insurers, and city and state officials need to work collaboratively to reduce impediments to and increase incentives for seismically upgrading affected apartment buildings.

Despite the recession, something new is happening almost every day in Oregon's real estate markets. To chronicle that news, I have created a feed of news stories involving Oregon real estate. It covers almost every paper in the state, including *Portland Business Journal* and the *Daily Journal of Commerce*. I have done my best to filter the results to get only relevant real estate related news stories. Even so, there may be some “junk” stories that will pop up. This is a work in progress that will require some tweaking. For most web browsers you can simply paste this link into your address bar: <http://bit.ly/PSURealEstate>.

This is my first issue editing the *Real Estate Quarterly*. I welcome any constructive comments and ideas for future issues. If you would like to submit an article, please feel free to contact me. All the best.



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