

# The Business Journal

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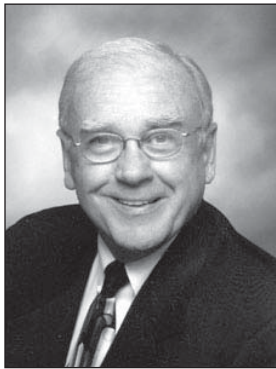
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## Worrisome conditions give investors pause

Commercial real estate values reflect employment trends, and Portland in 2003 is no exception to this.

West-side office vacancy rates on June 30 were still a daunting 44 percent, reflecting the high-tech sector's woes-it has been the hardest hit by job losses.

From 2000 through 2002, local manufacturing employment dropped a staggering 13.6 percent and there was a net manufacturing job loss of some 19,400 jobs, according to the U.S. Bureau of Labor Statistics. As of June 2003, manufacturing employment had dropped a further 4.7 percent, or 5,800 jobs, compared to June 2002.



National data doesn't bode well either: After peaking at 6.9 percent annual growth in 1997-the height of the last real estate expansion-office-using employment grew only 4.5 percent in 2000. In 2001, office-using employment growth was negative 1.5 percent, and this continued in 2002 with negative 1 percent employment growth.

What has this meant to Portland real estate buyers? Total Portland sales of all product types of commercial real estate from January

2003 through Sept. 19 totaled \$175 million. In the same period in 2002, sales totaled \$461.37 million, with 19 sales in 2003 versus 30 in 2002. This year, the average selling price per deal dropped 50 percent.

National employment data puts Portland in perspective-local unemployment is 35 percent higher than the national average. Much has been made in this political season of the estimated 2.7 million jobs lost under President George Bush. Until these jobs are replaced and we experience net job growth, we will not experience increased demand for office and industrial space.

Added to this the so-called jobless recovery-economic revival without job gains due to increased productivity. Jobs in the United States peaked at 132 million in early 2001. Economists don't expect a return to that level until the second quarter of 2004. That's important, because job recovery to previous levels is required before new demand for space occurs.

Some companies reduced their labor force but kept their real estate. Now they have to fill this shadow vacancy before



Real estate investors can find alluring opportunities during an iffy economy-witness ScanlanKemperBard's purchase last year of downtown Portland's American Bank Building.

they lease additional space. Massive amount of sublease office space-representing about 20 percent of vacant space this market-raise questions about the lag time between full employment recovery and new demand for real estate.

Less discussed but more disconcerting is the movement of back-office jobs to countries such as India. Manufacturing has moved offshore for decades, but India's support service industry for U.S. companies now totals \$10 billion annually.

Does this mean the buyers of \$175 million of Portland real estate this year are wrong? No. Just as the late Tip O'Neil described politics, all real estate is local, too. That is, the line around the block at the new Krispy Kreme store doesn't know or care about these statistics.

SKB Cos. has a Portland-area commercial business park under contract in the \$35 to \$40 million range-taking our 2003 West coast acquisition total to \$159 million-and notwithstanding all of the above, we believe this Portland acquisition is a prudent investment.

Why? We believe every piece of real estate is unique and cannot be valued only by macroeconomics. While down markets are more challenging, opportunities never cease.

Astute investors who do their homework will successfully defend real estate as an asset class worthy of a historical percentage of an investor's portfolio.

**BOB SCANLAN** is principal of ScanlanKemperBard Cos., which he founded in 1993. The real estate advisory, development and merchant banking firm actively seeks moderate and high-yielding investments in the Western United States. □

**SKB**