GLOBAL TO LOCAL ECONOMIC CHANGE
May 24, 2010

Presented on these four pages is a *matrix chart* cataloging patterns of economic change – drawn from nationally recognized information sources, as well as more detailed case study and focus group research recently conducted throughout the Pacific Northwest. The chart distinguishes between unanticipated changes brought on by the *current economic downturn* and longer term changes that can be expected post-recovery over the *next 10-20 years*.

Patterns of Economic Change & Resulting Implications		
Global	**National**	**State/Regional/Local**
A. With Economic Downturn (& Early Phase Recovery)		
Financial Market Retrenchment		
Financial Deleveraging: Cascading effect extending from aggressive niche players (e.g. Iceland, Greece) to U.S. & Britain, even to former stalwarts as diverse as Germany & Dubai	2008 near collapse of major financial institutions and industrial firms; 2009 extending to regional & community banks with added closures & restructuring expected thru 2010	Shifting balance from community to money center institutions (at least near-term); continued regional challenge for small business & venture capital
Tightened Consumer & Residential Lending: Effects most severe in countries with rapid housing price escalation or financial sector melt-downs (e.g. Spain)	Drives down consumer demand as households reduce debt, experience increased rates of housing foreclosure & less ability to finance residential purchases	Portland market held its own early in the recession, then experienced decline with job loss; close-in neighborhoods generally have fared better than suburban
Tightened Business Credit: Varied depending on vulnerability of industry base to global demand & extent of public sector intervention	Most severe for small business & firms in weak sectors (e.g. auto manufacturing, construction & non-value-oriented retail / dining)	Lender focus on larger & economically diverse metro communities; Portland's opportunity best as an emergent *global pathway*
Public Sector Intervention: Financial bailouts & stimulus support from national governments including U.S., Europe, Asia	Bailout support starting with banks, then companies too big to fail, next may be commercial mortgage market – all with resulting substantial ramp-up in national debt	Rapidly emerging state-local budget shortfalls in California, Oregon & Washington (in relative order of severity); Oregon vulnerable due to income tax dependence
Employment Downturn		
Jobless Recovery? Heavy losses in manufacturing, construction, finance, retail & in countries dependent on exports (e.g. China) but traded sector recovery in 2010	Primary job growth (so far) maintained in health care & government; otherwise episodic economic growth & prolonged unemployment thru 2012 is likely	California is most challenged but Oregon returns to ranks of relative high unemployment; Portland rebound most likely will be organic & entrepreneurial
Stalled Development		
Construction Shut-Down: At standstill except for development previously committed, user driven or with public sector funding support	Little to no new commercial construction thru 2012; potential apartment demand & partial re-start of single-family construction	Smaller infill & public sector constructing projects in Portland seem to be faring best @ present
Declining Home Values: Residential markets most adversely affected in formerly high growth, easy credit markets (e.g. Spain, Ireland, U.S.); declining asset valuation reduces consumer spending for retail & services	Severe in prior high growth sunbelt states (except Texas); many markets now bottomed out but slow recovery still expected; strongest potentials for *global pathway* cities (e.g. Washington DC, New York, Boston, San Francisco, Seattle)	Previous high growth markets (e.g. Central Oregon, Clark County) most detrimentally affected; land use & managed growth together with transit accessibility & market for young creatives has dampened the downside for Portland

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Investment Real Estate: Values decline by average of more than 40% off mid-2007 price peaks – across U.S. & much of the developed world	Best near-term for apartments (once doubling-up plays out), followed by *industrial / distribution* (gateway metros), *office* (flight to quality), *retail* (urban & grocery-led) & *hotels* (worst now but will rebound)	Most challenging for communities with home foreclosures & high unemployment; suggests priority for near-term job creation as with Portland *Economic Development Strategy* goal of 10,000 added jobs in the next five years
B. Post-Economic Recovery (over 10-20 years)		
Financial Market Restructuring		
Conservative Underwriting: Increased regulatory oversight & less speculative lending, meaning higher equity requirements & lower values relative to property income for foreseeable future	Recovery to pre-recession property values further constrained by prospect of increasing interest rates with increased reliance on ability to raise rental rates – postponing a return to new commercial construction but incenting building rehabilitation investment	Higher-risk projects (including mixed use) more disadvantaged for capital access at least near term; best opportunities are for in-town property rehab, then infill development or end-user needs resulting from business recruitment & expansion initiatives
Public Fiscal Stress Bailouts & financial stimulus support from national governments including U.S., Europe, Asia	Federal capacity to support development limited by larger debt compounded by needs of aging population; state / local governments best positioned are those with diverse revenue streams	Continued Oregon vulnerability to cyclical nature & downward pressure on income tax receipts; City finances are better protected by assessed values still well below real market values
Changing Competitive Advantage		
Competitive Positioning: Economic competitiveness leads both to “push” & “pull” migration effects between countries & regions of the globe; continued move of commodity production to low-cost countries, with Asia leading the way	U.S. export potential waxes & wanes with relative value of dollar; premier 24-hour gateway metros better weather the downturn, recover more quickly & represent an increased share of long-term investment compared to interior U.S. or secondary markets	Increased in-state disparity between economic winners & losers – with winners defined by a globally & regionally competitive traded sector; PDX opportunity defined by the strategic economic development goal to become the “capital of the global green economy”
Global Pathways: Concentration of brainpower, capital, & investment anticipated to be focused on 24-hour coastal cities offering global & multi-modal transportation services (air, highway, marine, rail)	Favored U.S. markets are generally coastal; mid-America faces risk of more rust-belt deterioration (except cities / regions with global connectivity such as Chicago, Minneapolis, Denver)	Seattle & San-Francisco are in the top tier of favored U.S. pathway markets; Portland metro viewed as 2nd tier, needing to more clearly align with neighboring metro engines of vitality or chart its own path to build “sustainable economy”
Emerging Economic & Demographic Drivers		
Targeted (or Shifting) Employment: International migration has shifted from south to north back to a flow toward developing countries – including increased opportunity for professionals, students & women	Continued outsourcing for commodity manufacturing & services; U.S. domestic opportunities best in technology, health care, education & resurgent / shifting housing needs (with accumulating latent demand)	Industry clusters targeted by the Portland Development Commission include activewear, cleantech / sustainable industry, advanced manufacturing & software – similar to clusters identified by Greenlight Greater Portland & the State of Oregon

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***Economic Instability*:** Risk of increased volatility due to changing global competitive position of winners & losers; velocity of marketplace transaction activity makes assessing & pricing risk ever more challenging	Real estate's perceived historic advantages of low volatility and steady income require re-evaluation – both short & longer term; U.S. may still prove attractive for investment despite slower growth due to perception of greater political & economic stability	Perceived investment risk greater for less diversified communities; market recovery as for mixed use may be facilitated by right-sizing to smaller projects & public-private demand aggregation or risk-sharing; opportunity to transition from regulatory to partnership approach
Demographics: Rapid workforce aging in developed countries (U.S., Europe, Japan) which have the oldest populations, with continued growth of young labor pools in Asia, South America – especially the Middle East & Africa	Aging *baby-boomers* the dominant driver of smaller households, shrinking workforce, reduced retail & increased health care demand for the foreseeable future; offset only in communities highly attractive to in-migrants (e.g. young creatives, foreign workers, ethnically diverse)	Over age 55 market to comprise the majority of metro area housing growth; maintaining balanced demographic profile requires intentional strategy focused on drawing & holding young creatives with world-class education, housing affordability & urban amenity
Urbanization: 70% of global population (of 9 billion) projected to live in urban areas by 2050 – up from 50% as of 2007	Metro areas & communities with ready access to job centers are best positioned; older first tier suburbs disadvantaged if employment & tax base is not diversified	Oregon opportunity is best for metro communities with demonstrated business, development & cultural sustainability ethic – especially for diversified live-work options
Environmental & Infrastructure Drivers		
Alternative Energy & Transportation: While per capita energy use is highest in the Middle East, North America & Europe, growth is strongest in Asia & other emerging countries – making global consensus for carbon footprint reduction a continued challenge	Rising gas prices lead to reduced per capita vehicle miles & incent the shift to alternate modes; rapidity of shift to non-petroleum energy will be affected by technology innovation & government incentives	Continued pressure to diversify from hydro as well as petro-based resources; likely works to the advantage of 20-minute, full-service neighborhoods offering convenient, multi-modal transportation access – with streetcar as impetus for PDX green branding & reduced carbon footprint
Going Green: An expected new economic driver due to concerns over climate change, peak oil & rapidly growing consumer / investor demand	Green buildings showing a clear price premium across more markets & real estate product types; green ethic can be expected to also extend to business practices including "paperless" environments and more work-at-home or office "hoteling"	Pacific Northwest at the forefront of the green movement – offering continuing competitive opportunities in design, LEED construction, alternative energy, ecosystem management, even organic / sustainable retail & dining
Hard Infrastructure Needs: Emerging nations (China, India, Africa) require massive investments ranging from water to transportation; developed areas (U.S., Europe) require reinvestment to upgrade aging 20th century infrastructure	Shift to urban areas as capital & operational expenses appear to be increasingly disadvantageous for low-density communities including older 1st tier suburbs without capacity to re-invest for urban competitiveness	Residential & commercial activity increasingly likely to shift to urban infill including transit-oriented development with more incubator job development in tandem with or closer proximity to housing

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Soft Infrastructure Play: Economic winners are those with strong telecom (cell phone, high-speed internet, redundant data piping) & higher education capacity – increasingly linked to changing workforce needs	Continued advantage for metro regions with world class higher education & university-business linkages (e.g. Boston, North Carolina, Austin, Silicon Valley) – offering new opportunity for more urban, niche-oriented higher education, research & development partnerships	Best opportunities in communities with quality K-12 school system plus higher education presence (despite continued Oregon weakness for nationally recognized research universities & university-enterprise linkages)
Changing Development Paradigm		
Development Feasibility? New construction may be damaged long-term if market supported values do not return, increased investor / developer equity is required or interest & capitalization rates increase (as still expected)	Highest cost urban and mixed use development types (e.g. high-rise) may be affected unless new, lower cost alternatives are found; for at least the near-term smaller scale mid-density projects may be more favored	Best options for incremental rather than dramatic increases in development density, focused on communities & neighborhoods with the most vibrant market appeal (i.e. low vacancy, comparatively strong pricing, diverse demographics)
Real Estate Churn: Slower growth markets (Europe, Australia, U.S.) continue to attract investment, but older & poorly located real estate will be at greater risk of abandonment except where reuse & rehabilitation proves feasible	Retail driven by the combo effect of on-going format reconfiguration despite weak overall demand; older retail strip centers, "brown" buildings & older strip centers are at special risk of obsolescence – requiring new uses & redevelopment	Increasing priority for re-use of tired & underutilized sites @ urban locations with Central City & adjoining neighborhood districts as the preferred business / residential choice, reducing impetus for high cost & lower density UGB expansions
Residential Development: Slow growth countries still experience substantial development pressure to house rapidly aging populations; high growth countries will be increasingly urban-centric	Next generation projects oriented to infill, urbanizing communities, transit-oriented development – with smaller / European style units closer to work & 24-hour amenities; added apartment demand for young adult echo boomers	Widened gap between market supported values & cost to develop urban / infill housing – placing greater emphasis on PDX income growth and smaller scale infill development with less absorption & financing risk
Commercial Development: Distribution sector consolidation to major port / transport load centers; industrial differentiation between low-cost commodity producers and mass customization for niche manufacturers dependent on virtual market information; growing role of institutional uses as a non-traditional real estate development driver	*Retail* slowed by changing demographics & tenant churn (best for urban infill); *office* slowed by less labor force growth (more urban focused); *industrial-distribution* dependent on trade (global pathway locations); *hotels* uncertain but perhaps best opportunities for limited service product (except for major destinations)	More focus on institutional uses including hospital & cultural facilities (with transit orientation); small *hyper-local* business emphasis conducive to growth of alternative business models for urban street renaissance, incubator & work / live space; business district vitality keyed to distinctive (or layered) mix of local *plus* compatible destination customers

Key information sources for this analysis has been compiled by E. D. Hovee & Company, LLC from varied research reports of the Urban Land Institute (ULI) including *Emerging Trends in Real Estate: 2010, The City in 2050: Creating Blue Prints for Change*, and *Global Demographics 2009*, together with research conducted by E.D Hovee & Company, LLC and Bonnie Gee Yosick, LLC as part of an *Employment & Economic Trends Analysis* prepared for the Portland area regional government Metro, March 2009 and *Economic Opportunities Analysis* prepared for the Portland Bureau of Planning and Sustainability, July 2009.