

regionaloutlook

Soaring growth in pacific northwest

Technology, tourism and surging oil prices revitalize region's real estate

by Darnell Little

The Pacific Northwest, encompassing Washington state, Oregon, Alaska and Northern California, has experienced quite the economic rollercoaster ride in the past decade. After surviving big losses in the early 2000s, the market in all sectors is flush with green in more ways than one.

Five years after the tech bust, the region has shaken off the dust from troubled times and rebounded effectively. Many of the area's top technology companies are expanding again, hiring new workers and gobbling up office and industrial space throughout the region. Northern California, in particular, is experiencing a new technology renaissance.

The strengthening economy is fueling a population surge that is bolstering area housing prices, even as the nation's housing market struggles. July's Case-Shiller index, which monitors U.S. housing prices, showed housing prices in the Seattle area up nearly 7 percent since the previous year, while prices for the nation as a whole dropped by nearly 4 percent.

High oil prices continue to pump up Alaska's economy. Meanwhile, tourism has remained strong throughout the entire region.

The combination of these factors is making the Pacific Northwest a hotbed for real estate activity. Stephan

Cowan, a partner in the San Francisco office of law firm DLA Piper, described the area's real estate investment activity for the first nine months of 2007 as "gangbusters."

"The general economy seemed to have enough positive scores in the underwriting world that the lenders and investors are seeing the area as a growth market, not just within the next few months but in the next five to 10 years," Cowan said.

"As a real estate lawyer doing the deals, I see the strength of it. We're looking at the absorption rates, the demand, the ease with which commercial rents turn over. The law firms are strong; the service industry is strong; the manufacturing is still strong."

DEVELOPMENT STAGES

After enduring some of the highest unemployment rates in the country after the dot-com bust of 2001, Seattle has swung dramatically to the boom side in less than six years, according to Tom Parsons, senior vice president and general manager of Opus Northwest, a design-build development division of the Opus Group.

"In the Pacific Northwest, our lows are a little lower, our highs are a little higher, and currently we have in the last 18 months had some of the highest job growth, and the healthiest residential markets," Parsons said.

Opus has several projects in the

works in the Seattle area, including Fifteen Twenty-One Second Avenue, a 143 unit luxury high-rise condominium in Seattle's Pike Place Market, a dense and lively area of downtown Seattle best known for the fishmongers who toss fish from man to man to the delight of tourists. The project will be the first "tall and slender" residential tower under the city's new downtown zoning, which encourages density and environmentally conscious living.

Vulcan Real Estate, a division of Vulcan Inc., owns 60 acres in South Lake Union—known as the "red hot" area to be right now—with a development capacity of more than 10 million square feet of residential, office, retail and biotech research space. Vulcan's stated goal is to turn South Lake Union into a pedestrian-friendly neighborhood full of office space, residences, restaurants, retail shops and public parks.

POWERING PORTLAND

Meanwhile, the Portland, Ore. area is also attracting new businesses, increasing its metropolitan population and spurring new real estate development. While Portland still has plenty of old economy companies in timber and shipping, the area has attracted a high-tech corridor employing more than 50,000 technology workers who take in \$4 billion in annual wages.

At the same time, tourism still remains a strong industry. According to a study by the Portland Oregon Visitors Association, travel spending in Portland reached \$3.4 billion, up 7.2 percent from last year and the third straight year of growth passing 7 percent.

Aiding the tourism industry and business travel in general is a robust international airport. Conde Nast Traveler magazine named the Portland International Airport the best airport in America for the second straight year, thanks primarily to an expanded offering of direct international flights to places like Japan, Mexico and Germany.

This booming economic activity is showing up in the real estate markets. According to CB Richard Ellis, leasing activity was up in Portland in the third quarter of 2007 with almost 241,000 square feet of net absorption. Downtown Portland saw nearly 58,000 square feet of absorption, while suburban Portland saw nearly 183,000 square feet.

One of Portland's hottest areas is the Pearl District, a former warehouse and industrial area near downtown that has been transformed into a mix of office, retail and residential living space. Developer Patrick H. Kessi is planning to open his 937 Condominiums in the fall of 2008.

The 937 will be a 16-story mixed-use luxury residential condominium building with eight-foot windows lining the length of the homes, increasing the amount of natural light that reaches the interior of the condominium. Other amenities include an eco garden and externally vented, linear kitchens. Kessi is striving for a Leadership in Energy and Environmental Design



The Opus Group is currently developing 7th & Madison, a nine-story, office building in Seattle's central business district.

(LEED) gold certification for 937.

"Our building talks to what Portland is all about in terms of sustainability and environmental awareness," Kessi said. "Quality of life is very high here and that makes for the foundation of a good development opportunity."

NORTH COUNTRY

Farther north, Alaska experienced its 19th consecutive year of job growth, adding 100,000 new jobs to the local economy since 1987. Strong energy prices have fueled growth in the oil and gas market, contributing to the State of Alaska budget surplus, and fueling federal and state government spending.

Also aiding Alaska's economy are several huge planned military capital projects, continuing tourism strength and the growing importance of Anchorage as a link in the international air cargo chain.

Real estate development, primarily in Anchorage, is reflecting this economic growth. Last year, construction began on a 215,000

square foot, \$103 million civic and convention center located directly behind Anchorage's city hall. The center will have a 26,000 square-foot ballroom, an exhibit hall that can accommodate 250 trade show booths, and 11,300 square feet of meeting room space.

Alaska's spectacular scenery and exotic locale are the main selling points for drawing in convention business, according to James P. Kuntz, CPM, of Pacific Rim Properties, Inc., AMO.

"A lot of people are interested in broadening their horizons and seeing different parts of the country," Kuntz said. "Our natural beauty here is incredible with the mountains. There's the chance to see a different climate and there are different cultures people can experience when they come here."

With advantages like that, the Pacific Northwest may enjoy boom times for many years to come. □

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