

Friday, February 16, 2007

Going condo crazy

Portland bucks national downturn as construction continues

Portland Business Journal - by [Wendy Culverwell](#) Business Journal staff writer

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Patrick Kessi's firm, **W&K Development LLC**, broke ground recently on the 937, a high-design condominium in Portland's Pearl District.

Kessi and company began their slog through planning and design in 2005, which everyone agrees was a frenzied year for condominium sales.

Eager buyers formed lines outside sales offices. Those who managed to reserve units considered themselves lucky or smart or both.

But now that the frenzy has abated, developers such as Kessi are still at work. In downtown Portland, at least six major projects, including the 937, are in design or early construction. No previously announced project has been canceled.

It stands in contrast to a softening national climate.

In the most overheated markets, projects are being canceled and bankers are tightening their conditions before agreeing to finance new efforts. In Washington, D.C., for instance, developers had canceled 72 projects representing nearly 14,500 units as of December, reported the Washington Business Journal.

Construction persists in Portland, though at a slightly slower pace. To date, no builder has lowered prices on unsold units.

The conditions that overheated other markets don't exist here. Investors have bought only about 15 percent of new units. In Miami, the poster market for out-of-control real estate speculating, some 70 percent of new units were bought by speculators hoping to flip them for a quick profit, according to research provided by Wells Fargo's Real Estate Group.

Other factors contributing to Portland's ongoing love affair with condominiums: a growing economy, a growing population and the vaunted quality of life.

While some investors and lenders have stopped financing condo construction, local veterans say their banks are still behind them.

Wells Fargo, for example, has provided most of the construction financing for the Pearl District's most prominent builder, **Hoyt Realty Group**. In December, it approved financing for Hoyt Realty Group's latest Pearl offering, the 177-unit Encore. In all, Wells Fargo has loaned more than \$1 billion for downtown condos, both for mortgages and construction loans.



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The Encore condominium at Northwest Ninth and Overton is one of numerous projects under way.

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Wells Fargo has concluded that even if demand fell by half, the inventory of unsold units wouldn't climb significantly.

"Our market is really in balance," said Nelda Scott Newton, vice president for the bank's Portland real estate group.

Fremont Investment & Loan, a prominent California real estate firm that finances construction around the country, is another agreeable lender. It will provide financing for W&K Development's 937 project, just one of many condos it has financed in the past 12 months.

Developers face plenty of challenges, said Tiffany Sweitzer, president of Hoyt. Lining up willing bankers hasn't been one of them.

"That's really been the easiest part for us," she said.

Realty Trust Group Inc.'s Todd Prendergast, whose firm is responsible for sales and marketing of the various South Waterfront projects and numerous others, said the market is maturing. Buyers are more educated than they were when the first condominiums rose from the railroad yards north of downtown.

"Design is becoming more and more of a factor," he said.

Sweitzer agrees. Buyers say they want condos set up like the traditional homes they're leaving behind. Hoyt Realty's next project after The Encore is an unnamed building to be constructed in the Pearl District's "Block 17." It will be designed accordingly.

"That's a project we decided to do a bit differently, just because of what we've heard," Sweitzer said.

Even if the market has slowed, Sweitzer said a typical project takes about three years to complete. It doesn't make sense to delay projects and leave the pipeline empty.

Francis Russo, director and broker for **Vertical Living Group LLC** -- which is responsible for sales at 937 N.W. Glisan St. -- describes a "second-inning effect" taking root in Portland's condo market.



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Francis Russo, director and broker for **Vertical Living Group LLC** -- which is responsible for sales at 937 N.W. Glisan St. -- describes a "second-inning effect" taking root in Portland's condo market.

The first buildings introduced buyers to the idea of living in downtown settings. The latest round celebrates innovative design and attention to detail. Accordingly, the 937 dispenses with the traditional shotgun layout -- long hall running along a bedroom, bathroom and kitchen/living room.

Instead of long, narrow units, those in the 937 will be squarish and lack what Russo calls "the \$80,000 hallway."

Whether it resonates with buyers will be seen soon: Vertical Living will begin taking reservations in March. Prices are expected in the \$500 per square-foot range, or \$500,000 for a 1,000-square-foot unit.

Figures are a bit more solid for Hoyt Realty's The Encore. The developer began taking sales contracts Feb. 7. Within a week, one unit was sold and another 18 had been reserved, said Marilyn Andersen, Hoyt's principal broker.

"We're feeling pretty good ... but time will tell," Andersen said.

Gerding Edlen Development Co. LLC has a full slate of projects in construction both in its hometown and in Los Angeles.

Its most recent is the 3720, a \$161 million project at the South Waterfront. It opens next year.

Brian Lessler, co-owner of **Persimmon Development Group**, has owned a site on Southwest Barbur Boulevard near the Metro YMCA for several years. After wrestling with the best use for it, the site is being developed as the Barbur Condominiums, an 18-unit project. He and his partner considered building apartments, but the sloping site cost too much to develop and the numbers didn't work out.

"The ownership market is still very, very strong," Lessler said of his decision to build condos at the edge of downtown. "Everybody talks about the gloom and doom. The only reason is that we're not seeing the sales numbers we did in the bellwether year of 2005. But if you look at them in the context of five to six years, property is still selling."

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