

## The Oregonian

### Shadow falls on condo market

Once, Portland's demand appeared insatiable. Now, shelved projects and stalled construction dot the city

Tuesday, October 09, 2007

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The Oregonian

In the hot real estate summer of 2005, the futuristic John Ross tower generated a buzz never seen before in Portland.

Within a week, 222 potential buyers plunked down \$5,000 or more to reserve their condos in the 31-story tower on the Willamette River. The talk around town was that developers couldn't build new big-city condos fast enough to keep up with downsizing baby boomers and newcomers.

But two years later, the condo boom is over.

Today, the John Ross has seen so many canceled purchases that developers actually have fewer buyers -- 192 -- than they did two years ago.

The John Ross got caught in the first slowdown after a historic run-up in condo construction that has reshaped Portland's skyline. For the first time, Portland's condo pioneers are suffering through an inevitable downturn.

The city has a condo glut, and thousands more are rising out of the ground. In the past six years, developers built 4,042 downtown condos, more than twice the figure from the previous 30 years. Today, developers have nearly 2,114 condos under construction.

No one can predict when sales will pick up again. Two towers already switched from condos to apartments. Other projects were shelved, and construction has stalled on smaller projects from Beaverton to Northeast Portland.

Bankers and developers say prices won't fall so far that condo buyers will lose money. But investors expect lower profits, owners will struggle to sell, and speculators will find it harder to turn a quick profit.

At the John Ross and elsewhere, developers had a harder time holding onto buyers who reserved units during the craze. Developers of The Civic, for example, had deals to sell all but eight condos. But cancellations pushed that figure to 37, a higher rate than normal.

Nelda Newton, a senior vice president at Wells Fargo, is generally positive on condos long term but acknowledges that current condo sales can barely keep pace with cancellations.

"That's not great," said Newton, who led Wells Fargo's lending for several downtown projects. "There's no great way to slice that, put a positive spin on that."

#### The hype is on hold

For decades, Portland was cool or even hostile to condos. Between 1970 and 1995, developers simply didn't build many.

That changed abruptly in the mid-1990s with the birth of the Pearl District. By early this decade, the city was gripped with full-blown condo fever. Construction cranes could be seen swinging over new towers from the Pearl to the South Waterfront.

The condo craze meant developers nearly sold out buildings during construction. They staged lotteries to handle the sales rush. One investor crowed about buying a condo in The Henry in the Pearl District, then flipping it in less than 30 days for a \$100,000 profit.

Portland's appetite seemed nearly as limitless as the condo price escalation. Condos in the early 1990s went for about \$120 a square foot. Today, prices sometimes are far above \$500.

But the hype is now on hold.

In addition to the city's oversupply, the condo demand dropped after the mortgage crisis shut out some buyers.

"Definitely the brakes just kind of went on," said architect John Holmes, lead designer of the 937 tower in the Pearl. "The buyers aren't there."

The first signal that change was afoot came in March when Opus Northwest announced it switched its Ladd Tower in the South Park Blocks from condos to apartments.

More recently, developer Bob Ball shocked the industry when he converted the \$50 million Wyatt building under construction in the Pearl to rentals. Ball had already put in expensive finishes for high-priced condos.

Before the switch, Ball said he'd cut prices and still sold only 53 units, just 21 percent of the total and barely half his goal.

"The problem wasn't with the Wyatt," Ball said. "It was the overall change in the market. We just have too much supply on the market." Ball said last week that he has sold the Wyatt to an unnamed buyer.

Other projects have been plagued by disappointing sales.

Bob Scanlan, whose real estate company invested in the John Ross, says sales are so slow in that tower that he expects his returns to be cut in half. The 303-unit building is almost two-thirds sold -- not bad for such a big project completed just this summer, but far below initial expectations. Backers now predict the building won't sell out until spring 2009, a year later than first hoped.

The 104-unit Westerly tower near Northwest 23rd Avenue is scheduled to be complete this winter. It has sold about 40 percent of its condos.

Even sales that developers thought were in the bag have fallen through in growing numbers. The Civic, the West Burnside Street building marketed to young first-time buyers, got hit by canceled pre-sales.

Gerding Edlen Development Co. still has Civic condos to sell. But it is competing with about 20 of its own customers who are reselling just months after they moved in. So many units were for resale that real estate brokers for a time resorted to attaching lockboxes holding house keys to the building's bike rack.

Scott Byer, 31, bought an eighth-floor condo for \$250,000 and tried to flip it for \$310,000. Like other resellers, Byer dropped his price, to \$269,900 last week.

But he got few lookers, and no offers.

### **"No reason to panic"**

Still, real estate insiders remain confident about the long-term future.

They say Portland is immune from the downturn that's infected other big cities. Job growth remains strong, and people continue to move to the area, providing demand for urban living. "It's steady as she goes here," Scanlan said. "There's no reason to panic."

Indeed, some of Portland's savviest developers are charging ahead with new projects.

Gerding Edlen recently started construction on the Cyan, a 350-unit project marketed to young buyers, and its opulent 61-unit Casey will open this fall in the Pearl. Mark Edlen, the company's principal director, is already scouting two more downtown locations for his next condo project.

"I still believe there are a lot of people who want a more vibrant lifestyle," Edlen said.

Dirck Lowe hasn't found condo sales to be so vibrant.

Lowe, 32, bought into the John Ross at the peak of the frenzy. In summer 2005, he went online to reserve one of the 20-minute slots with a salesperson. He pulled into the John Ross sales office on the second day of the weeklong sales blitz.

Lowe, his wife, Jill, and 5-month-old daughter, Avery, owned a 3,000-square-foot house in Milwaukie. "We thought this would be a fun, upscale New Yorkish condo," Dirck Lowe said of the 21st-floor unit. He later put down about \$20,000 to reserve the 790-square-foot condo.

In 2006, Lowe took a new software job and moved to Long Island, N.Y. He closed on the \$371,000 condo this summer when construction finished, then put it up for sale at \$399,000.

He joined a crowded market. Developers already have 1,000 new units for sale just in 16 downtown high-rises, according to Todd Prendergast, one of the city's top condo sellers.

After just two showings and not a single offer, Lowe is considering renting the unit. "It's quiet," said his real estate agent, Jonathan Heins. "Anybody that says it's booming, it's not."

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