Date: January 29, 2025

To: House Committee on Economic Development, Small Business, and Trade

From: Vanessa Sturgeon, President & CEO, TMT Development

Subject: Perspectives from the Business Community

Chair Nguyen and members of the Committee:

Thank you for the opportunity to address you today. I come to you with an unvarnished assessment of Portland's office market—a key economic engine for the state that is currently in significant distress. The challenges facing the market are profound, with persistently high office vacancy rates, falling property valuations, and looming foreclosures of marquee buildings. These issues threaten not only Portland's economic recovery but also the property tax revenues that fund critical public services across the state.

Portland's office market is experiencing a crisis of historic proportions. As of the fourth quarter of 2024, Portland's overall office vacancy rate had risen to 24.4 percent and climbing. In the downtown core—the central business district—the situation is even more dire, with vacancy rates surging to a staggering 34.7 percent. This marks one of the highest downtown office vacancy rates in the country.

Over the course of 2024, more than one million square feet of downtown office space became vacant. These empty spaces reflect a broader trend as businesses adjust to the post-pandemic economy, with many shifting to hybrid or fully remote work models. The reduction in demand for office space has left once-thriving buildings eerily underutilized.

Compounding the problem is the reluctance of many companies to recommit to Portland. Concerns about public safety, homelessness, and perceptions of downtown Portland as an undesirable work environment have further discouraged companies from leasing space. Without a proactive response, we risk allowing the heart of Portland's economy to hollow out further. Not to mention the tax burdens that can be avoided if they just move to the suburbs and get out of Multnomah County.

The financial implications of these high vacancy rates are significant. Property owners are struggling to maintain their assets, leading to a wave of distressed sales and foreclosures.

A stark example is Montgomery Park, one of Oregon's most iconic office buildings. Originally valued at $255 million in 2019, it was sold for just $33 million in 2024—a devastating decrease in value. This is not an isolated case. Other prominent buildings in Portland's central business district are also at risk of foreclosure or fire-sale prices.

Such dramatic declines in property valuations have a cascading effect on local governments' budgets. Property taxes, based on the assessed value of buildings, are a critical revenue stream for schools, public safety, and infrastructure. As valuations plummet, so do the tax revenues that fund these essential services.

The central city of Portland alone generates an outsized share of Oregon's overall property tax revenue. While exact percentages vary by year, Portland's economic contributions are vital to the financial health of the state. Declining office valuations could result in tens of millions of dollars in lost tax revenue annually, a shortfall that would ripple through the budgets of schools, police departments, fire services, and social programs across the region.

Furthermore, the decline in Portland's office market exacerbates other challenges. Businesses and employees who leave Portland due to office market instability reduce income tax revenue, which makes up a significant portion of Oregon's general fund. The state must take these dual revenue losses seriously.

This is not just a Portland issue; it is an Oregon issue. Portland is the economic engine of the state, contributing a significant share of Oregon's GDP, income tax revenues, and property tax revenues. If the heart of Oregon's economy falters, the consequences ripple across the entire state.

The vacant office spaces are also a missed opportunity. Empty buildings result in less economic activity in surrounding areas. Restaurants, retail stores, and service providers that depend on office workers are struggling to survive. Fewer workers downtown mean fewer customers for these businesses, further compounding the economic challenges in Portland and harming the very fabric of what makes Oregon so special, the vibrancy of our small business community.

Bringing people back to the office to the degree possible is one part of the equation, but it is not a panacea. We have to be much bolder in our incentive packages to convert office buildings to other uses like housing or it won't happen, and we don't have to look far for examples of how it is executed well. New York put together a package in the late 80's and early 90's that successfully converted the garment and meat packing districts into vibrant communities filled with residents.

The Path Forward

Addressing Portland's office market crisis will require bold and collaborative action. It starts with investing in downtown revitalization to make Portland an attractive place for businesses and workers. Businesses and workers need to feel secure downtown--this is critical to rebuilding confidence. There are two relatively simple actions this body can undertake that will help address public safety concerns. Investing in small but meaningful ways, public safety and mental health and addiction services at the state level will go a long way in the following areas:

1) The Bottle Bill: when the bottle was conceived in the early 70's as an incentive to recycle, it was unimaginable that fentanyl could be purchased for 40 cents and and meth would cost one dollar. Bottle drop facilities have become incredibly dangerous and detrimental to the

neighborhoods in which they are located. The system should be taken cashless. The green bag system works well and offers a 20 percent bonus for use on groceries. Please consider addressing this legislation right away--its impact would be immediate.

Another problematic issue that is within your control to improve is the lumbering pace at which OHA moves to certify new mental health and substance use disorder physical facilities. Private companies seeking to enter the market to provide medical detox, inpatient mental health treatment and substance use disorder treatment with private and federal funding. Existing facilities that are in deplorable condition are grandfathered in, while OHA creates roadblock after roadblock for providers seeking to open new facilities that are state of the art, at no cost to the state, city or county.

Thank you for the opportunity to testify.