LAKE OSWEGO NORTH END DOWNTOWN REVITALIZATION

STAKEHOLDERS

LORA
Stakeholders Advisory Group
Friends of the Lake Oswego Library
Lake Oswego Chamber of Commerce
Lake Oswego Downtown Business District Association
Lakewood Center for the Arts

MARKET AND DEMOGRAPHIC RESEARCH

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BACKGROUND AND CONTEXT

This working paper provides a demographic analysis and an assessment of real estate market trends in downtown Lake Oswego. These trends will ultimately inform the type, scale, uses, and feasibility of Lake Oswego's potential downtown library and north anchor project. As stated at the initial meeting with the LORA Board, when the feasibility study was authorized, its purpose was to assess development opportunities for the downtown while establishing a successful library for the community, and stimulating growth, foot traffic, and economic benefits to local businesses in Lake Oswego's core. More specifically, the challenges are to determine which mix of uses will simultaneously:

1. Address the community's demand for new, interesting and exciting components that will attract Lake Oswego residents to the downtown area;
2. Create a strong sense of place and community within the downtown;
3. Help strengthen retail shops along State, First and Second Streets and along A and B Avenues;
4. Create a stronger gateway to the future development of the Foothills District project; and
5. Expand community services by offering a high quality, state-of-the-art library in the heart of downtown.

This Demographic Analysis and Market Trends component of the feasibility study has been underway since the beginning of the assignment. The preparation of this document, however, comes at a midpoint in the project during which the stakeholders have been active in meetings, gaining an understanding of the library opportunity, taking walking tours of the downtown, and other information exchanges. Further, the confidential interviews of 25 leaders from a variety of local interests (business, culture, education, library, neighborhood leadership, and more) also contributed to ideas and opinions about Downtown Lake Oswego.

Therefore, a key purpose of the Demographic Analysis and Market Trends is to further identify facts and patterns that help to establish a basis for a development program. The development program, being prepared under separate cover, is a more specific recipe for recommendations as part of the feasibility study.

It is also appropriate to point out that in the course of this work to date, certain premises have arisen—in part based on the research, the discussions with stakeholders and business and community leaders, observations about the downtown, and more. These premises can be summarized in part as follows:

1. Downtown Lake Oswego is geographically contained, if not constrained. The First Addition residential community on the north and west, along with the lake on the south, essentially sets a boundary around the downtown in three directions. The only direction that downtown can grow from in terms of intensity and urbanization (in addition to infill) is in the Foothills District. The Foothills District, a separate and significant project, is underway with predevelopment Phase I research, analysis, and planning.

2. Because the downtown core of Lake Oswego is contained, introducing large amounts of retail is not realistic. First and Second Streets and portions of A Avenue form the dominant part of the downtown retail district. While some retail exists on State Street, this is a weaker retailing street because it is one-sided and carries large volumes of traffic, and is a less pedestrian friendly environment than on A Avenue, First and Second streets, and B Avenue.

3. With advisory services (by Leland Consulting Group) for a great many downtowns throughout the country, certain trends are evident from other cities that either are or can be replicated in Downtown Lake Oswego. One of these is that in smaller downtowns such as Lake Oswego, food (eating and drinking establishments) will play a major anchor role in the retailing mix of tenants. Whereas a department store or very large national chain store might serve as an anchor in regional or community center, food tends to be a significant anchoring element in a downtown of this scale. This is very much the case in Lake View Village with the dominance of quality restaurants reinforcing the tenant mix at this highly successful mixed-use project.

4. Land prices in Downtown Lake Oswego, currently estimated at $75 to $125 per square foot, cannot support new development of one story buildings as has been the case in history when land prices were low. These land prices require, from an economic perspective, buildings of three and four stories and in some cases even higher. And while retail, food and some select services should be the dominant ground level land use, stories two, three, four or higher should definitely not have retail tenants. Multi-level retail can only work in the most intense of marketplaces with tens of thousands of pedestrians visiting the site each day. Upper floors (second and above) can either serve as office space or housing. Housing is strongly recommended. That is not to entirely discourage office development, however, office development is a use that can fit very comfortably in the Foothills District where larger footprint buildings can be established to accommodate larger corporate users, and single purpose buildings.

5. Market-based parking requirements for housing are more favorable than for office space. In a suburban market such as Lake Oswego, office will need 3 to 3.5 spaces per thousand square feet of office space. In contrast, a housing unit will only require 1 to 1.25 spaces per thousand square feet. The parking differential is therefore significant. Further, a resident living in Downtown Lake Oswego can be there (downtown) seven days a week, offering an opportunity for shopping, dining in local restaurants, frequenting entertainment venues with friends, and visiting the library, Millennium Park, and other points of interest. Office space tends to be a five-day-a-week operation with buildings closing at 5:00 p.m. on weeknights and empty on the weekends. A fairly strong premise is that housing should dominate the upper floors of buildings in the downtown. This premise is particularly relevant to Downtown Lake Oswego, given the increasing number of middle-age and older one- and two-person households that currently live in Lake Oswego—people who may want to stay in town and want quality housing of a smaller size within walking distance to dining, services, and social and cultural facilities.

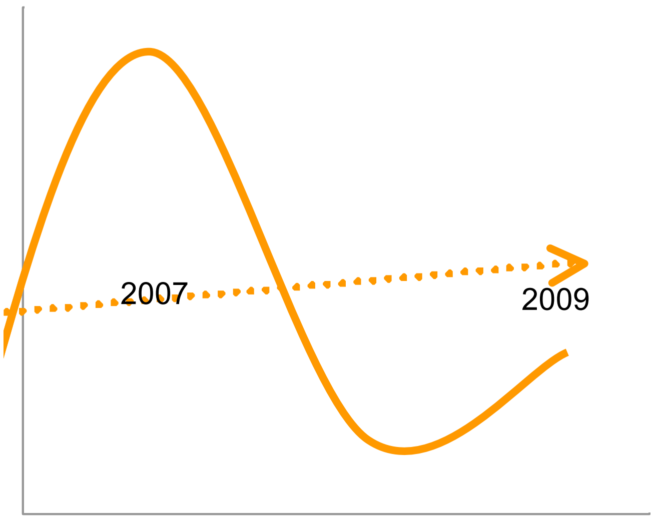
Current Market Conditions: “The Descent Slows”

The recession that began in late 2008 with sharp declines in the credit crunch and homebuilding industries has since spread to nearly every other part of the economy, across the country, and even around the world. The cumulative 3.2 percent GDP decline recorded recently is the largest since the 1930s. Now, most economists believe that the US economy is “bouncing along the bottom.” The recession introduces two relevant questions for development of the Lake Oswego North Anchor Project. First, when will the Oregon and U.S. economies recover such that consumer spending can begin to increase and new real estate development can take place in Lake Oswego? Second, how will the future consumer and real estate development environments be different from the past?

Forecasting in the Fog

Figure 1 shows the difficultly of "forecasting in the fog." Pre-crash data shows a red-hot market in which all real estate products—whether single family homes or commercial real estate--were funded and sold or leased quickly, while post-crash data shows just the opposite. Neither can be relied upon to accurately predict long-term trends.

Figure 1. Forecasting in the Fog



Source: Leland Consulting Group.

The future reality is yet to be discovered and, for planning purposes, we are working from a belief that somewhere in the middle is a reasonably safe predictor of future stabilization. This principle is likely to be true with respect to measurements such as annual housing starts, commercial real estate absorption, and other metrics in Lake Oswego.

The downturn and eventual upturn—expected by many in 2011 or later—will be "lumpy." Some markets—defined geographically or by real estate product type—will fare much better than others. For example, at present, the apartment market is in most cases seen as a more desirable area for investment than single family homes—which are in most areas overbuilt. A population bubble of 25 to 34 year olds (primary apartment renters) is now entering the demographic pipeline with some strength.

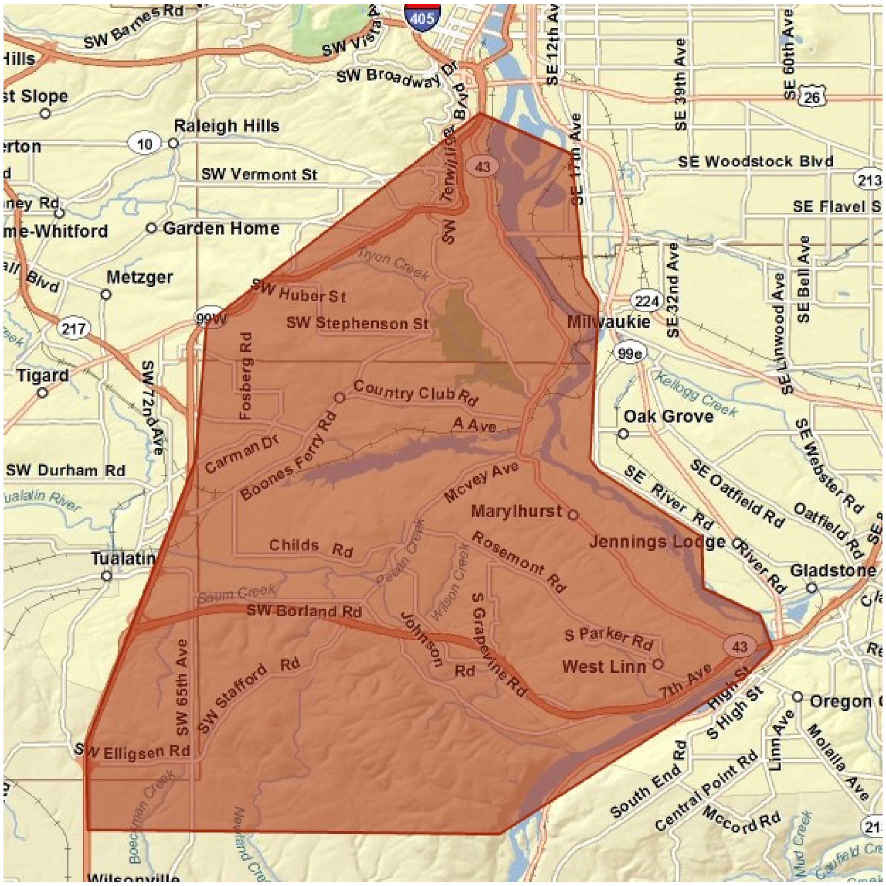
Dallas has been the country's best major single family home market while the average sale price in Las Vegas and Phoenix (with severe overbuilding) is down approximately 50% from mid-2007.

Likewise, in retail, some stores will fare better than others or even be more profitable than before. Sales among fast food and casual restaurants are up. Movie theaters are doing well as consumers redefine leisure as dinner and a movie rather than a weeklong beach vacation.

The Primary Market Area

This market reconnaissance identified key market areas by use and relevance. The primary retail trade area is shown below in a 2009 Retail Market Study conducted by Marketek for the City of Lake Oswego. Although this study focused entirely around retail trends, the defined market area nearly represents the components of a three-mile ring around the downtown area west of the Willamette.

Figure 2. The Primary Market Area for Lake Oswego



Source: ESRI, Leland Consulting Group.

This market area is considered representative of most typical usage of the downtown retail services. Therefore, the evaluation of market trends presented in this report will use the primary market area defined by Marketek.

SocioDemographic Attributes of Downtown Lake Oswego

Table 1 below demonstrates sociodemographic attributes of the population within the defined market area, as compared to the city of Lake Oswego, Clackamas County, the Portland MSA, and the State of Oregon.

Table 1. Sociodemographic Profile of the Primary Market Area and Related Areas[1]

Demographic Attribute	Primary Market Area	City of Lake Oswego	Clackamas County	Portland-Vancouver (MSA)	State of Oregon
2010 Total Population	120,074	37,928	384,785	2,255,276	3,865,839
2010 Household Population	118,467	37,743	380,438	2,221,379	3,784,219
2010 Family Population	93,034	30,316	315,648	1,740,809	2,967,198
2010 Population Density	1,990.20	3,665.80	206	337.4	40.3
2010 Total Households	48,974	15,796	144,733	866,944	1,508,399
2010 Average Household Size	2.42	2.39	2.63	2.56	2.51
2010 Family Households	31,246	10,239	102,225	558,096	979,636
2010 Average Family Size	2.98	2.96	3.09	3.12	3.03
2010 Median HH Income	77,017	83,343	66,333	61,823	53,104
2010 Per Capita Income	43,159	47,889	31,850	29,095	26,026
2000-2010 Pop: Annual Grwth Rt	0.77	0.71	1.26	1.54	1.2
2000-2010 HHs: Annual Grwth Rt	0.74	0.66	1.19	1.48	1.21
2000-2010 Fams: Annual Grwth Rt	0.61	0.56	1.07	1.38	1.08
2000-2010 PCI: Annual Grwth Rt	1.79	1.27	2.01	2.19	2.14
2000 Occupied Housing Units	45,395	14,769	128,201	745,531	1,333,723
2000 Occupied HU: 1+2 Person HH	28,559	9,424	74,238	449,509	827,467
Percent 1 and 2 person households	62.9	63.8	57.9	60.3	62

Source: ESRI, Leland Consulting Group

Table 1 highlights the following attributes:

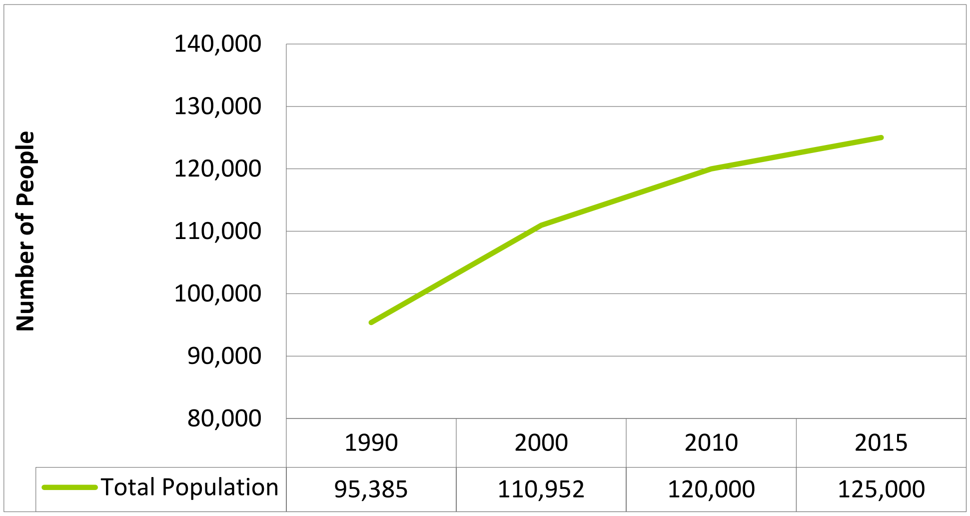
- The market area shows an annual growth rate of 0.77 percent, less than half that of the county and of the Portland – Vancouver MSA.
- Nearly 63 percent of the market area, as well as the City of Lake Oswego, is composed of one- and two-person households. This, combined with an aging population, indicates a trend toward urban housing.
- The median annual household income within the market area exceeds that of Clackamas County by nearly $11,000, and it exceeds the State's median household income by nearly $24,000. However, incomes within the defined market area are less than that of the entire city of Lake Oswego by $6,326, indicating that there is greater spending potential among residents of the City as a whole than simply in the defined market area. If the project serves as a strong anchor, drawing destination traffic to the downtown area, Downtown could benefit from a wider market area to serve its retail, and would therefore also benefit from greater spending potential.

Population Growth

Figure 3 illustrates total population growth throughout the primary market area since 1990, and also identifies the estimated 2010 population and adjusted projections for 2015. Figure 3 shows stronger population growth between 1990 and 2000, and slower growth between 2000 and 2010, after which time the growth rate is projected to continue to slow, though not decline.

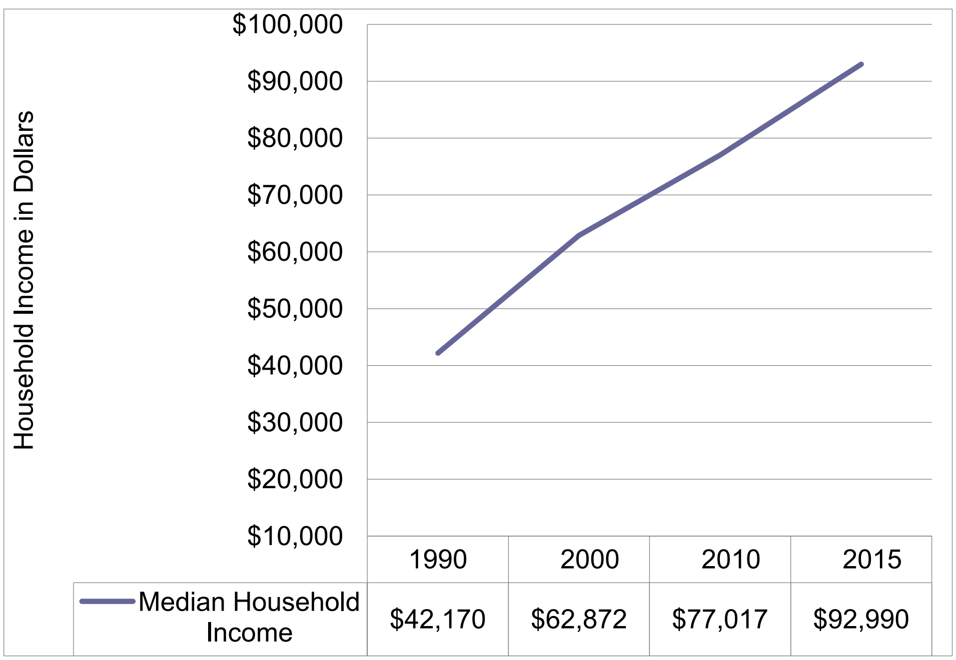
[1] 2010 data estimated.

Figure 3. Total Population Growth within the Primary Market Area between 1990 and 2015[2]



Source: ESRI, Leland Consulting Group.

Figure 4. Median Household Income[3]



Source: Leland Consulting Group.

Median Household Income within the primary market area has increased by approximately $35,000 within the last 20 years.

[2] 2010 and 2015 data estimated.
[3] 2010 and 2015 data estimated.

TAPESTRY SEGMENTATION

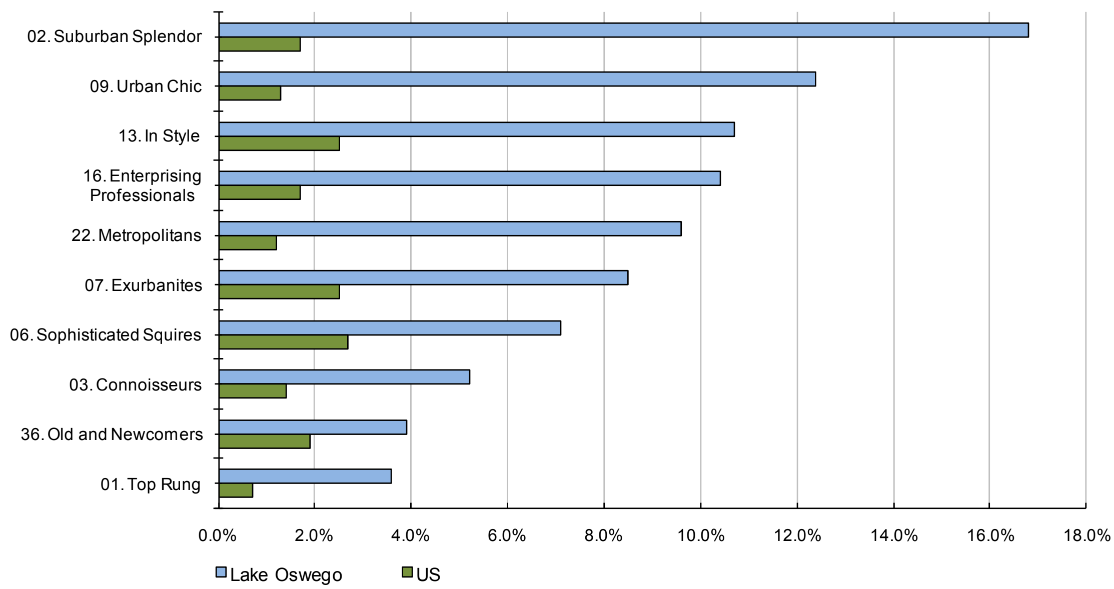
"Tapestry segmentation" is one way of evaluating the demographics of a given area. Tapestry segments go beyond raw data to indicate who the residents of an area are in terms of their lifestyles, pastimes, families, recreational and housing choices, and other attributes. For example, tapestry segments suggest what kinds of entertainment people like and what kinds of cars they drive.

While tapestry segments are often more intuitive than pure Census data, they are based on a variety of public and private data including the US Census and other sources. The segments are evaluated and defined by ESRI Business Analyst, a private proprietary data service.

Understanding more about these demographic groups or segments can help to shape a the portrait of the community, and the potential pool of households and individuals who may choose to shop, live, work, and recreate in Downtown Lake Oswego.

Figure 5 below shows the top ten tapestry segments present in the primary market area and the prevalence of these groups nationally. The top five segments are described in detail on the pages that follow.

Figure 5. Top Ten Tapestry Segments, Primary Market Area



Source: Leland Consulting Group, ESRI Business Analyst.

Suburban Splendor

Demographic
Suburban Splendor residents are families who live in growing suburban neighborhoods. Married couple families with and without children comprise 8 in 10 of these households. Household growth in these suburbs is 2 percent annually. The median age is 41.4 years, and half of the population is aged 35–64 years. These low-diversity neighborhoods are predominantly white.

Socioeconomic
These successful suburbanites are the epitome of upward mobility, just a couple of rungs below Top Rung in affluence. Suburban Splendor residents have a median household income of $128,712 and a median net worth of $676,192. The wealth of Suburban Splendor residents is more than double that of the U.S. median. Labor force participation rates are high for both men and women; many households are two income. Most employed residents work in management, professional positions, and sales. They supplement their salaries with income from interest, dividends, and rental property at a rate much higher than the national level. Well educated, more than half the population aged 25 years and older hold a bachelor's or graduate degree.

Residential
Sharing the lead with Top Rung for homeownership at 91 percent, Suburban Splendor neighborhoods are located in metropolitan areas throughout the U.S. Their large, luxurious homes have a median home value of $396,762. Located in growing neighborhoods, 60 percent of the houses are relatively new, built after 1979. Because two-income households commonly require multiple vehicles, it is not surprising that 85 percent of these households own two or more vehicles.

Preferences
Hot tubs, espresso machines, granite countertops, and the latest interior design amenities are featured in Suburban Splendor homes. A main focus is home improvement and remodeling projects done mostly by contractors, although residents will tackle interior painting jobs. They own a wide array of electric tools that they may or may not use regularly. Residents hire a lawn maintenance service to cut the grass but like to plant their own shrubs and trees; treat their lawn with fertilizer, weed control, or insecticide; and sow grass seed. They have all the latest electronic gadgets including digital camcorders, video game systems, projection screen TVs, and numerous cell phones. This market prefers to own or lease a minivan or full-size SUV and is one of the top markets for owning or leasing a luxury car.

They devote free time to family; travel; and self-improvement pursuits such as physical fitness, reading, visiting museums, and attending the theater. They keep fit by working out weekly at a club or exercising on a treadmill or stationary bike at home in addition to skiing, ice skating, playing tennis and golf, and bicycling. They read the newspaper, books, and magazines (particularly epicurean, airline, travel, business, finance, and boating). Because they travel extensively in the United States and overseas for business and pleasure, they rack up the miles in frequent flyer programs. A favorite hobby is furniture refinishing. When listening to the radio, they prefer classical music as well as all-news, all-talk, news/ talk, and sports programs.

Suburban Splendor residents are members of business clubs and are active investors, using the Internet to track and trade their stocks, bonds, and funds. They hold home equity credit lines, consult with financial planners, use stock rating services, and own life insurance policies valued at approximately $500,000. They shop at upscale retailers, home stores, and wholesalers.

Urban Chic

Demographic
Urban Chic residents are professionals who live a sophisticated, exclusive lifestyle. More than half of these households are married-couple families, similar to the U.S. proportion. Fewer than half of them have children. Unlike the rest of the United States, there is a smaller proportion of single parents and a higher proportion of singles and shared households. The median age of 42.4 years is older than the U.S. median of 36.9 years, while the diversity index of 52 is lower than the U.S. figure of 61.

Socioeconomic
A median household income of $89,317 and a median net worth of $324,280 enable residents of Urban Chic neighborhoods to live in style. They are well-educated; more than half of residents aged 25 years and older hold a bachelor's or graduate degree; 80 percent have attended college. They work in a variety of occupations, especially professional, management, and sales positions in the scientific and technical services, educational services, and health care industry sectors. Twenty percent of these households earn income from self-employment ventures; 55 percent receive additional income from investments.

Residential
Major concentrations of Urban Chic neighborhoods are found in urban areas on the northern and southern California coasts and along the east coast. These neighborhoods parallel the United States for housing type and homeownership. Homes range in age from pre-World War II to post-2000, and types from high-rises to single-family houses. Sixty-three percent of the housing is single-family; 27 percent is apartments in multiunit buildings. The rate of homeownership is 67 percent. The median home value is $554,159, more than three and one-half times the U.S. median.

Preferences
Urban Chic residents focus more on their lifestyle than ambience. They travel extensively, visit museums, attend dance performances, shop at upscale stores, and do volunteer work. To stay fit, they downhill ski; go backpacking, hiking, and biking; practice yoga; do aerobics; play tennis; and lift weights. They buy natural or organic food and take a multitude of vitamins and dietary supplements. They drink imported wine and truly appreciate a good cup of coffee.

These busy, tech-savvy residents use PCs extensively. This is a top segment to own an Apple computer. They go online to arrange travel; get the latest news; check their investment portfolios; trade stocks; and buy books, clothes, flowers, and tickets to concerts and sports events. They use credit cards, often charging more than $700 a month. They also own shares in stocks, tax-exempt funds, mutual funds, and money market funds. They will occasionally use a financial planner or brokerage firm.

Urban Chic is one of Tapestry's top segments for radio listening; these residents tune in to classical music, all-talk, and public radio. They are also avid readers of newspapers; books; and general editorial, news and entertainment, business, and home service magazines. They seldom watch TV; however, their favorite channels broadcast news programs and documentaries.

In Style

Demographic

In Style residents live in the suburbs but prefer the city lifestyle. Professional couples predominate. Household distributions by type are similar to those of the United States. Married-couple families represent 54 percent of households. Households without children (married couples without children, single-person, shared, and other family types), comprise more than two-thirds of all households. T his count is increasing. The population is slightly older, with a median age of 39.9 years. There is little diversity in these neighborhoods.

Socioeconomic

In Style residents are prosperous, with a median household income of $71,177 and a median net worth of $188,492. Wages and salaries provide income for 84 percent of the households; 47 percent also receive some form of investment income. In Style residents are more educated compared to the U.S. level: 42 percent of the population aged 25 years and older hold a bachelor's or graduate degree. Labor force participation is 70 percent; unemployment is 8.2 percent. Forty-six percent of employed residents have professional or management positions, with above average concentrations in the finance, insurance, health care, technical services, and education industry sectors.

Residential

In Style residents live in affluent neighborhoods of metropolitan areas across the country. More suburban than urban, they embrace an urbane lifestyle; 14 percent prefer townhouses to traditional single-family homes chosen by 56 percent of the households. The median home value is $224,030. The 69 percent rate of homeownership is just slightly above average. More than three-quarters of the housing was built in the last 30 years.

Preferences

Computer savvy In Style residents go online daily to research real estate information; do their banking; track investments; trade stocks; book travel; and buy computer hardware or software, concert tickets, or tickets to sporting events. They use a financial planner and invest in stocks, bonds, money market funds, money market bank accounts, and securities. Looking toward the future, residents hold life insurance policies and contribute to IRA and 401(k) retirement accounts. To maintain their homes, they hire professional household cleaning services and contractors to remodel their kitchens.

Residents stay fit by exercising, eating a healthy diet to control their weight, buying low-fat foods, and taking vitamins. They attend live musical performances and gamble at casinos. They take domestic vacations to hike, golf, and go backpacking. They read magazines, listen to news-talk radio, and watch professional sports events and golf on TV.

Enterprising Professionals

Demographic

Young, educated, single, married, working professionals, residents of Enterprising Professionals neighborhoods have a median age of 32.4 years. Forty-three percent of the households are singles who live alone or share housing with roommates, and 43 percent are married couple families. One of the fastest-growing markets, with an annual household growth of 2.2 percent per year since 2000, the households in this segment comprise approximately 2 percent of total U.S. households. The diversity of the population is similar to that of the U.S. Most of the residents are white; however, 12 percent are Asian.

Socioeconomic

Median household income is $70,207; the median net worth of $79,982 is growing. Ninety percent of the households earn income from wages and salaries; 39 percent receive income from investments. This is an educated group: approximately half of the population aged 25 years and older hold a bachelor's or graduate degree; more than three in four have attended college. These working professionals are employed in various jobs, especially in management, finance, computer, sales, and office/administrative support. Labor force participation is 75 percent.

Residential

Enterprising Professionals residents move frequently to find growth opportunities and better jobs, especially in cities such as Chicago, Atlanta, and Seattle. Forty-six percent of the households are located in the South, 29 percent are in the West, and 20 percent are in the Midwest. They prefer to own instead of rent in newer neighborhoods of townhouses or apartments. The median value is $229,129 for owner occupied houses. For those who rent, the average gross rent is 36 percent higher than the U.S. average.

Preferences

They are young and mobile with growing consumer clout. Those who rent hold renter's insurance policies. They rely on cell phones and e-mail to stay in touch. They go online to download videos and music, track their investments, and shop for items, including personal computers and software. They own laptops, video game systems, and digital camcorders. They love to travel abroad and in the U.S. often. They play video games, visit theme parks, jog, and swim. They read computer, science, and technology magazines and listen to alternative, public-all-talk, and sports radio. They eat out at Cheesecake Factory and Chili's Grill and Bar. They shop for groceries at stores such as Publix and Albertson's.

Metropolitans

Demographic
Residents of Metropolitans communities prefer to live in older city neighborhoods. Approximately half of these households are singles who live alone or with others; 40 percent are married-couple families. One in four of the residents is aged 20–34 years; the median age is 37.6 years. Diversity is low; most of the population is white.

Socioeconomic
The labor force participation rate of 68 percent is well above average; the unemployment rate is 8.2 percent. Half of the residents who are employed work in professional or managerial positions. More than 75 percent of the population aged 25 years and older have attended college or completed a degree program. Thirty percent have earned a bachelor's degree, and 23 percent hold a graduate degree. The median household income is $61,965; the median net worth is $116,217. Nearly half of the households earn extra income from interest, dividends, and rental properties.

Residential
Distributed throughout the country, residents of Metropolitans neighborhoods live in an eclectic mix of single family homes and multiunit buildings. Sixty percent of the housing units were built before 1960. These neighborhoods change slowly; since 2000, the annual household growth is 0.4 percent. The homeownership rate is 60 percent, and the median home value is $195,115.

Preferences
Metropolitans residents are no different from other owners of older homes who incur costs for maintenance and remodeling. They will contract for lawn maintenance and professional housecleaning services. Many will own or lease a station wagon. Planning for the future, residents own shares in investment funds, contribute to IRA savings accounts, and hold large life insurance policies.

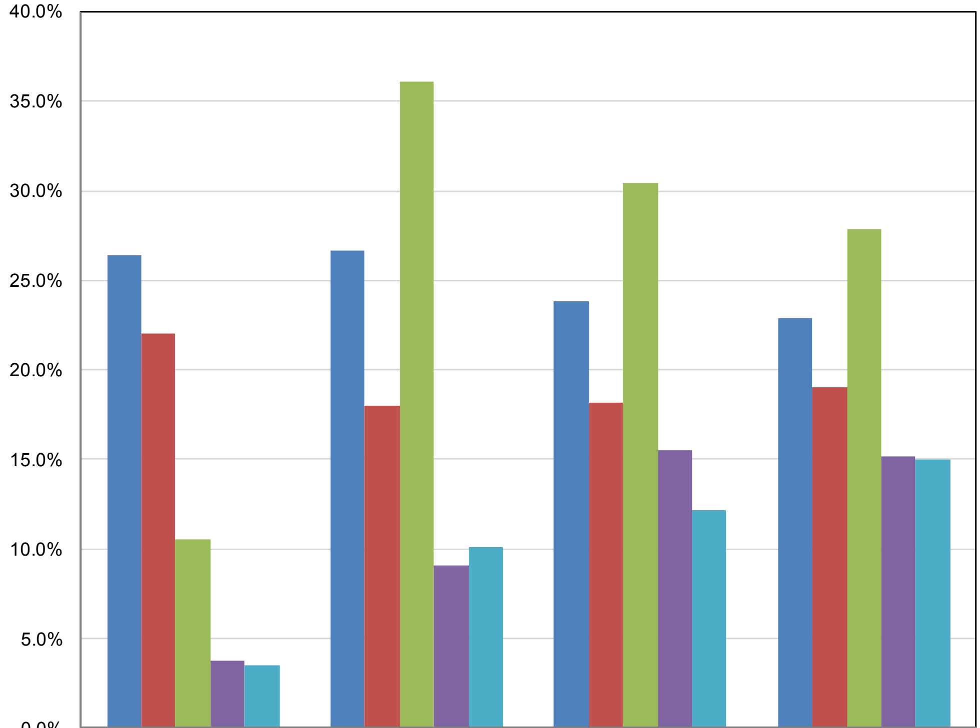
These residents pursue an active, urbane lifestyle. They travel frequently for business and pleasure. They listen to jazz, classical, public, and alternative music radio. They go to rock concerts, watch foreign films on DVD, read women's fashion magazines, and play a musical instrument. They also practice yoga and go kayaking, hiking/backpacking, and water and snow skiing. Active members of their communities, Metropolitans residents join civic clubs, volunteer for environmental causes, address public meetings, and work for a political party or candidate. They also belong to business clubs and contribute to PBS. They prefer to own and use a laptop computer, preferably an Apple. They go online daily to download music and buy books, airline tickets, CDs, and clothes. They also order merchandise by mail or over the phone.

DEMOGRAPHICS

Age Distribution in Population of Primary Market Area

Figure 6 shows the distribution of ages for residents in the primary market area since 1990, including 2010 estimates and adjusted projections for 2015.

Figure 6. Total Population Growth within the Primary Market Area[4]



	1990	2000	2010	2015
Age 0-19	26.4%	26.7%	23.8%	22.9%
Age 20-34	22%	18.0%	18.2%	19.0%
Age 35-54	10.5%	36.1%	30.4%	27.9%
Age 55-64	3.8%	9.1%	15.5%	15.2%
Age 65+	3.50%	10.1%	12.2%	15.0%

Source: Leland Consulting Group, ESRI Business Analyst.

Highlights pertaining to age distribution within the market area include:

- Age distribution in the 1990s favored a younger population, including children, 20-34 year olds, and 35-54 year olds with a small percentage of the population exceeding 55 years of age.
- Between 1990 and 2000, the market area showed a substantial increase of 35-54 year olds as well as 54-64 year olds and retirees (over 65).

[4] 2010 and 2015 data estimated.

- In 2000, although the percentage of children (0-19 years) remained stationary, the market area witnessed a shift toward older age groups with a nearly 7 percent increase in retirees over 65.
- 2010 is estimated to show a decline in 35-54 year olds and a more balanced distribution across age groups.
- It is projected that by 2015, people over the age of 55 will comprise 30 percent of the population within the market area. Another 27.9 percent will include adults between 35 and 55 years old.
- Market trends indicate that the primary market show an aging population that will invariably display different shopping and housing preferences than their younger counterparts.

Changing Lifestyle Preferences

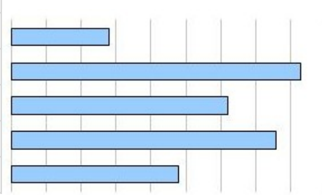
The nation's changing demographics—embodied in an evolving set of lifestyles and preferences—will have a dramatic impact on retailing today and in the future.

The lifestyles and preferences of the three primary shopping generations—Baby Boomers, Generation X, and Generation Y/Echo Boomers--will have the greatest impact. As the largest and probably most influential market in downtown Lake Oswego, the Baby Boomers offer one example of how demographic changes will affect downtown residential and retail markets.

As they have in the past, Baby Boomers (between the ages of 43 and 61) will exert a considerable influence on the next generation of retail, due in part to the sheer size of the cohort. By 2030, approximately 80 million, or one in five Americans, will be at or past the age of retirement—the largest senior population the country has ever seen. Studies indicate that as many as a third of this boomer population is at least somewhat likely to relocate to a more urban setting—for the arts, convenience, excitement, and to continue participating part-time in the workforce. Their preferences for comfortable, convenient, meaningful, and experiential retail; community connections; and other amenities, should be taken into account in Downtown Lake Oswego.

Table 2. Major Generations and their Share of National Population

Generation	Born	Age Today (2010)	Percent of National Population (2006)	Total National Population in Millions (2006)
Eisenhowers	Before 1946	65+	16%	48
Baby Boomers	1946 - 1964	46 - 64	26%	76
Generation X	1965 - 1980	30 - 45	21%	62
Gen Y / Echo Boomers	1981 - 1999	11 - 29	28%	83
Post Echo	After 2000	0 - 10	9%	28



Source: RCLCo., Claritas, Inc., National Center for Health Statistics, Leland Consulting Group.

Aspects of Baby Boomers' profiles include:

- First experimentation and idealism, then hedonism; boomers see themselves as "forever young." "Baby Boomers have made it pretty clear that 1) they're not ready for the rocking chairs yet and 2) they're not planning to scrimp along the way." (*PlainVanillaShell*)
- "The quest for sensuous gratification has long since shifted its focus to products like artisanal cheese and single-malt Scotch… [Their energy] has been diverted into aerobics and yoga." (*Newsweek*)
- Many are down-sizing and urbanizing, seeking residential and, thus, retail choices close to home.
- Appreciate implicit nods to aging bodies: scattered seating; less stooping for items; clear aisles, easy-to-read signage.
- Preferred retailers: Whole Foods; wine tasting rooms; art galleries.

Ethnicity and Education

While Lake Oswego is mostly Caucasian (93.7 percent in 2000) within the 5 minute drive time area, it is becoming more diverse, projected to decrease to 91.6 percent white by 2014. The Asian or Pacific Islander ethnic group is projected to grow from 3.5 percent in 2009 to 4.0 percent by 2014. The Hispanic ethnic group is expected to grow from 3.3 percent to 4.0 percent by 2014.

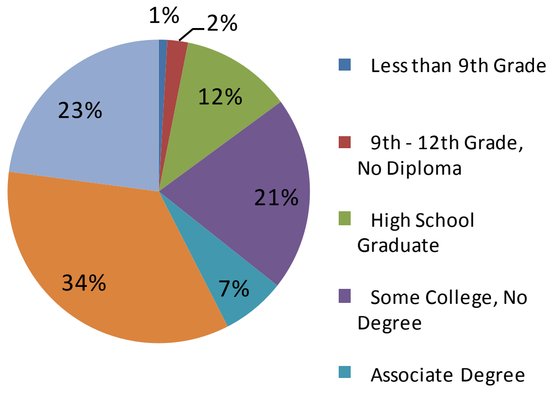
Table 3. Main Ethnic Groups in Lake Oswego[5]

Main Ethnic Groups within Lake Oswego				
		5 Minute	10 Minute	15 Minute
White	2000	93.7%	90.9%	86.1%
	2009	92.4%	89.0%	83.2%
	2014	91.6%	87.7%	81.5%
Asian or Pacific Islander	2000	2.7%	4.0%	4.2%
	2009	3.5%	5.0%	5.3%
	2014	4.0%	5.7%	6.0%
Hispanic	2000	2.3%	3.0%	6.1%
	2009	3.3%	4.4%	8.8%
	2014	4.0%	5.3%	10.6%

Source: Leland Consulting Group, ESRI Business Analyst.

[5] 2009 and 2014 data estimated.

Figure 7. Estimated 2010 Population 25+ by Educational Attainment



Source: Leland Consulting Group, ESRI Business Analyst.

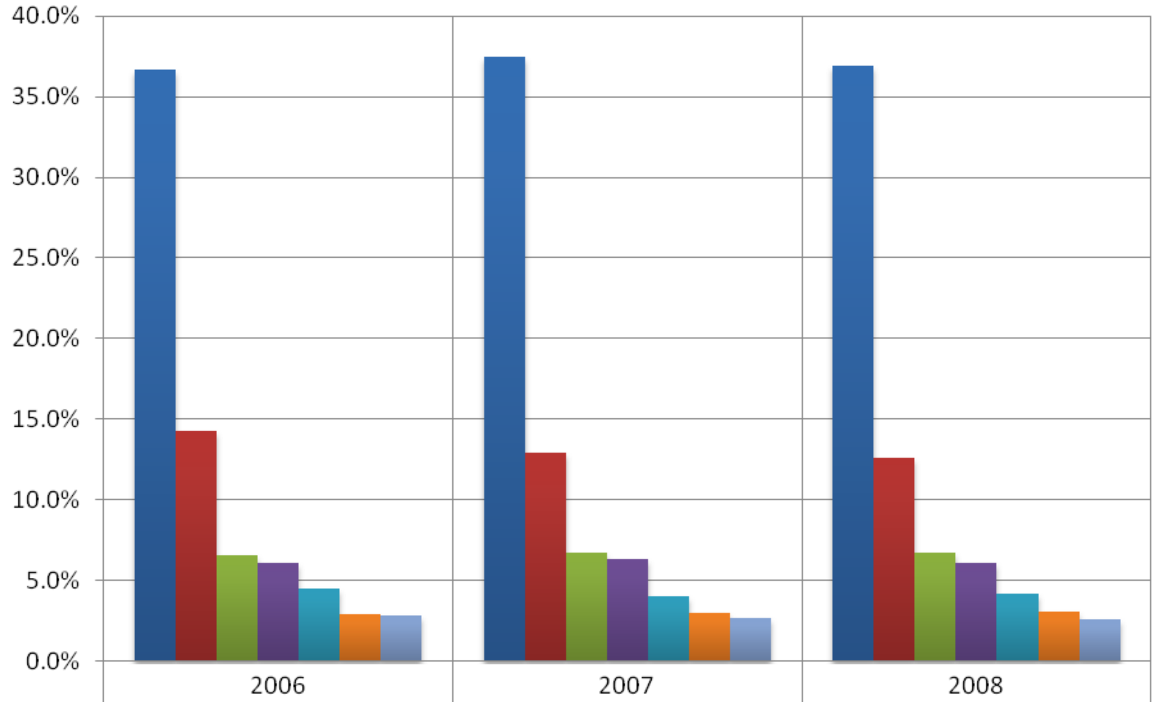
The figure above indicates that the population with the market area has achieved very high levels of education, with 62 percent of adults 25 and over having achieved some college. This is a highly educated community that values, among other things, education and the use of its library services.

Commutershed

As shown in Figure 8, residents of Lake Oswego commute to work throughout the Metropolitan region. However the greatest commuting exchanges of both residents of Lake Oswego and people employed in Lake Oswego occur between Lake Oswego and Portland.

Approximately 12 percent of Lake Oswego residents work in Lake Oswego. Nearly 37 percent of Lake Oswego residents work in Portland. About 24 percent of workers employed in Lake Oswego commute from Portland.

Figure 8. Where Lake Oswego Residents Work



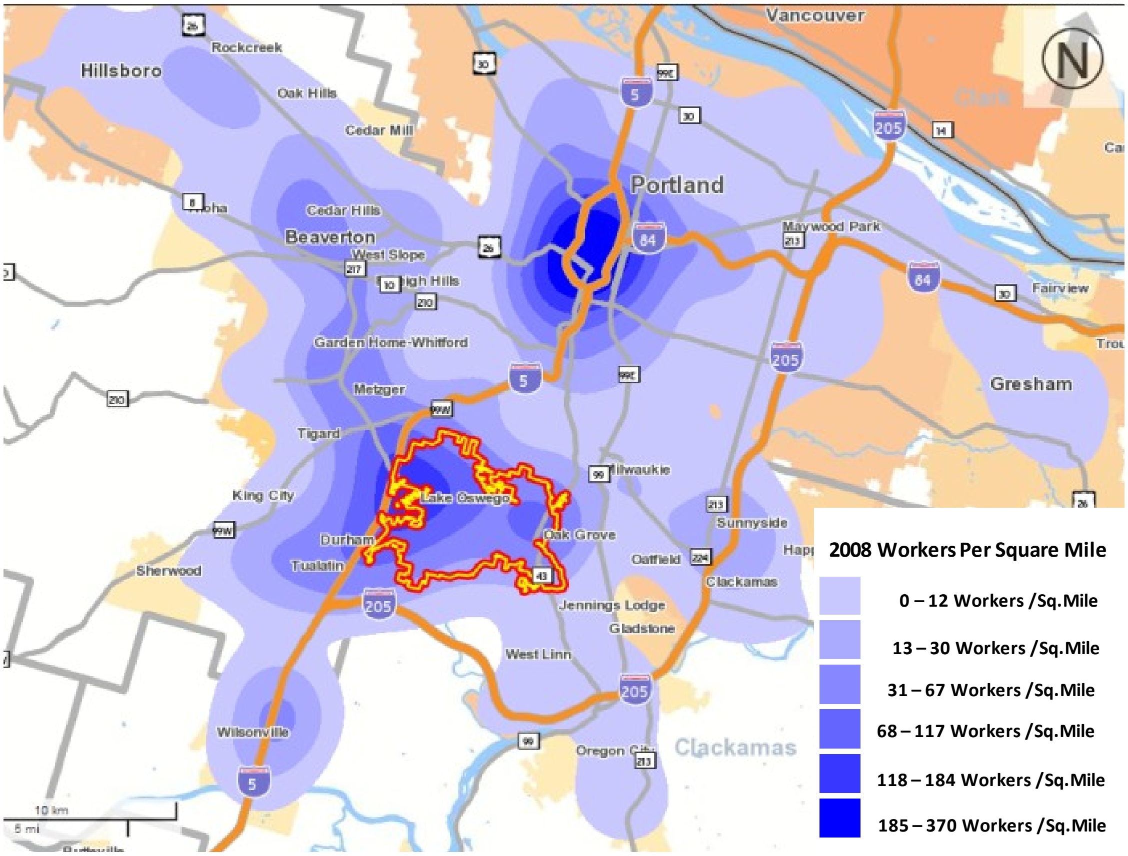
	2006	2007	2008
Portland	36.7%	37.5%	36.9%
Lake Oswego	14.3%	12.9%	12.6%
Beaverton	6.6%	6.7%	6.7%
Tigard	6.1%	6.3%	6.1%
Tualatin	4.5%	4.0%	4.2%
HIllsboro	2.9%	3.0%	3.1%
Wilsonville	2.8%	2.7%	2.6%

Source: Leland Consulting Group, ESRI Business Analyst.

With at least 185 jobs per square mile, Downtown Portland shows the highest employment concentration of Lake Oswego residents. Another strong commuting pattern can be seen emanating from Lake Oswego to Kruse Way and continuing diffusely out along Highway 217 and into Hillsboro. After Portland, Beaverton and Tigard show the highest commuter exchange with Lake Oswego compared to other cities within the metropolitan region.

Figure 9 below translates the data from Figure 8 into a map format, illustrating the commute destinations for Lake Oswego residents. As shown above, the most popular destination is the City of Portland, followed by Lake Oswego itself, and various Washington County locations.

Figure 9. Commuting Patterns of Lake Oswego Residents



Source: US Census Bureau.

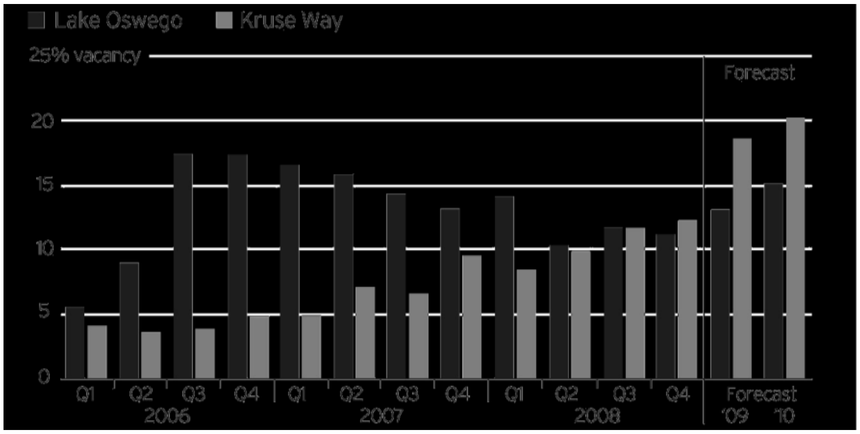
OFFICE ASSESSMENT

Nationally, the office market may continue to struggle to recover until the unemployment rate decreases significantly and job growth occurs. International finance firm UBS[6] considers the office outlook to be the least positive of the sectors, due to the severity of job losses. The vacancy rate of the office sector continues to rise, with a projected peak of 19 percent in 2010. The report forecasts weak demand to suppress absorption and result in a rent decrease of by an estimated 3 percent in 2010.

Historically, Lake Oswego has had more substantial vacancy rates relative to Kruse Way, at times nearly 15 percent higher. Figure 10 below, published by CB Richard Ellis, provides a historical comparison of Lake Oswego vacancy rates relative to Kruse Way.

Although Kruse Way boasts the highest concentration of Class A office space outside of downtown Portland, forecasts for 2009 and 2010 showed projected office vacancy in Kruse Way to top 20 percent. According to PSU's Quarterly & Urban Development Journal[7], the Washington Square/Kruse Way submarket ranks 6th in total vacancy, with 21.1 percent, of the total leasable area of 6,140,468 square feet sitting vacant at the end of the first quarter.

Figure 10. Lake Oswego and Kruse Way Vacancy Rates



Source: CB Richard Ellis, The Oregonian.

A recent DJC article[8] describes the past few years of vacancies and crisis in Kruse way. "According to Gordon King, vice president at Colliers International, two waves of vacancy have already hit Kruse Way. The first came in 2006, when the mortgage meltdown led to the vacancy rate rising from 3.7 percent in the second quarter to 10 percent by the end of the year. Then, the overall economic collapse contributed to the vacancy rate rising from 15 percent to 23 percent in the fourth quarter of 2008. Now, King said, companies' relocations to downtown Portland will likely trigger a third wave."

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[6] Global Real Estate Research, Outlook 2010 – US, UBS
[7] Center for Real Estate, Quarterly & Urban Development Journal, 2nd Quarter 2010
[8] "Kruse Way no longer belle of the ball", Daily Journal of Commerce, April 8,2010

Another factor that has impacted vacancy at Kruse Way was the construction of Kruse Oaks III at 5500 Meadows Road, which introduced another 110,000 square feet of supply into the market.

In consideration of existing excess supply and capital markets remaining frozen, and very cost conscious business environment, new construction office buildings would be a hard sell to lenders and lower cost existing space would likely be preferred over new construction.

Signs of Recovery

Nationally, office markets are showing gradual signs of recovery.

- National office vacancy levels are down for the first times since 2007, closing at 30 basis points lower than the previous quarter.
- 58 percent of US markets showed positive absorption in the second quarter of 2010.
- For the first time since early 2008, rents are stabilizing and landlords are offering fewer concessions for tenant improvements or rent abatement as the market improves.

In Kruse Way, similar trends are emerging with Q2 of 2010 showing 90,000 square feet of office leases. Note: these are shorter term observations. The appeal of Kruse Way office will recover once the overall market becomes stronger.

DOWNTOWN RETAIL

2009 was a very, very tough year for retailers, retail developers, and commercial property owners, as demonstrated by a sharp drop in consumer spending, the bankruptcy of the nation's second largest mall operator General Growth properties, and a wide variety of store closures.

In the short term, the name of the game is to keep existing stores open, operating, and profitable, by using every tool available. In the long term, though, there will be opportunities to help existing retailers expand, attract new shops and fill vacant spaces, and eventually vacant or underdeveloped properties.

As Lake Oswego reflects on the conditions of its downtown retail core and its strategy going forward, it is important to remember the fundamentals of retail. According to the Urban Land Institute, these fundamentals are:

- Central location. Stores should be conveniently located vis a vis their target markets. For example, office supply stores will naturally locate downtown near their target markets. Home and garden stores geared towards large-lot homes will not. Careful analysis of target markets will reveal which retailers are right for downtown.
- High visibility. Retailers almost always seek locations where they are likely to be seen by thousands of passers-by every day. Most retail that is hidden will struggle. This principle may be important on some of Downtown Lake Oswego's less-traveled streets.
- Easy access. Shoppers should be able to get to stores easily, whether by car, transit, foot, bike, or other mode.
- Continuity. Pedestrian-oriented retail destinations and districts should feature continuous retail or active frontages. When storefronts are empty, shoppers turn around.

Figure 11. Ten Principles for Rebuilding Neighborhood Retail

1. Great Streets Need Great Champions
2. It Takes a Vision
3. Think Residential
4. Honor the Pedestrian
5. Parking is Power
6. Merchandise and Lease Proactively
7. Make it Happen
8. Be Clean, Safe, and Friendly
9. Extend Day into Night
10. Manage for Change

Source: Urban Land Institute.

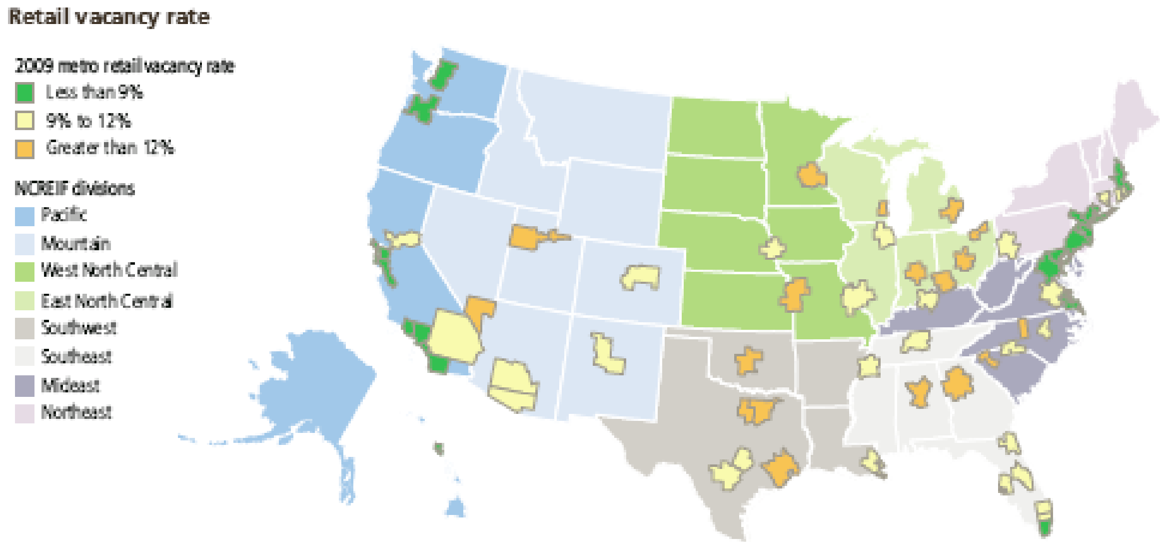
Retail Assessment

In a report by UBS[9], the outlook for retail remains negative, but has improved over 2009. Consumer confidence is growing. The Consumer Confidence Index (CCI) rose from 30 in the first quarter 20009 to 52 in the third quarter, and is projected to reach 85 in 2010. UBS also notes that necessity based retail, such as food and drug sales have been more resilient than economically sensitive retail. Grocery-anchored centers are expected to hold up well through

[9] *Global Real Estate Research, Outlook 2010 – US*, UBS

2012. The Portland metropolitan area has fared better than many other areas across the nation, as seen in Figure 12.

Figure 12. Nationwide Retail Vacancy Rate



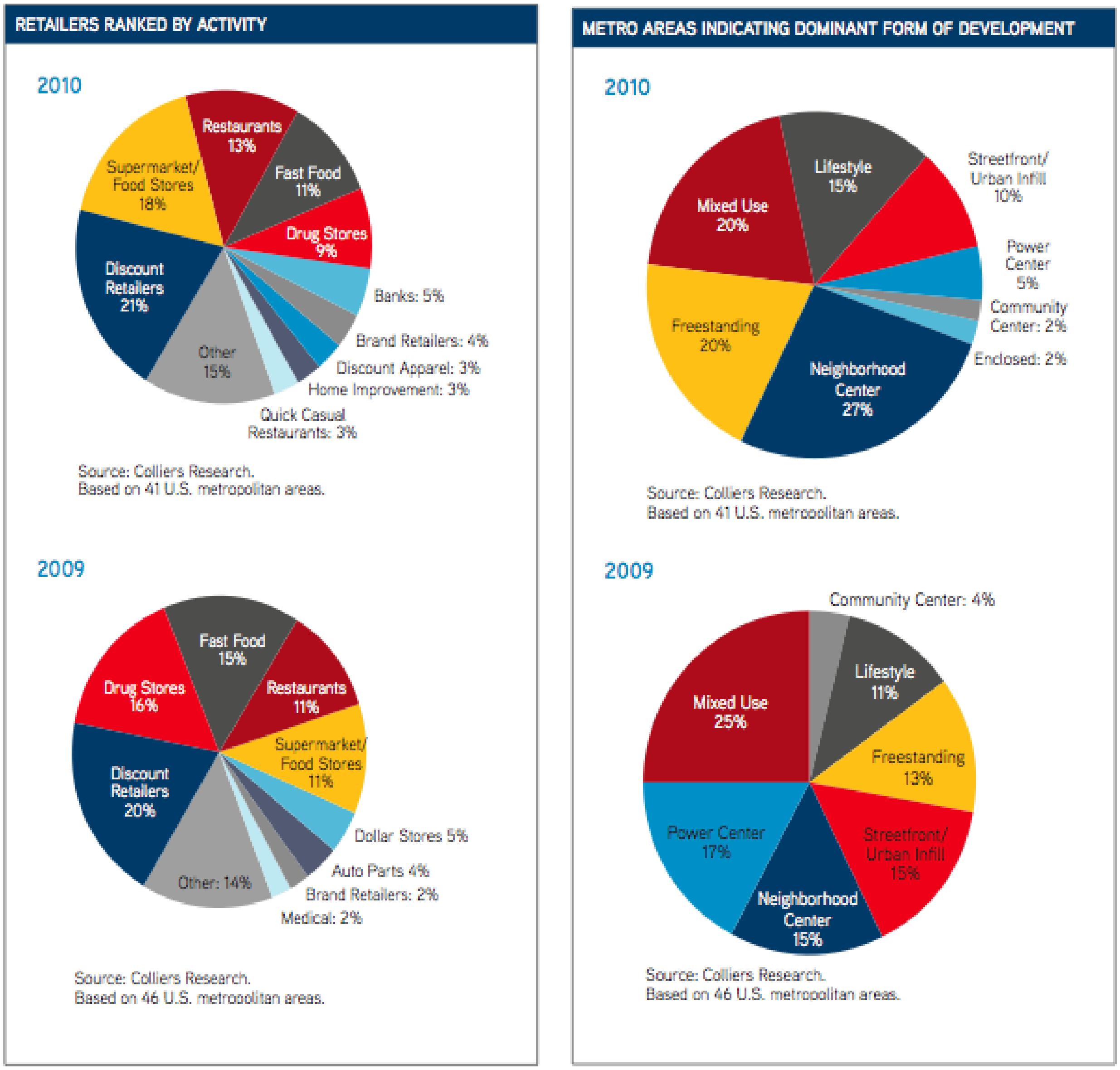
Source: UBS.

Retail in Transition

The economic downturn has had a substantial impact on shoppers' behavior and on the types of businesses that survive in today's environment. Between 2009 and 2010 alone, we have seen dramatic shifts both in consumer behavior and retail formats that are expanding and thriving despite challenging times. Below is a chart that depicts the shifts in retail activity within the last year.

According to RetailWire and Dechert-Hampe & Co., "the convenience and ease of shopping afforded by neighborhood markets and other small format grocery is predicted to have continued appeal to consumers." Convenience, value, having a unique format and a focus on consumer groups are seen as growing trends in retail, as well as the continued decline of the department store.

Figure 13. Retail in Flux: Dominant Types of Retail Activity and Development Patterns in 2009 and 2010



Source: Colliers International.

While mixed use development declined marginally, neighborhood centers saw a 12 percent increase between 2009 and 2010. With many big box retailers having gone out of business in 2009 and 2010, Power Center development saw a sharp decline, while walkable outdoor lifestyle centers and freestanding retail development grew. Although these trends depict direct responses to the economic downturn, we are also witnessing longer tern trends as consumers' interests shift toward different retail formats and concepts. These trends are shown in Figure 14 and the text that follows.

Figure 14. Key Retail Trends

Sharply Increasing Types of Retail

- Small format grocery
- Extreme discount/dollar
- Neighborhood markets

Key Consumer Expectations

- Value for the money
- Convenient locations
- Quality customer service
- Pleasant shopping experience
- Multi-channel integration
- Speed of shopping
- Green/eco-friendly

Trends Affecting Retailers

- Difficult economic conditions
- Aging of baby boomers
- Search for value
- Health/wellness
- Convenience/time-starved families
- Energy conservation/ gas prices
- Growing Hispanic population

Most Promising Retail Concepts

- Quick/fresh small format grocery
- Experiential stores (Apple, etc)
- Mission-focused (quick trip)
- Consumer-centric (Best Buy)
- Targeted ethnic stores
- Age-targeted stores (seniors, teens)
- Lifestyle stores (Outdoor world, etc)
- Home delivery (Peapod, etc)

Source: Leland Consulting Group, RetailWire, Dechert-Hampe & Co.

Consumers are increasingly considering value, smaller format retail stores as boomers downsize and Generation X appreciates more unique, local retail. As we understood in Stakeholder Interviews, consumers are searching for value, convenience, and time. These preferences are reflected in the types of retailers you find in different shopping centers. Downtowns typically behave differently than other shopping center formats and yet, when determining the feasibility of an anchor, we are really assessing the strength of an anchor retailer or service provider to either catalyze new development or strengthen existing retail, therefore having a halo effect on other businesses as well.

Community and neighborhood shopping centers offer useful insight into developing strongly anchored retail.

A neighborhood center is defined as a center anchored by a supermarket or drugstore. “These anchors are supported by stores offering pharmaceuticals and health-related products, sundries, snacks and personal services. A neighborhood center is usually configured as a straight-line strip with no enclosed walkway or mall area, although a canopy may connect the storefronts.”[10]

Stakeholder Interviews indicated a strong interest in a specialty grocer as well as retaining Rite Aid within the downtown area, but in a newer, more comfortable building for shoppers. With existing grocery and drugstore anchors, Downtown Lake Oswego functions partly like a Neighborhood Center.

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[10] ICSC Shopping Center Definitions

Services are very heavily used within these centers, as they are in Downtown Lake Oswego, where community members enjoy the amenities and services not found in larger downtowns that would otherwise typically serve a neighborhood or community shopping center.

In the same way, a community center offers a great variety of goods and apparel, ranging in format types and price points. The tenants most commonly found in Community and "Super Community" shopping centers, along with their median sizes and sales per square foot, are show below.

Table 4. Tenants Most Commonly Found in Neighborhood Shopping Centers

Rank and Tenant Classification	
1	Supermarket
2	Medical and dental
3	Unisex hair
4	Nail salon
5	Pizza
6	Restaurant with liquor
7	Dry cleaner
8	Sandwich shop
9	Chinese fast food
10	Women's hair salon
11	Bank
12	Dollar store/novelties
13	Restaurant without liquor
14	Drugstore/pharmacy
15	Video/CD/DVD rentals
16	Telephone store/telecom store
17	Liquor/wine
18	Coffee/tea
19	Insurance
20	Mailing/Packaging

Source: Urban Land Institute, International Council of Shopping Centers.

Table 5. Size and Sales for Most Common Community Shopping Centers Tenants

Tenant Classification	Median GLA (square feet)	Median Sales per SF of GLA
General Merchandise		
Dollar store/novelties	8,048	$141.44
Food		
Supermarket	52,376	$485.75
Food Service		
Restaurant without liquor	3,200	$249.25
Restaurant with liquor	4,900	$357.98
Sandwich shop	1,500	$325.21
Pizza	1,702	$303.86
Chinese fast food	1,978	$223.25
Mexican fast food	2,359	$377.68
Clothing and Accessories		
Women's specialty	3,642	$222.96
Women's ready-to-wear	4,240	$220.81
Shoes		
Family shoes	3,475	$189.77
Home Furnishings		
Furniture	7,696	$156.40
Home Appliances/Music		
Electronics-general	2,500	$302.20
Other Retail		
Telephone store/telecom store	1,810	$220.46
Cosmetics/beauty supplies	1,600	$297.60
Personal Service		
Dry cleaner	1,500	$149.33
Unisex hair	1,340	$185.17
Nail salon	1,200	$147.19
Financial		
Bank	3,370	n/a
Offices (Other than Financial)		
Medical and Dental	1,600	$290.00

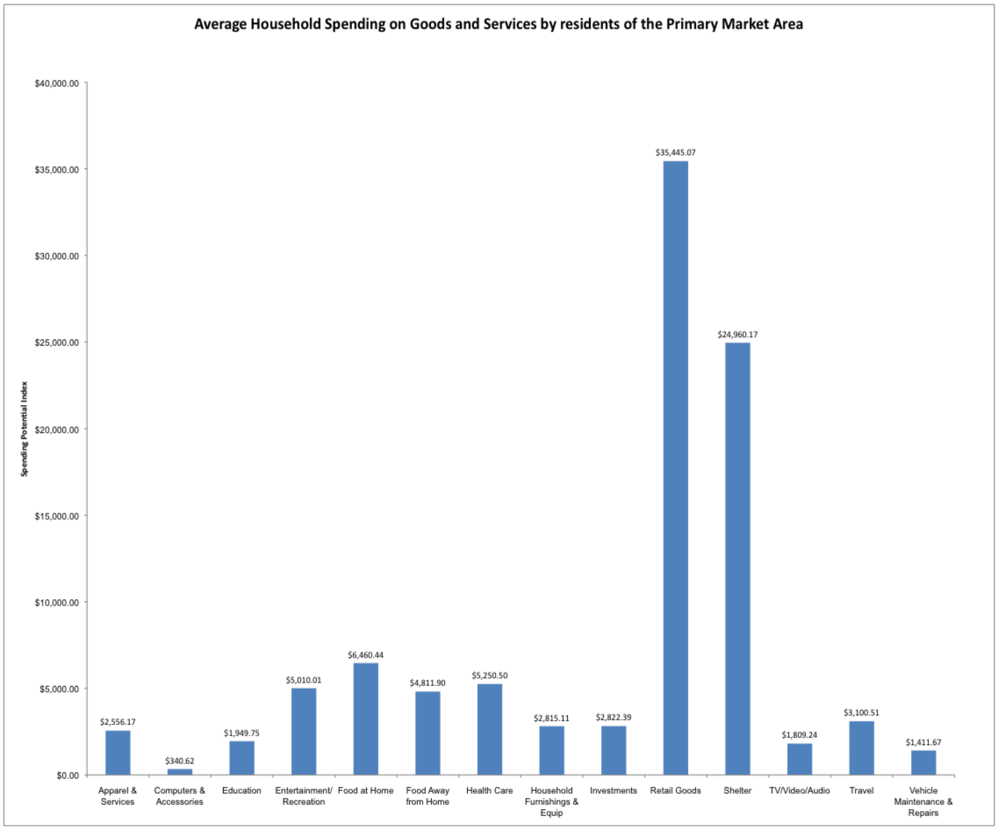
Source: Urban Land Institute, International Council of Shopping Centers.

Retail Spending in Downtown Lake Oswego

Downtown Lake Oswego has enjoyed substantial retail development including Lake View Village, which introduced 95,000 square feet of retail space into the heart of Lake Oswego. Coupled with numerous mixed use projects with housing residential, office, and retail below, Downtown Lake Oswego has become a comfortable community that provides a variety of retail goods, services and amenities.

In order to understand how Lake Oswego resident shop, the spending habits of residents within the primary market area were evaluated. Throughout stakeholder interviews, we found a particular interest in apparel and food-related retail.

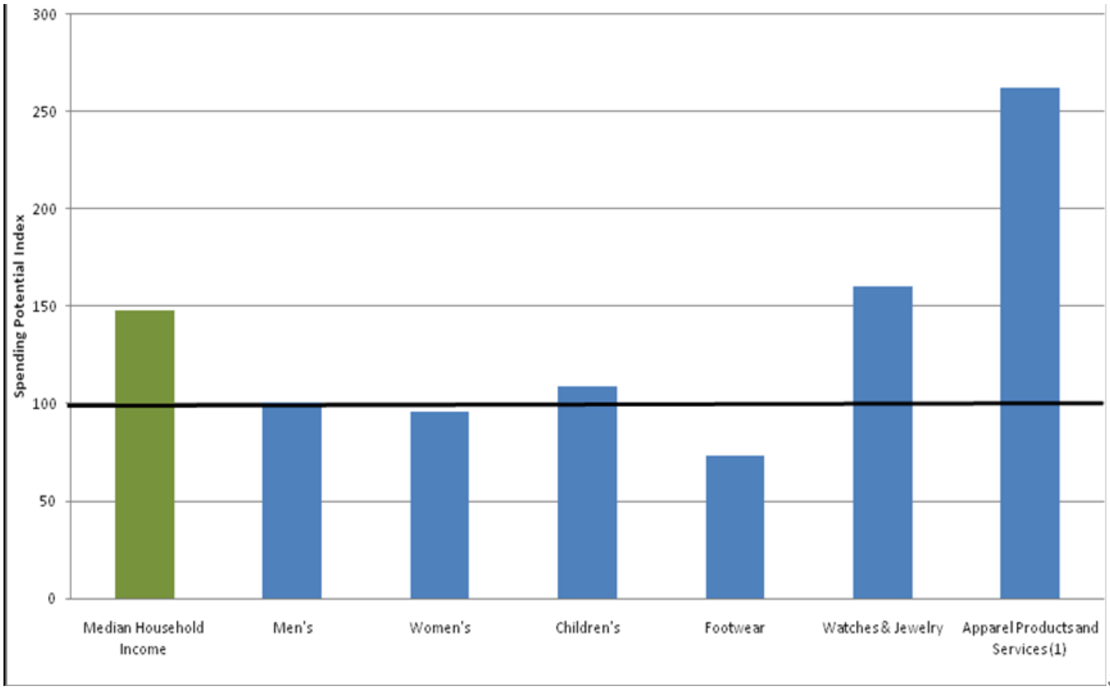
Figure 15. Average Household Spending, Primary Market Area



Source: Leland Consulting Group, ESRI Business Analyst.

Figure 15 depicts average annual household expenditures on goods and services within the market area. Figure 16 is demonstrates how people within the market area spend their money on apparel relative to the national average. The black line depicts the national average. Anything above signals increased spending above the national average, while bars showing spending below the line indicate that Lake Oswego residents spend less than the national average. As this spending is often relative to median income, median household income is included as an additional measure. If spending is consistent with the variation in income, residents of the primary market area spend as much on those goods relative to the national average as their income is relative to the national average.

Figure 16. Spending Potential on Apparel, Products and Services Relative to Median Household Income



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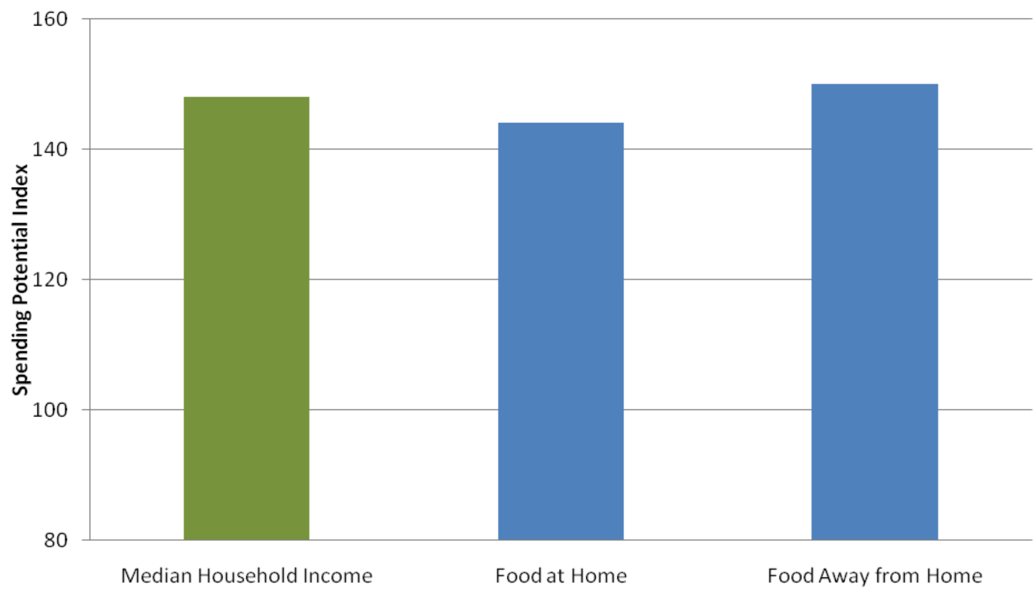
Source: ESRI, Leland Consulting Group.

From the above chart, it is evident that residents of the primary market area earn well above the national average for Median Household Income, yet they spend equivalent or less than the national average on Men's clothing, Women's Clothing, and footwear. Similarly, they spend slightly more than the national average on children's clothing and well above the national average on watches and jewelry.

This can be explained, in part, by a rise in aging baby boomers interested in downsizing within the primary market area.

Figure 17. Food Spending Compared to Household Income



Source: ESRI, Leland Consulting Group.

Figure 17 above indicates that the higher household incomes in Lake Oswego correspond with a higher level of spending on food at home and away from home. This data corresponds with the great interest in food—at home and away—revealed during stakeholder interviews conducted for this project. Stakeholder interviews indicated an interest in lower-priced deli options or burger restaurants in the downtown area, and that the downtown market is far being oversaturated with restaurants. Since residents of the market area spend significantly higher amounts on food than the national average, additional food uses in the retail component of a North Anchor project would be prudent.

Retail Leakage

A leakage analysis shows the amount of spending potential compared to the actual sales within the market area. It can be used to calculate potential additional new retail space that the market area could accommodate. A study conducted in 2009 by Marketek indicates that nearly $537,480,145 of spending potential is spent outside of Lake Oswego that could otherwise be spent within the community. Table 6 below indicates the distribution of demand/spending potential relative to leakage for the same goods and services.

Table 6. Retail Demand, Supply, and Leakage in the Primary Market Area

Merchandise Category	Demand Spending Potential	Supply Retail Sales	(Leakage) or Surplus
Shoppers Goods			
Apparel	$59,011,766	$29,704,416	($29,307,350)
Home Furnishings	$57,947,241	$43,354,631	($14,592,610)
Electronics and Appliances	$54,097,893	$54,647,608	$549,715
Home Improvement & Gardening	$75,985,916	$14,300,215	($61,685,701)
Sporting Goods, Hobbies, Books & Music	$25,542,377	$21,434,832	($4,107,545)
General Merchandise	$330,014,439	$86,291,703	($243,722,736)
Miscellaneous Specialty Retail			
(florist, office supplies, gift stores, etc.)	$30,326,459	$22,555,699	($7,770,760)
Convenience Goods			
Grocery	$312,567,090	$260,091,327	($52,475,763)
Health/Personal Care	$47,008,045	$29,157,890	($17,850,155)
Restaurants	$281,800,006	$175,832,481	($105,967,525)
Total Leakage			**($537,480,145)**

Source: Leland Consulting Group, ESRI Business Analyst.

Leakage Analysis Findings:

- General merchandise is heavily in demand and experiences heavy leakage.
- Similarly, restaurants are in high demand and experience leakage of $105,967,525. Additional restaurants would enhance Downtown Lake Oswego's retail environment, particularly those that serve varied price points and different formats—for example, quick serve restaurants, delis, and sandwich shops. Additional retail along these lines could minimize leakage.
- Likewise, grocery experiences leakage of nearly $52,000,000. An additional specialty grocer within the downtown area might help minimize leakage while supporting the spending habits of people within the primary market area who spend more on food than the average American instead of apparel.

HOUSING

Who Moves Downtown?

One- and two-person households comprise the vast majority of downtown residents in any city. Successful downtowns offer single people and young couples proximity to jobs, social opportunities, and neighborhood services. Downtown living can offer older households fewer maintenance hassles and greater convenience than large detached homes in suburban areas. Families with children are less likely to pioneer in emerging downtown neighborhoods. These families typically seek larger homes in established neighborhoods that they believe offer the best schools.

Young residents at the start of their careers are often the first to pioneer downtown neighborhoods. In these "early" years of an urban neighborhood's evolution, many of the amenities such as shopping, parks, restaurants, and entertainment may not be fully developed. However, downtowns that have a critical mass of population, services, and amenities are able to attract older and wealthier households.

Primarily made up of one- and two-person households, downtown residents may be:

- A married, childless couple;
- A single worker;
- A single parent with one child;
- Older empty nesters;
- Roommates; or
- Retirees.

What Trends Are Driving Downtown Housing Markets?

Reversing a long period of decline, the 1990s brought revitalization and population increases to many downtowns. A survey of 48 downtowns found that 78 percent experienced population growth in the 1990s[1]. Moreover, cities as diverse as Houston, Cleveland, Denver, Memphis, and Seattle anticipate more than doubling their downtown populations between 2000 and 2010. The growing popularity of downtown living has not happened by accident but reflects the cumulative effect of several trends. These include:

- Individuals working longer hours and more families with both adults working. These households need convenient access to jobs, restaurants and other services, and many do not have time to care for a detached house.
- Traffic congestion has decreased the appeal of long distance commutes.
- A growing number of households without children. Downtown living offers these households reduced home maintenance hassles and increased access to shopping, culture, and entertainment.
- An aging population has new housing needs that are not met by suburban detached housing.
- Public policies have encouraged conversion of disused commercial and industrial buildings space to residential use.

Additional Trends Include:

More childless households

- Nationally, just 32.8 percent of households contain children.
- 58% of households have two or fewer members.
- The “empty nester” population is predicted to be the fastest growing demographic segment of the population for the next 20 years.

Source: U.S. Census and Leland Consulting Group.

Commutes are longer

- Nationally, the average rush hour delay totaled 62 hours per year in 2002, 46 more hours than in 1982.

Source: 2002 Urban Mobility Study, Texas Transportation Institute.

An aging population seeks alternative housing options

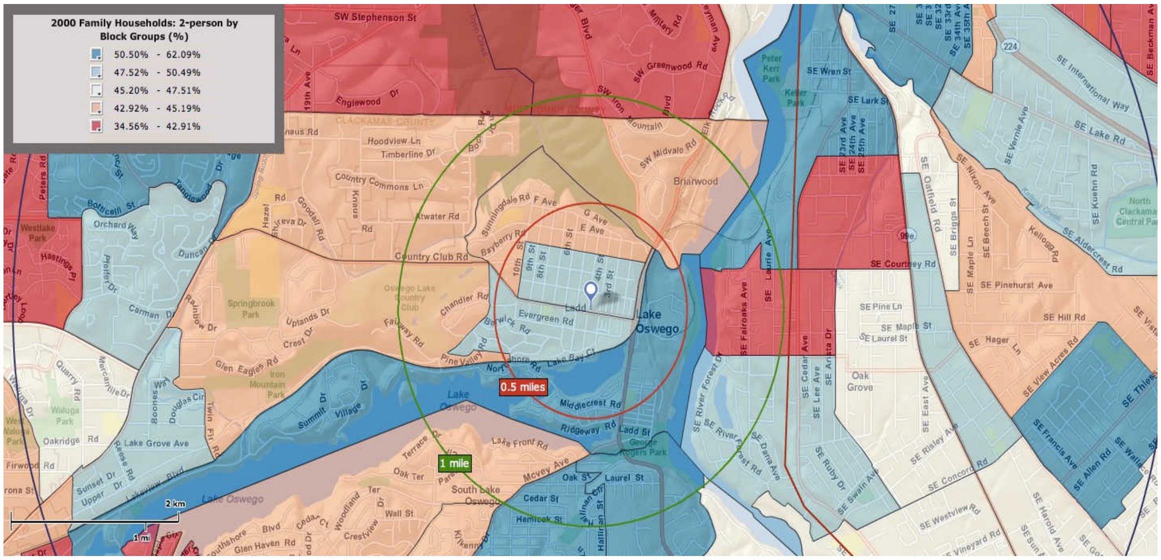
- The National Association of Homebuilders found that 17 percent of the general population, but 24 percent of those over 55, would prefer a $150,000 townhouse in an urban center over a similarly priced detached house in a suburban area.

Source: Myers, Dowell and Elizabeth Gearing “Current Preferences and Future Demand for Denser Residential Environments.”

Housing Demographics for Lake Oswego

As anticipated, within the primary market area there is a high percentage of one- and two-person households (62.9 percent). The map below shows the distribution of two-person households within a half- and one-mile radius of the downtown area.

Figure 18. Distribution of Two-Person Households



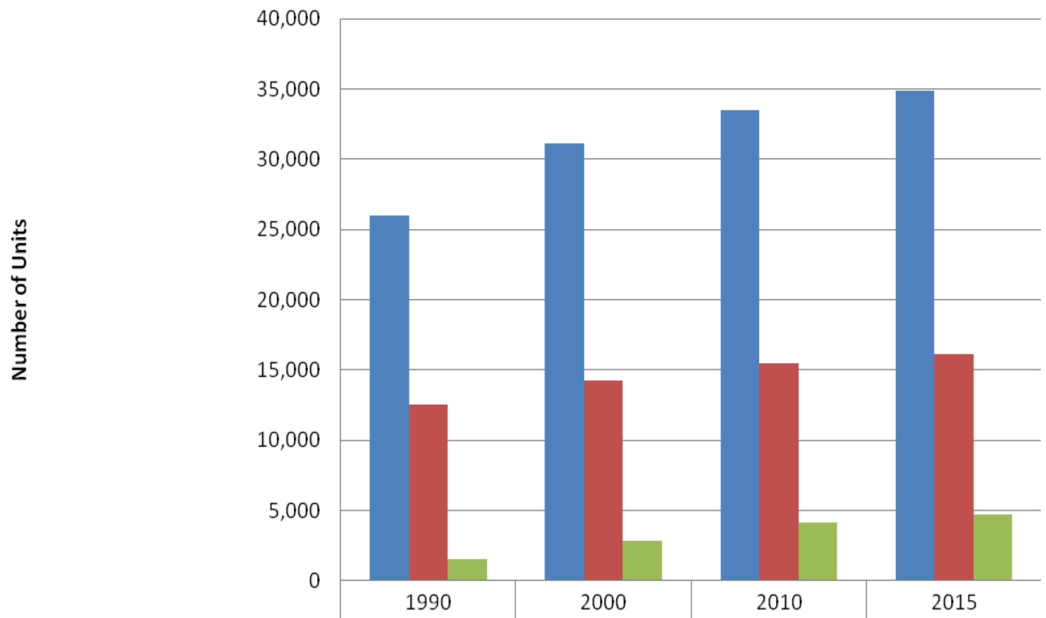
Source: ESRI, Leland Consulting Group.

The area within and surrounding the downtown are resoundingly occupied by one and two person households who show a great interest in living downtown in more dense, urban housing. Coinciding with the age distribution of the primary market area, it is no surprise that aging boomers and older populations live closer to the downtown area and will continue to do so as urban amenities evolve and greater convenient retail and destination food uses are integrated into the downtown.

Housing Units by Type

Within the primary market area, as shown in Figure 19, there has been an increase in both owner occupied and rental housing during the last 20 years. The distribution of housing types has risen uniformly, however, with similar proportions of owner occupied and rental housing rising. Vacancy has increased by nearly 3,000 units over 20 years, an anticipated response to the housing crash and financial crisis.

Figure 19. Number of Housing Units by Type within the Primary Market Area



	1990	2000	2010	2015
Owner Occupied Housing Units	25,978	31,126	33,455	34,882
Renter Occupied Housing Units	12,554	14,284	15,506	16,159
Vacant	1,557	2,847	4,142	4,681

Source: ESRI, Leland Consulting Group.

According to a December 2009 RMLS Area report, compared to December of 2008, residential sales in December 2009 saw a 9.8% decrease in sales price, with an average sales price of $486,300.

James Howsley of Miller Nash[11] expects the homebuilding industry will begin to recover in the middle of the second quarter of 2010, with sustained improvement until 2002 level average housing starts are reached. His projection is based on an analysis of historic average annual housing starts, (accounting for the overbuilding that occurred during the housing bubble and the subsequent lack of housing starts during the recession), housing replacement needs, immigration rates, and other demographic dynamics. He states that national housing starts averaged 1,544,000 annually from 1978 to the end of 2007.

Census data suggests there currently is a national surplus of 1.6 million housing units, but it does not take into account the pent up demand due to combined households, like college graduates who may still be living with their parents or unrelated individuals rooming together to save money through the recession. Howsley predicts a supply shortage of modest income single family homes and apartments in the next two years, as the labor market begins to stabilize and these heads of households start to demand their own housing. He predicts that upcoming demand will be highest for construction of smaller, entry-level houses with fewer amenities, catering to the demand of those moving out on their own for the first time.

[11] "Demographics, Development, and Demand: Is Housing Headed for Another Bust or Robust Times?", James Howsley, Miller Nash, Groundbreaking News, Winter 2010

According to the Census, the Portland-Vancouver PMSA posted 14,331 new privately owned housing units, 10,422 of which were single family homes, in 2002.

Housing Rental Assessment

National Apartment Trends

UBS deems the outlook for the apartment market as the most positive of all the investment property types, for the near future. Declining homeownership rates, growth in the primary renter age bracket and an increasing household formation rate are cited as favorable demographics for apartment rentals.[12] Below average construction levels are also cited as a factor that will lead to higher demand for apartments in the near future. The UBS report also notes that the short term of apartment leases, usually no longer than 1 year, allows for a quick response to improving financial conditions. Finally, Fannie Mae and Freddie Mac continue lending for multi-family mortgages, whereas capital for other property types may be tight.

Area Apartment Forecasts

The Barry Apartment report[13] expects to see permits issued for only 1,000 to 1,500 units in 2010 in the Portland metropolitan area. 2009 added only 850 new multifamily housing units as opposed to a ten year average of 4,000 units per year. The report also anticipates vacancies reaching 7.0 to 7.5 percent by the end of 2010, but expects a quick rebound with pent up demand from young adults, which will trigger a shortage of apartments by 2012. Studios and 3-bedroom apartments currently have the lowest vacancy rates. The report also expects cap rates for apartments to rise to a more normal level of 6.25 to 7.5 percent for urban properties and 7.25 to 8.0 percent for suburban properties. However, the report includes a quote from Clyde Holland of Holland Partner Group, “For new development to underwrite in most markets today, rental rates must increase 25 to 40 percent”.

The Barry report estimates that 3,100 new luxury rental units have or will come online starting in mid-2008 continuing into late 2010, due to condo conversions, with at least 500 more units from the shadow supply of row houses and condominiums, which has put pressure on luxury apartments in the $1,200 and above range.

Norris & Stevens[14] cites current lending restrictions as a barrier to apartment investors, but also expresses doubts that the Metro Area will see many distressed apartment sales that would further deteriorate the market. Compared to other commercial real estate, the apartment market is holding up fairly well, with a few concessions on the part of landlords to attract tenants.

There is an opportunity for medium income/medium rental apartments coming online in 2012-2014. The luxury apartment market is saturated with an overbuilt condo market and several conversions, while there has been a lull in apartment construction during 2009, 2010 which will probably continue into 2011 with the current difficulty in securing financing. However, pent up demand may drive rental rates up by 2012.

[12] Global Real Estate Research, Outlook 2010 – US, UBS
[13] The Barry Apartment Report, Mark D. Barry, Winter 2010
[14] Norris & Stevens, Apartment Investors Journal, Fall/Winter 2009-2010

Table 7. Comparable Apartments for Rent

	Unit Rents ($)							
	Studio		1 BR		2 BR/2BA		3BR/2BA	
Oswego Pointe	$525	$599	$843	$1,125	$1,215	$1,596		
Forest Rim			$825	$1,072	$1,050	$1,334	$1,150	$1,495
Oswegan			$850					

Table 8. Comparable Apartments for Rent by Unit Size

	Unit Sizes (SF)							
	Studio		1 BR		2 BR/2BA		3 BR/2BA	
Oswego Pointe			922		1,300			
Forest Rim	452		642	724	875	1,062	1,190	
Oswegan			680					

Table 9. Recent Sales of Newly Constructed Apartments

Recent Sales of Newly Constructed Apartments							
Property	City	Price	Units	CAP	Price/Unit	Year Built	Sale Date
Elaine Station	Portland	$2,600,000	39	9.9%	$66,667	2008	1/2/2009
Las Brisas	Portland	$4,815,000	48	6.6%	$100,313	2005	2/19/2009
Raven Apts	Portland	$2,725,000	36	7.6%	$75,694	2004	3/18/2009

Source: Norris & Stevens, Apartment Investor Journal, Fall/Winter 2009-2010.