
Gateway Market Study Results

Central Gateway Redevelopment Strategy
CAC Meeting - September 11, 2006

Purpose

- Forecast the demand for new development in the Gateway URA and Central Gateway
 - 10 to 15-year outlook for
 - Office,
 - Retail, and
 - Residential development
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Presentation Order

- Office

- Residential

- Retail



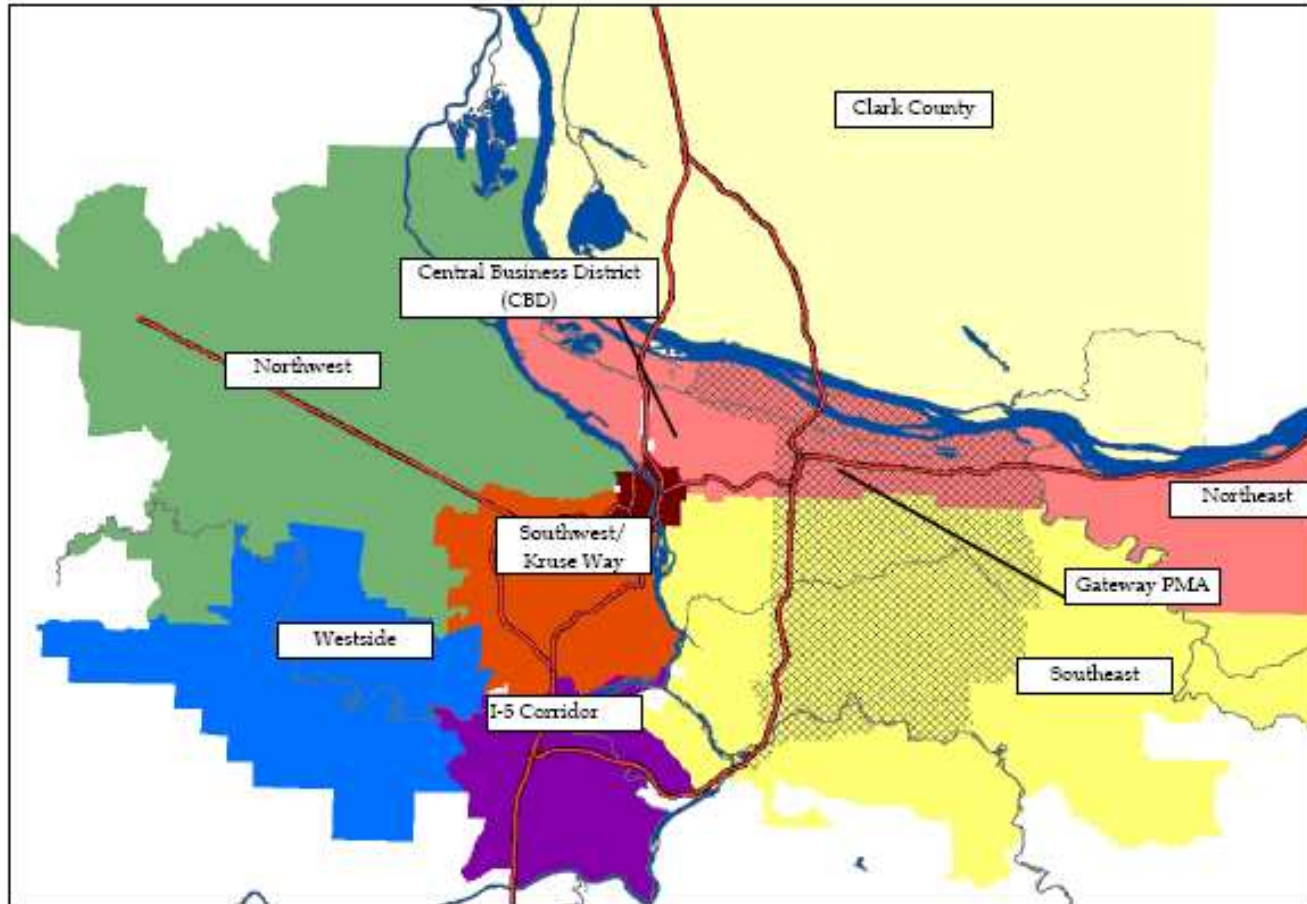
Same Methodology



Residential & Office Methodology

- Forecast demand (development)
 - Identify where demand can go:
 - Available land
 - Appropriate zoning
 - Rate desirability of each area
 - Estimate Gateway's capture rate given its ranking in the market
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Office Findings



Office Findings – General Overview

- Gateway PMA is large but contains only 14% of the region's jobs and less than 10% of its office space
 - Most Class A office space in the PMA is in Clackamas ($\approx 75\%$)
 - The Gateway URA has a large amount of medical office space but little Class A space ($< 3\%$)
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Office Findings – Demand

- PMA is forecasted to add 33,000 jobs over next 10 years, a 23% expansion
 - Based on character of employment approx. 35% of new jobs will be in an office setting
 - This translates into a need for:
 - ❑ 1.5 million square feet of office space
 - ❑ 110 acres of appropriately zoned land
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Office Findings – Future Growth Areas

- Five areas in PMA will vie for demand:

- ❑ Clackamas

- ❑ Cascade Station

- ❑ Gateway

- ❑ Lents

- ❑ Gresham on I-84



Tier 1



Tier 2

Office Findings – Gateway

- Based on current land supply there will begin to be demand for Class A space in 8-10 years
 - In addition there will be a near-term need for a small amount of:
 - ❑ neighborhood-office space, and
 - ❑ potentially more medical office space.
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Office – Current Barriers

- Poor quality built environment
 - Parking restrictions
 - Lack of vacant parcels and need to redevelop
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Residential – General Findings

- The Gateway URA and PMA is growing and attracting:
 - A more ethnically and racially diverse population who have:
 - Relatively large household sizes
 - Modest incomes
 - Also development of condominiums in Central Gateway is attracting primarily one person households who are able to afford a home in Gateway but not in a more desirable location
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Residential - Demand

- PMA includes approx. 85,000 households
 - Over 10 years the PMA is forecasted to grow by approx. 10,100 new households
 - Based on age and income, this translates into a need for:
 - 4,100 new rental units
 - 6,000 new ownership units
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Residential – Future Growth Areas

- To determine how much demand will occur in the Gateway URA and Central Gateway, the demand analysis is divided into 6 commonly-recognized price breaks as follows:
 - Rental Market
 - Affordable = < 60% MFI
 - Market Rate = 60%+ MFI
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Residential – Future Growth Areas

- Ownership Market
 - < 60% MFI = <\$160,000
 - 60%-80% MFI = \$160,000-\$215,000
 - 80%-100% MFI = \$215,000 to \$295,000
 - 100+MFI = >\$295,000
 - At each price point options in and just outside the Gateway PMA were analyzed to determine where demand within the PMA is likely to go
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Residential – Rental Findings

- Results show Gateway is the most attractive location in the PMA to build rental housing – affordable or market rate.
 - Superior access to services, transit, regional transportation.
 - In many locations, it also provides a superior built environment.
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Residential – Rental Findings

- The Gateway URA has the potential to capture 30%-50% of PMA demand. This translates to a **potential** demand of:
 - 800-1,200 affordable apartments
 - 400-700 market rate apartments
 - Affordable apartments represent a larger opportunity given incomes in the PMA
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Residential – Rental Findings

- The opportunity in Central Gateway is nearly as high; however, minimum FAR regulations are likely to limit demand to small one and two person households. Thus, the potential demand over 10-years in Central Gateway is slightly lower:
 - 320-500 affordable apartments
 - 175-275 market rate apartments
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Residential – Ownership Findings

- Gateway is the most attractive location in the PMA to build owner-occupied housing for prices up to approximately \$250,000.
 - Below \$250,000 Gateway is superior - most other options are built on less attractive, infill sites.
 - Above this price, however, there are more attractive options in:
 - Close-in locations like Hawthorne, etc.
 - Happy Valley and Clackamas
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Residential – Ownership Findings

- The Gateway URA has the potential to capture 30%-50% of PMA demand for homes priced below \$250,000, but less of an opportunity above this price point. This translates to a **potential** demand of:
 - 400-660 homes priced below \$160,000
 - 285-475 homes priced between \$160,000-\$215,000
 - 175-260 homes priced between \$215,000 to \$295,000
 - 0-140 homes priced above \$295,000
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Residential – Ownership Findings

- The price ceiling and minimum residential densities in Central Gateway will, however, limit demand to mainly one and two person households. Therefore the **potential** demand in Central Gateway is more limited as follows:
 - ❑ 130-225 homes priced below \$160,000
 - ❑ 95-160 homes priced between \$160,000-\$215,000
 - ❑ 60-80 homes priced between \$215,000 to \$295,000
 - ❑ 0-60 homes priced above \$295,000
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Residential – Barriers

- There are a number of barriers that will likely limit actual development in Gateway to levels below the potential.
Barriers include:
 - ❑ Lack of vacant land
 - ❑ High effective land costs
 - ❑ Zoning regulations that result in low parking ratios (Central Gateway)
 - ❑ Zoning regulations that result in condominium development (Central Gateway)
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Residential – Barriers

- Barriers continued:
 - ❑ The 8% cash-on-cash return limitation placed on developers who use the property tax abatement program
 - ❑ Poor infrastructure – sidewalks, parks, street connections
 - ❑ Poor condition of many buildings
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Retail Methodology

- Forecast demand within retail primary market area
 - Compare demand to supply to understand current market opportunities
 - Forecast demand over 15-year period to understand future opportunities
 - Augment forecast by interviewing brokers and developers
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Retail Findings

- The Gateway URA is a large retailing hub for the eastern portion of Portland
 - Currently there are approximately 150 retail businesses in the area
 - 2 grocery stores
 - 52 restaurants
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Retail Findings – Current Opportunities

- Relative to the needs of the local population, the market is oversupplied with retail businesses. This fact limits current opportunities to build more retail space.
 - The area is oversupplied because it attracts a large amount of customers from outside the local area.
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Retail Findings – Current Opportunities

- Despite the large amount of space:
 - The market is strong for highly visible space
 - There are current holes in the market that create approximately ten niche opportunities:
 - Furniture stores
 - Specialty food stores
 - Miscellaneous retailers like florists or pet supplies
 - Etc.
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Retail Findings – Future Opportunities

- Based on forecasted population growth, opportunities for additional retail development will grow modestly.
 - Over 15 years, approximately 15 new retail businesses opportunities will emerge
 - Gateway will continue to be an attractive location for regional serving retail
 - Big box
 - Urban/lifestyle-oriented
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Summary

- Good near term development opportunities for residential development
 - Limited near-term retail development opportunities
≈ 10,000 to 15,000 sf
 - Limited near-term office development opportunities
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Strengths

- Central Location
 - Excellent Transit Access
 - Excellent Auto Access
 - Many near-by services – many within walking distance
 - PDC commitment to area
 - Recent investments
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Weaknesses

- Poor quality built environment
 - Limited sense of place
 - Limited parking ratios for office development
 - Incomplete infrastructure
 - Roads, sidewalks, parks, street lights
 - Lack of vacant land
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