

DATE: June 13, 2023
TO: City of Gresham Staff
FROM: Chris Blakney, Oscar Saucedo-Andrade, Becky Hewitt, and Kaitlin La Bonte
SUBJECT: Pleasant Valley Market Study

Introduction

The 2004 Pleasant Valley Concept Plan and District Plan envisioned a complete community with a range of housing choices, transportation options, schools and parks, a Town Center, employment opportunities, and green development. This was an ambitious vision and, after 20 years, the area remains only partially developed, with many of the key ingredients of a complete community lagging. ECONorthwest is currently working with the City of Gresham to update the Pleasant Valley District Plan and provide recommendations to support the original goals envisioned in the plan in the context of today's economy and real estate market. This Pleasant Valley District Plan Update (PVDPU) project represents an opportunity to re-calibrate expectations to current market conditions, refresh the vision to ensure it aligns with current priorities for a diverse range of local stakeholders, and identify and address development barriers and challenges with infrastructure delivery. A key element of the PVDPU project is a market study to analyze real estate market conditions, demand factors, and development challenges for the Plan District.

Purpose

The purpose of this market study is to provide an understanding of the local commercial and residential market and identify drivers of demand and development potential for a range of land uses that support the complete community that was envisioned in the Pleasant Valley District Plan.

The goals for this study are to:

- Evaluate the area's market potential for retail, commercial employment, and residential development and supportive uses that could foster new investment and development.
- Assess the area's strengths and challenges for supporting employment uses.
- Gauge the depth of demand for residential and commercial development in the project area.

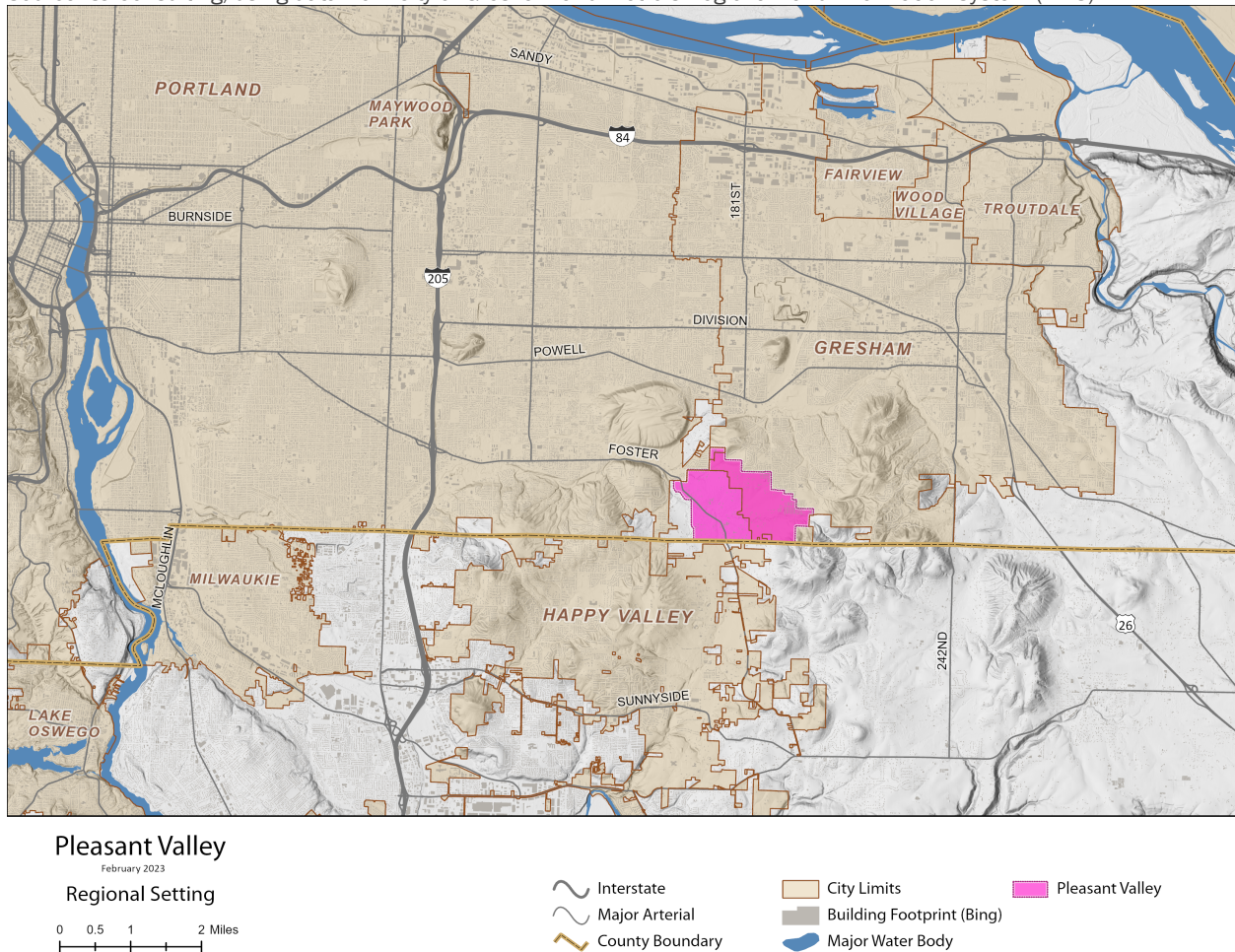
The role of the market study in the larger planning context is to inform recommendations related to changes to land use designations (how much land is designated for different types of land uses, and where) and development strategies to ensure that land use is complementary to the market opportunities that are achievable for the Plan District.

Geography

The Pleasant Valley District (“the Plan District”) is a 1,015-acre area located southwest of Gresham. About half of the area has been annexed into the City of Gresham and the other half lies within the Gresham Urban Service Boundary.

Exhibit 1: Pleasant Valley District Regional Setting

Source: 3J Consulting, using data from City of Gresham and Metro’s Regional Land Information System (RLIS)



The analysis in this report generally looks to both City of Gresham and City of Happy Valley, and/or both Clackamas and Multnomah Counties as references, given its location at the border between these jurisdictions.

Locational Context

Locational factors such as accessibility, proximity to markets, availability of labor, natural resources, infrastructure, and regulatory environment, influence market opportunities. When planning for new employment, housing, and retail, it is important to consider how locational factors specific to the area impact the market for these uses. These factors can impact the economic viability, cost-effectiveness, sustainability, quality of life, and regulatory compliance of new developments. Considering locational factors can contribute to the success and

sustainability of new developments and promote a better quality of life for residents, workers, and shoppers.

The primary locational factors that influence the desirability of the Pleasant Valley District are transportation, infrastructure, property size and ownership, and topography and natural areas. This section describes the primary locational factors specific to Pleasant Valley and identifies gaps and barriers to that may need to be overcome to create an environment for some uses to be feasible.

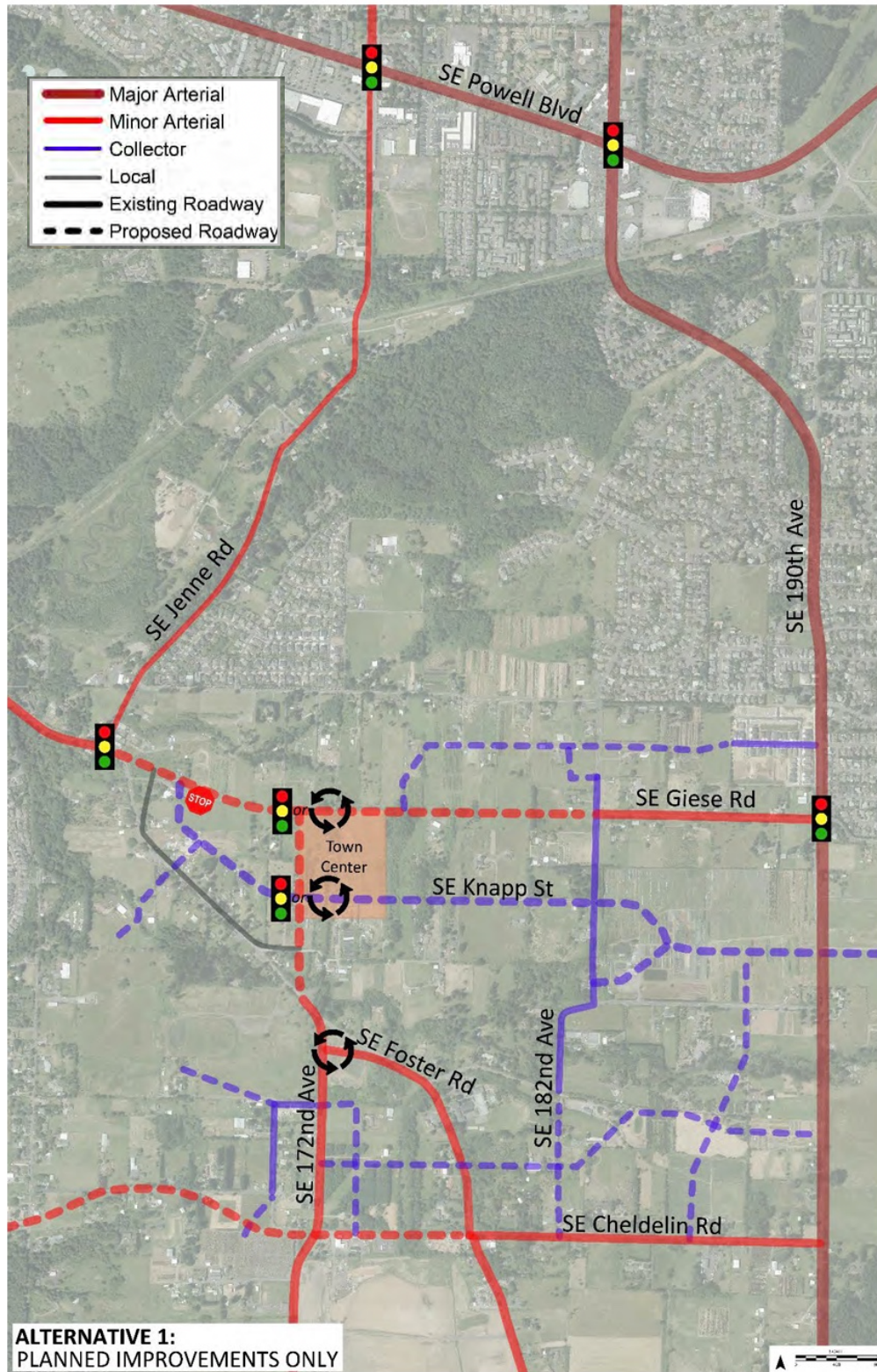
Transportation

Within the broader regional context, the Plan District is located at the fringe of urban development on the eastern edge of the metro area, just north of the Clackamas County line. The Plan District is removed from major freeways and commercial corridors, and existing roads in and around the Plan District are largely two-lane rural roadways, though 190th Avenue. (a major arterial) has been improved to provide three lanes with sidewalks and bike lanes on the east side, fronting recent development. This condition will naturally limit the Plan District's competitiveness in attracting employment uses that are dependent on heavy truck mobility and prefer locations in closer proximity to freeway networks. These would include warehousing uses and many larger scale goods producing users.

Locally, the planned transportation network shown on Exhibit 2 would strengthen north-south connections between Powell Boulevard and Happy Valley, with internal networks supportive of local accessibility to planned commercial nodes. However, the Plan District is not in the path of major commute corridors and would not likely benefit from major "pass through" commercial market support.

Exhibit 2: Pleasant Valley Planned Transportation Network

Source: Pleasant Valley TSP Refinement, August 2019, Figure 19



Infrastructure

Infrastructure is discussed in greater detail in the PVDPU Infrastructure Funding and Delivery Memorandum.¹ Generally, much of the area lacks access to public water and/or sewer systems, though these systems will be extended as development occurs. A key finding of our infrastructure analysis is that the current strategy of relying on incremental development for major infrastructure improvements may be a development barrier. The off-site costs borne by developers at the scale development is occurring is high.

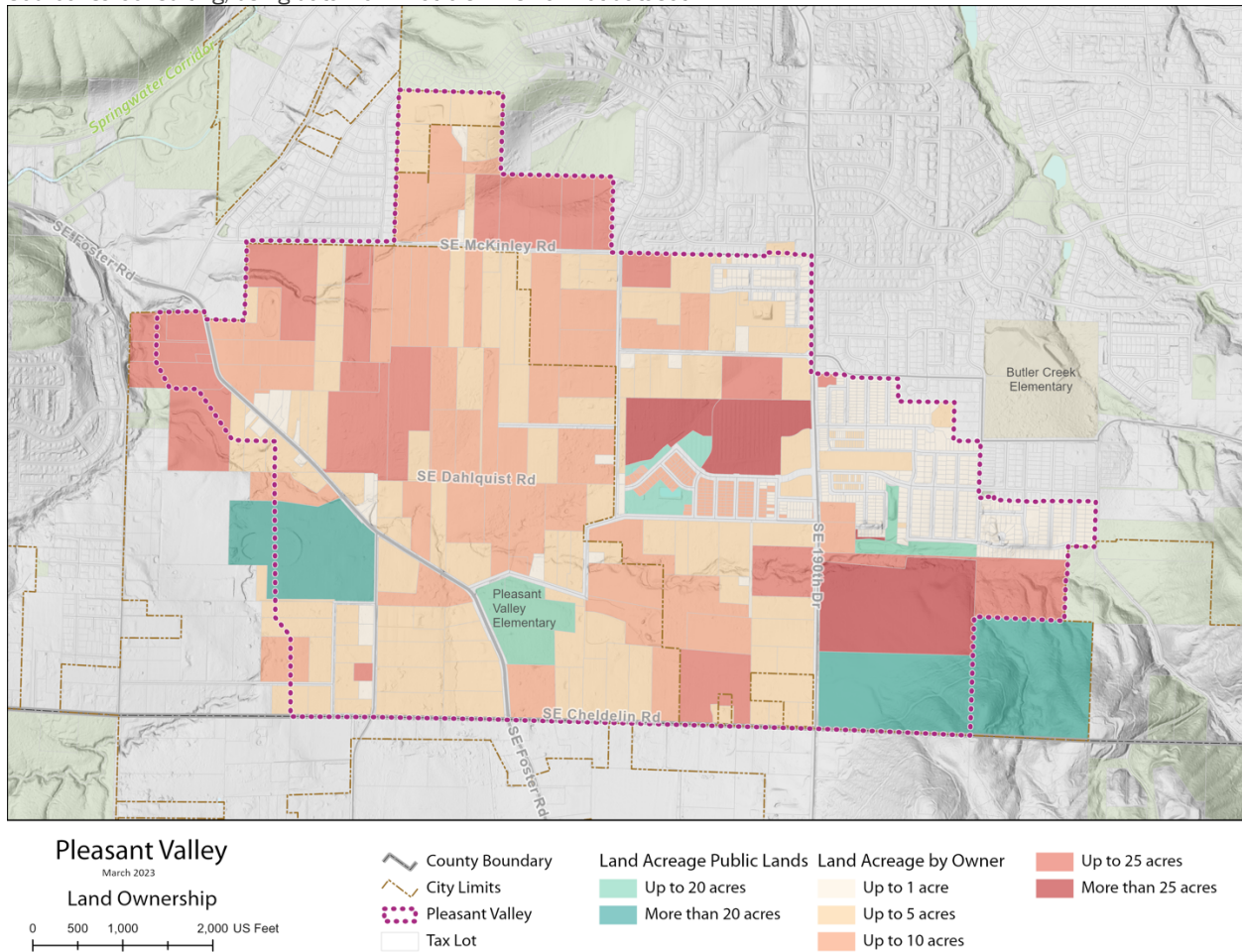
Property size and ownership

Parcelization is a common constraint in delivering sites that are suitable for larger scale planned development projects that can capitalize on economies of scale, absorb off-site costs, or have uses that require large sites alongside other unique characteristic (i.e., arterial frontage, flat topography). As shown on Exhibit 3, a few sites in the area held by private landowners can be assembled to sites at 20 acres of land or greater. The majority of land in the Plan District is owned by several smaller private owners. This will limit opportunities for land uses that require larger site sizes, given the difficulty of aggregating many smaller parcels.

¹ Produced by ECONorthwest in March 2023 as part of the Pleasant Valley District Plan Update project.

Exhibit 3: Pleasant Valley Parcel Size and Property Ownership

Source: 3J Consulting, using data from Metro's RLIS Tax Lot dataset

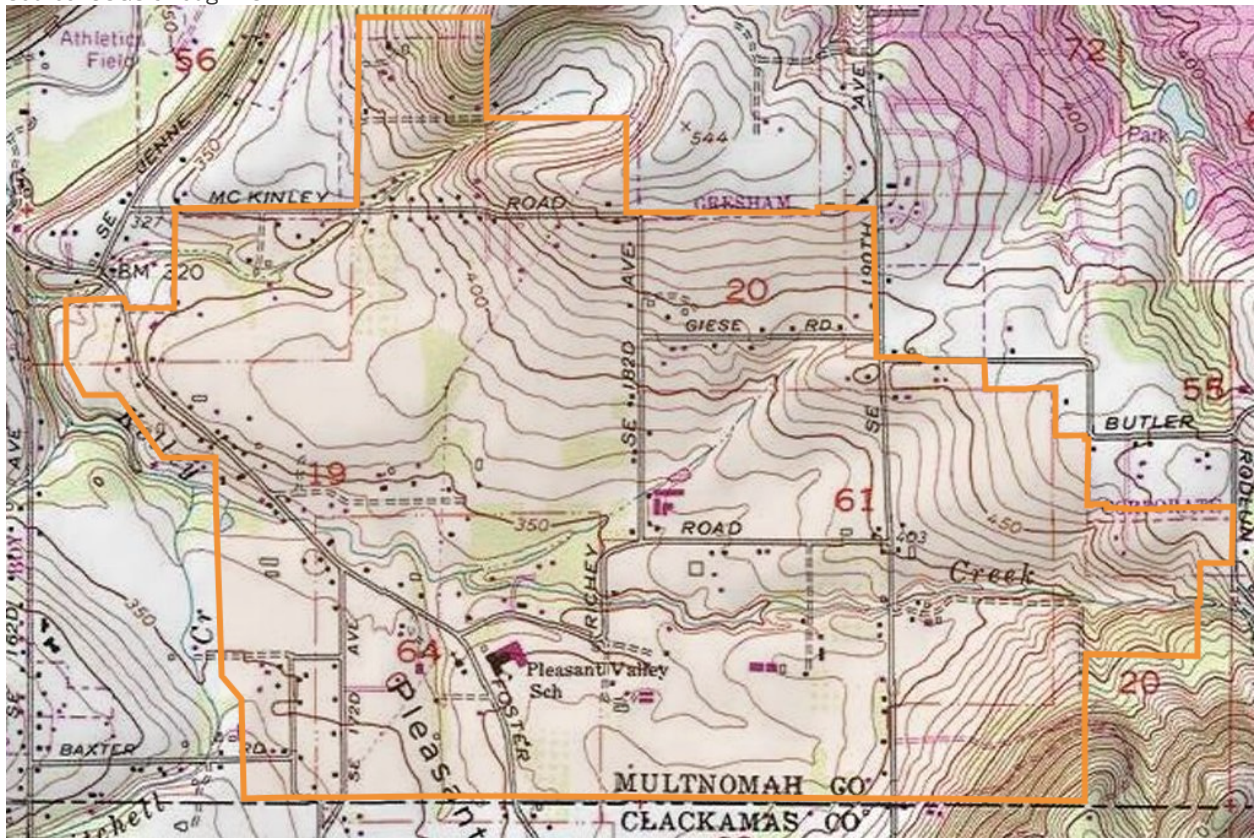


Topography and Natural Areas

Topography is more of a challenge for commercial and industrial uses than residential. Sites with a slope of greater than five percent typically limit building footprints to smaller structures due to the cost and impracticalities of creating large, level building pads on steeper sites (e.g., large retaining walls, need to bring in fill dirt or remove excess soil from the site). This, by extension, impacts the character of commercial and industrial developments and the type of users that could be attracted to them. While much of the area is relatively flat, some properties have enough slope to constrain larger commercial and industrial developments with larger building footprints. The presence of wetlands could also limit development potential for uses needing larger building pads.

Exhibit 4: Topographic Map of Pleasant Valley

Source: USGS through ESRI



Surrounding Land Uses

The Plan District is currently developed with a mix of rural residential, small rural and farm-related businesses, and new subdivisions. The area has been attractive for single-detached development and evolved into a bedroom community thanks to a combination of proximity to employment centers (Clackamas Industrial Center, Gresham Civic Center, I-205 Corridor, and Happy Valley), natural amenities, and relative housing affordability. This will continue to be the case over the foreseeable future. The Plan District is currently served by commercial concentrations along the Powell Corridor and Happy Valley. Commercial nodes to the north, south, and west will limit the ability of commercial development to attract market support from areas already served by well-established commercial concentrations, all else equal.

Economic and Demographic Trends

Factors like regional population growth and employment are indicative of the general patterns of growth in the region. In this section we provide an overview of general economic and demographic conditions in the region, and more locally in the vicinity of the Plan District. Our review of regional conditions characterizes the health of the broad macroeconomic environment in which the Plan District functions. We further “drill-down” into a more localized geography, where data is available, to assess if the local market is experiencing above or below average performance. We consider more granular demographic and economic characteristics locally to observe how local nuances may support one land use over another. Ultimately, the role of this analysis is to evaluate the observable socioeconomic conditions that will influence demand for different land uses in this area over the coming years.

Regional Conditions: Population and Employment

Population Growth

Regionally over the 10-year period from 2010 to 2020, population growth in Multnomah and Clackamas Counties averaged around 1 percent annual growth across the two counties combined. Intercensal estimates from Portland State’s Population Research Center show that growth accelerated over the decade, growing 20 basis points faster per year during the second half of the decade. This is a positive sign for a region that matured economically during one of the longest economic expansions on record.

Gresham’s population growth lagged the pace of regional growth slightly, growing by 0.7 percent over the decade. In contrast, Happy Valley’s population grew by nearly five times the regional rate, largely due to the amount of new development in Happy Valley during that time period. This is indicative of relative differences between the two cities with respect to available served land to accommodate regional growth.

Exhibit 5: Population Growth, 2010-2020

Source: Decennial Census, Portland State Population Research Center (PRC)

Geography	2010	2020	2010-2020 Change		Average Annual Growth Rate
			# Change	% Change	
Gresham	105,594	114,247	8,653	8%	0.72%
Happy Valley	13,903	23,733	9,830	71%	4.98%
Multnomah County	735,334	815,428	80,094	11%	0.94%
Clackamas County	375,992	421,401	45,409	12%	1.04%

Pandemic Era Population Trends

Communities across the country observed a shift in migratory patterns during the onset of the COVID-19 Pandemic. A shift to a remote or hybrid work environment in many sectors simultaneously reduced the costs of commuting, while also limiting attractiveness of urban amenities. This contributed to a shift in residential location preferences for suburban locations. This condition played out in Happy Valley which saw population growth spike in 2021 to 8.4

percent growth followed 3.7 percent growth the following year. Other areas that offered relative housing affordability alongside urban amenities in a suburban context exhibited a similar trend, including Hillsboro, SW Beaverton, Bethany, and Vancouver. The extent to which these shifts in migration patterns remain “sticky” will impact the market positioning and market depth in areas like Pleasant Valley over the intermediate term.

Employment

Employment trends are indicative of the overall health of the regional economy. In markets with a relatively healthy jobs-housing balance, employment gains are correlated to increased demand for housing and by extension goods and services. Tight labor markets (low unemployment) are indicators of wages gains and increases in purchasing power. Employment shifts in different sectors also show which industries are driving growth in the region.

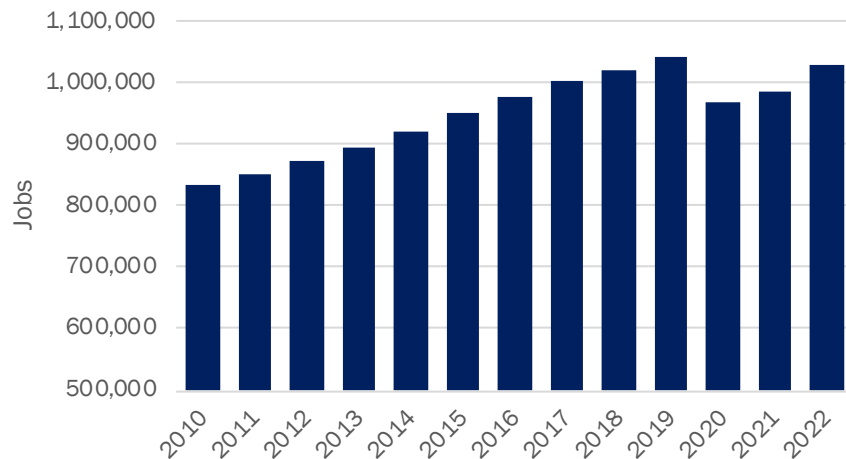
Total Employment. Strong long-term regional job growth, exceeding 2.5 percent per year prior to the pandemic, drove gains in income, and market support for housing and commercial uses. This suggests a stable pre-pandemic market. A slow recovery from the pandemic indicates a potential structural shift in the growth pattern toward a more measured growth outlook.

From 2010 to 2022, total employment in the region increased from 833k to 1 million jobs.

The region lost 72,600 jobs during the first year of the pandemic. We have recovered 82 percent of these jobs.

Exhibit 6: Total Covered Employment in the Portland-Vancouver-Beaverton MSA (2010-2022)

Source: Qualityinfo.org

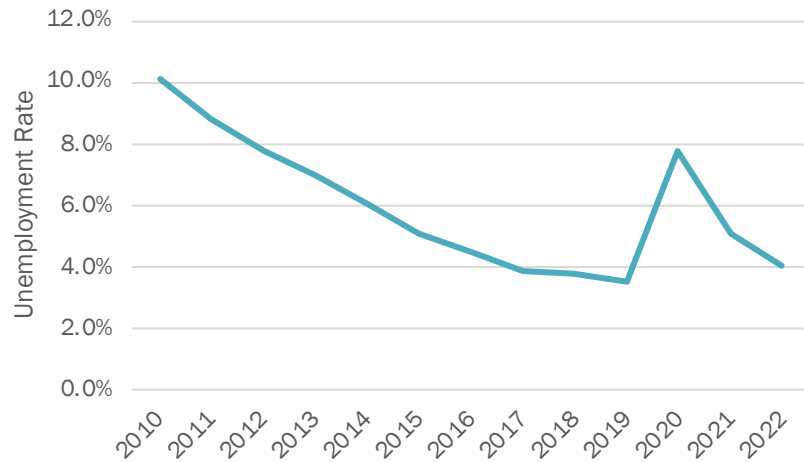


Unemployment. A tight labor market is indicative of a healthy economy and suggests potential for wage and income growth in coming years. However, it also means that local businesses may be having a more difficult time finding quality workers, which could constrain growth in some sectors requiring skilled labor.

The labor market has tightened considerably over the last decade with post Great Recession rates exceeding 10 percent falling to below four percent pre-pandemic.

Exhibit 7: Unemployment Rate in the Portland-Vancouver-Beaverton MSA (2010-2022)

Source: Qualityinfo.org



Industry Employment. Except for Transportation and Warehousing, regional employment growth is being driven by sectors of the economy that are anchored to household growth or business services. Absent a major competitive advantage present in the Plan District, we should expect demand for employment uses to be limited to personal services.

In Exhibit 8 below we evaluate recent trends in regional industry employment sectors. This analysis uses two metrics to characterize the growth and specialization.

Location Quotient: A location quotient analysis compares the distribution of employment in an industry to a share at a benchmark geography, in this case the national distribution. It measures the rate of local specialization. A value of greater than 1.0 indicates an industry has a local concentration greater than the national average.

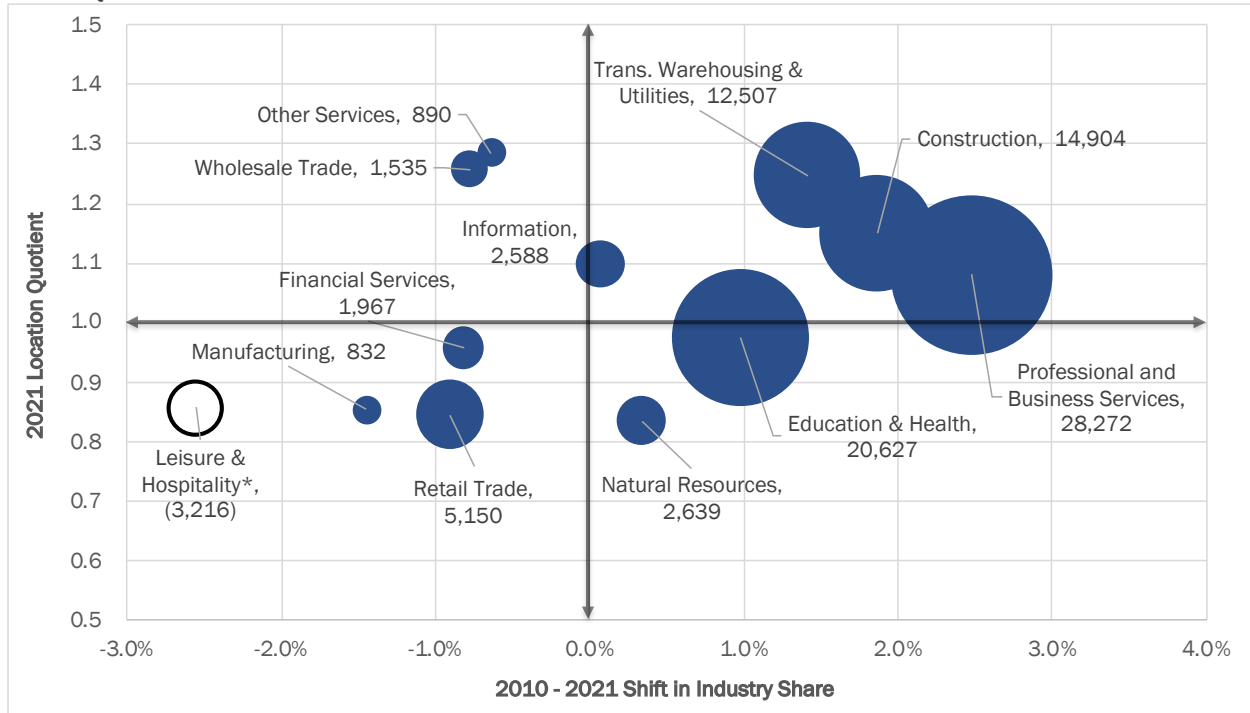
Shift Share: A shift share analysis calculates the change in an industry’s share of the total economy over time. Positive values indicate that an industry is outperforming the broader economy.

Industry sectors in the upper right quadrant in Exhibit 8 are those that are driving local economy. These are sectors that have a local specialization greater than the national average and are growing faster than the regional economy. These sectors include Professional and Business Services, Construction, Transportation and Warehousing, and to a lesser extent Information and Education and Health Service. Taken together, these sectors accounted for 9 out of 10 jobs created in Clackamas and Multnomah Counties since 2010.

Because the data below is only available through 2021, relative weakness in the data for Retail Trade and Leisure & Hospitality is in part the result of Pandemic-era impacts that have since shown greater recovery.

Exhibit 8: Regional Private Industry Employment Trend, Clackamas, and Multnomah Counties 2010-2021

Source: QCEW



Bubble size and values in data labels represent the change in employment from 2010 to 2021.

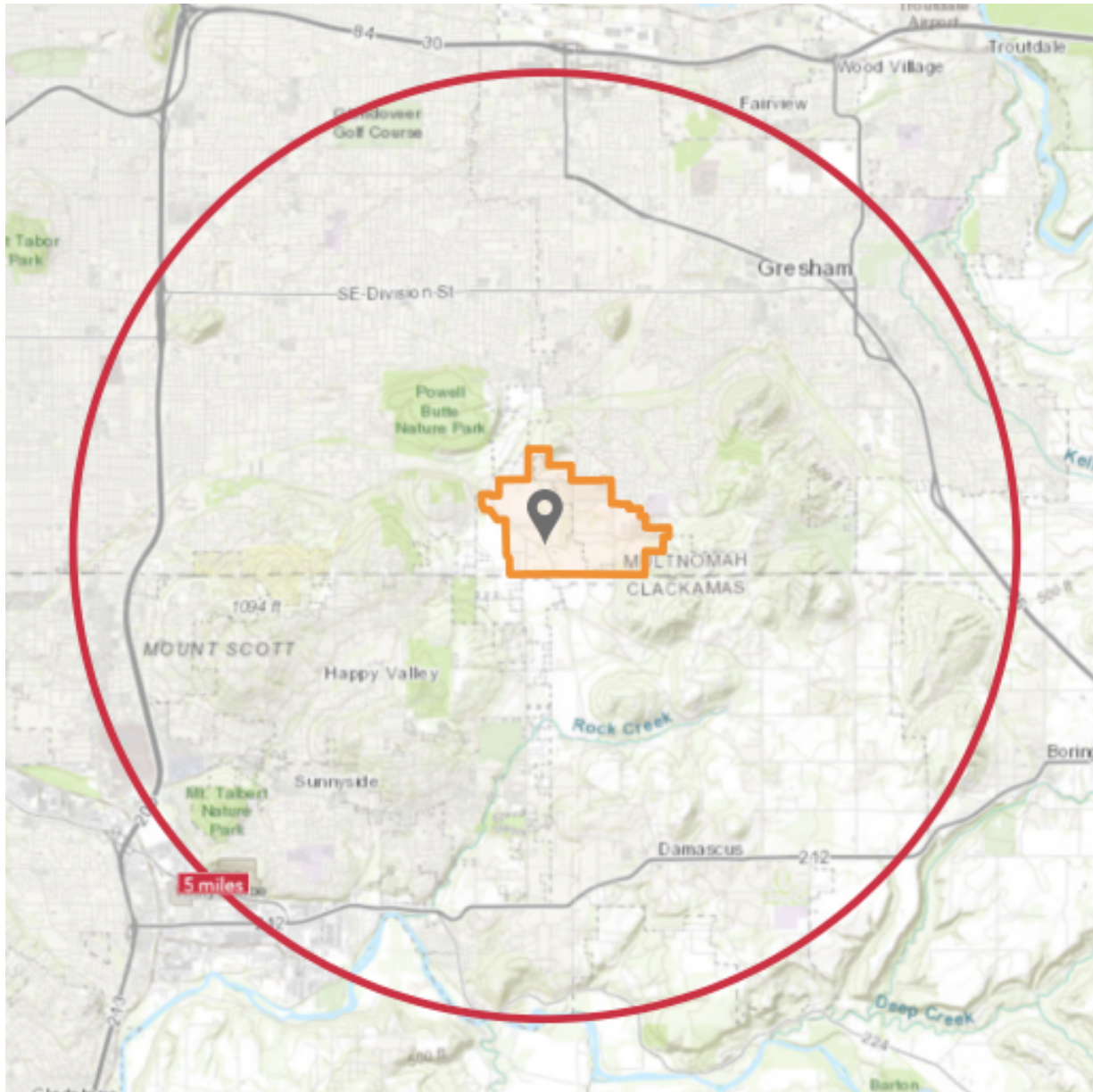
* Indicates negative growth over the evaluation period.

Local Demographic and Economic Context

The local geography used for this analysis is a five-mile radius from the center of the Plan District, shown in Exhibit 9. This “sphere of influence”, or market area, conforms roughly to a fifteen-minute drive time. It encompasses large portions of both Gresham and Happy Valley, and includes the neighboring communities, commercial nodes, and employment centers that will both support and compete with the Plan District.

Exhibit 9: Pleasant Valley Market Area (Five Mile Radius)

Source: ECONorthwest



Pleasant Valley Market Area Demographics. The demographic composition of the market area is favorable in the eyes of retailers and developers. A large household base with incomes that are above regional averages will provide market depth for both residential and commercial uses.

In Exhibit 10 below, we show the demographic composition of the market within a five-mile radius of the Plan District. For context we also present demographic data for the Cities of Gresham and Happy Valley. Observations from this data include:

- A stark contrast in demographic characteristics between Gresham and Happy Valley. On average Happy Valley residents have higher education levels, significantly higher incomes, are more likely to be families, and have higher homeownership rates. Compared to the City of Gresham as a whole, the Pleasant Valley Market area has a significantly higher median household income and residents are more likely to have a college education.
- Despite the semi-rural nature of Pleasant Valley, the market within five miles of the Plan District is quite robust. Over 105,000 households and over 297,000 people live in this area. This market base provides a foundation for commercial and residential development in Pleasant Valley to draw from.

Varied distribution of households by size translates into regional market support for a range of housing types. This is observed in newer residential development in Happy Valley, which is building a mix of single-detached dwellings and garden apartments² near commercial centers.

² Garden apartments, also called Courtyard apartments, are attached housing units arranged around a courtyard, each with its own entry or other access off of the courtyard. Definition provided by the Department of Land Conservation and Development Housing Choices Guidebook: https://www.oregon.gov/lcd/Publications/Housing-Choices-Booklet_DIGITAL.pdf

Exhibit 10: Demographic Characteristics, Pleasant Valley Market Area, Gresham, Happy Valley, 2022

Source: ESRI Business Analyst

	Pleasant Valley Market Area	Gresham	Happy Valley
Population	297,597	116,360	26,227
Households	105,152	41,335	8,638
Avg. Household Size	2.78	2.73	3.03
Median Household Income	\$72,259	\$66,578	\$126,851
Median Age	34.5	35.6	37.4
Education			
Bachelors	19%	16.5%	32%
Advanced Degree	10%	8.8%	21%
Household Size			
1-Person Household	24%	25%	13%
2-Person Household	31%	32%	32%
3+ Person Household	45%	43%	55%
Age Distribution			
Under 15	20%	20%	21%
15 to 64 years	65%	65%	66%
65+	15%	15%	13%
Tenure			
Owner Occupied	57%	52%	80%
Renter Occupied	39%	44%	17%

Local Employment Concentrations. Local industry concentrations are anchored by large institutions including Public Administration, Health Care, and Education. This provides a stable economic foundation for the local market with limited volatility. However, lack of specialization in goods producing sectors will limit opportunities and support for industrial development in the Plan District.

We used local data from the Oregon Employment Department derived from the Quarterly Census of Employment and Wages (QCEW) to identify local concentrations of industry sectors within a five-mile radius of the Plan District. Major employment centers in the area include the Clackamas Industrial Area, Happy Valley/Rock Creek, Gresham City Center, Gresham Vista Business Park, and the I-205 Corridor. Using the Location Quotient method described above, we calculated the most specialized (highest location quotient) industries within a five-mile radius of the Plan District. Major sectors of the local economy include large retailers (NAICS 455, 445, 459) Health and Health Related Sectors (NAICS 621, 624, 623), Education (NAICS 611) and Computer and Electronics Manufacturing (NAICS 334).

Aside from the computer and electronics manufacturing sector, not a single other manufacturing industry sector has a location quotient above 0.5, indicating a low concentration of these industries in the region.

The local economy is heavily influenced by medium and large employers, with institutional uses including hospitals (Kaiser, Legacy,) and schools (Mt. Hood Community College), and government uses (Multnomah County, Tri-Met) anchoring the local economy. A full one-third of all jobs are in 35 firms that employ 200 or more workers.

Major employers include:

- Kaiser
- Fred Meyer
- Tri-Met
- Microchip Tech.
- Aya Healthcare
- Legacy
- Mt. Hood Community College
- On Semiconductor
- Multnomah County

Exhibit 11: Top Local Industry Sectors by Location Quotient, Five-Mile Radius (2022)

Source: Oregon Employment Department QCEW Data

NAICS	Industry	L.Q.
485	Transit and Ground Passenger Transportation	7.19
455	General Merchandise Retailers	4.84
611	Educational Services	4.27
459	Sporting Goods, Hobby, Musical Instrument, Book, & Miscellaneous Retailers	3.28
623	Nursing and Residential Care Facilities	2.82
624	Social Assistance	2.44
334	Computer and Electronic Product Manufacturing	2.26
441	Motor Vehicle and Parts Dealers	1.83
813	Religious, Grantmaking, Civic, Professional, and Similar Organizations	1.55
445	Food and Beverage Retailers	1.48
621	Ambulatory Health Care Services	1.32
722	Food Services and Drinking Places	1.19
531	Real Estate	1.17

Commercial Real Estate Market Conditions

The Plan District is located at the confluence of three common commercial submarkets that are defined by the brokerage community. These include the Clackamas/Milwaukie, Gresham, and Mall 205. These submarkets extend all the way to the Willamette River and include large portions of SE Portland that would not reflect market conditions locally. For this reason, we rely on a five-mile radius consistent with analysis above to assess market conditions. Real estate market analysis informs the planning process by demonstrating the development typologies that are working and the market context that are allowing them to be feasible. The metrics we evaluate include triple-net (NNN) rents, vacancy rates, deliveries, and absorption. A summary of these terms is included below.

- **Triple-Net (NNN):** Represents annual rents on a per square foot basis not including any pass-through expenses such as taxes, insurance, and any utilities or maintenance costs.
- **Vacancy:** The percentage of available space in a building or market that is unoccupied and available for lease or sale.
- **Deliveries:** The number of new buildings or units completed and ready for occupancy in a given time period, typically measured in square feet or number of units.
- **Net Absorption:** The amount of new occupied space in a given market over a specific period, typically measured in square feet. Net absorption is calculated by subtracting the amount of space that becomes vacant (either by tenants moving out or by new construction) from the amount of space that is newly occupied.

Commercial Real Estate Market Trends in a Post-Covid World

The COVID-19 pandemic had significant effects on the commercial real estate market including a decline in foot traffic, an increase in remote and hybrid work, closure of retail and restaurants businesses (some temporarily, but others permanently), changes in consumer behavior, and changes in commute patterns. These disruptions to traditional patterns of work, commerce, and consumer behavior have had a significant and lasting impact on the commercial real estate market—especially office and retail markets. As mask mandates have lifted, there is an increasing but still slow return to brick-and-mortar business locations. Nationwide, many office tenants are opting for more, smaller, and scattered suburban offices in favor of the larger traditional downtown centralization of office tenants. A brief summary of the retail and office sectors and where they currently stand coming out of COVID 19 is provided below.

- **Retail** – The accelerated shift towards online shopping as a result of the pandemic has led to decreased foot traffic, lower sales, and higher vacancy rates in some shopping centers. During COVID lockdowns, some retailers struggled to keep up with rent payments, leading to more flexible lease and rent negotiations by landlords. Home improvement and garden centers saw increased sales due to people investing in their living spaces. Emerging from COVID 19, retail is beginning to see an uptick of in-person traffic at brick-and-mortar locations, with a built-up desire to be “out and about” again in popular shopping areas.

- **Office** – The pandemic impacted the office market substantially with remote and hybrid work causing decreased demand for office space in traditional locations of high office concentrations, leading to higher vacancy rates in many markets. As office-based businesses renegotiate leases and make new locations decisions, many have opted for a smaller office footprint with more amenities and flexible meeting spaces such as those found in Class A office, renegotiated leases, subleased excess space, and smaller suburban office locations. Property managers have been more flexible with rent concessions and lease extensions to retain tenants given the changing dynamics and uncertainty of the office market.

Retail Market Trends

Lease and Vacancy Rates. Increasing rents alongside falling vacancies suggests a market that is or is approaching undersupply. Over time this could create pent-up demand and further rent increases that will improve the feasibility of commercial development in the Plan District and development's ability to absorb off-site infrastructure costs.

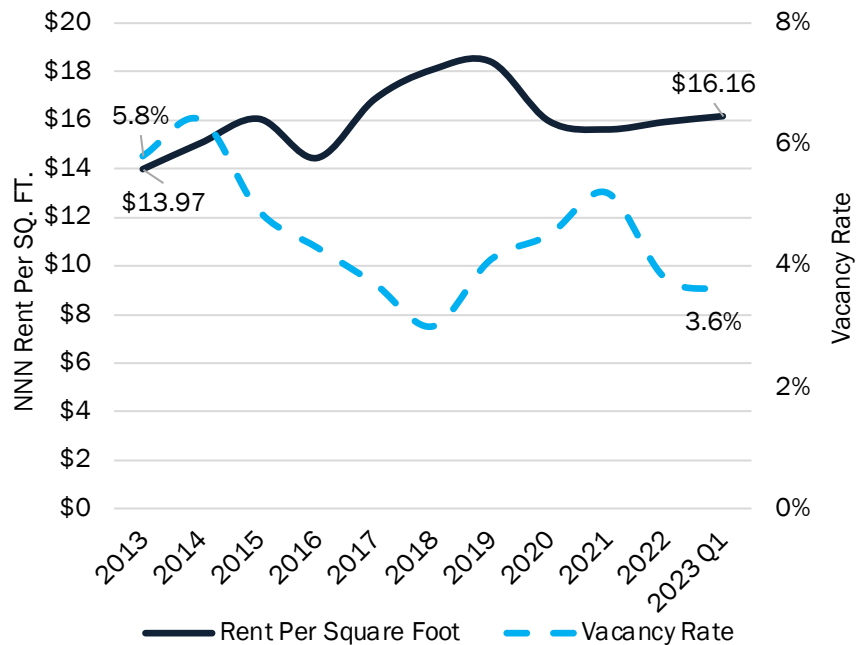
Retail rents per square foot rose 32% from 2013 to 2019, before falling 13% in 2020. Since 2020, retail rents have remained steady; as of early 2023, retail rents in the market area are just over \$16 per square foot.

Retail vacancy rates dropped from 2014 to 2018, then rose to 5.2% in 2021. From 2021 to 2023, vacancy rates dropped to 3.6%.

The short-term increase in vacancy during the pandemic followed by a quick recovery indicates a market that is not structurally impacted negatively by pandemic shifts.

Exhibit 12: Retail Market Rents and Vacancy Rates, Gresham-Pleasant Valley Market Area, 2013-2023

Source: CoStar



Deliveries and Net Absorption. Over the last decade the market has been operating efficiently, with developers adding supply followed by healthy absorption that maintains market equilibrium. As surrounding areas are increasingly built-out, areas like the Plan District will see increasing opportunities for commercial development commensurate with household and spending growth.

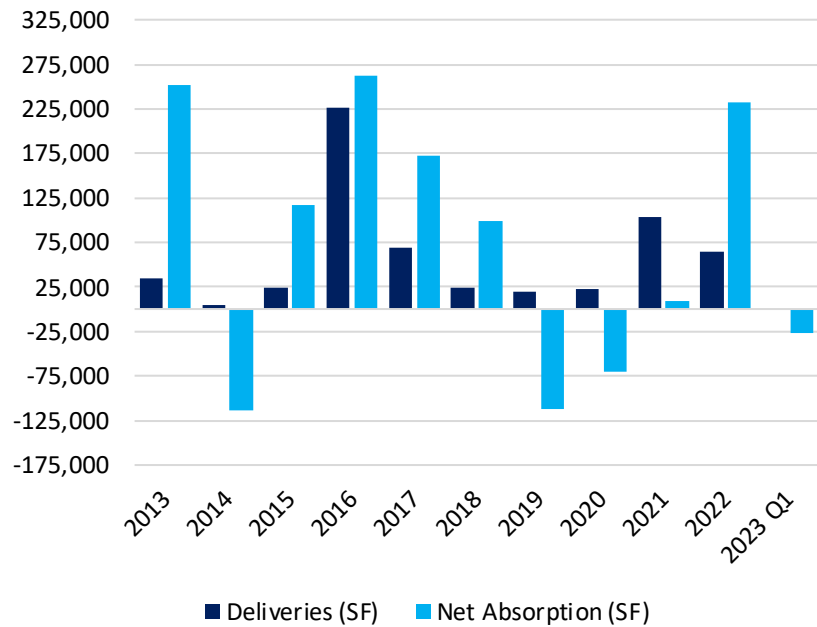
From 2013 to 2023, roughly 590,000 square feet of retail space were delivered to the market area.

Over the same time period, roughly 820,000 square feet of retail space was absorbed by the market. Over 100,000 square feet were absorbed in 2022.

Pandemic era deliveries were likely in motion prior to March 2020. Strong absorption of this space in 2022 suggest resiliency in a market that may be seeing some substitution effects from close-in markets.

Exhibit 13: Retail Space Deliveries and Net Absorptions, Gresham-Pleasant Valley Market Area, 2013-2023

Source: CoStar



Retail Development Prototypes

The exhibit below shows representative examples of recent successful retail developments completed in the Pleasant Valley Market Area. Several of these new retail centers built in the last few years have been developed either in a greenfield development or part of a larger redevelopment effort that combines everyday services and retail goods with housing adjacent. These retail prototypes, which combine a mix of personal and professional services and retail goods in close proximity to housing, would align well with the complete community goals in the Pleasant Valley District Plan.

Exhibit 14: Example Recent Retail Developments in the Pleasant Valley Market Area

Source: CoStar



Crossroads East—Happy Valley

Year built: 2022

Rent Estimate: \$24.00 - \$29.00 NNN

City: Happy Valley

The Crossroads East is a newly built lifestyle retail center with a mix of retail businesses including personal services, restaurants, and professional services. The retail center benefits from a growing population and the adjacent residential development located within the shopping center.



The Byway—Wood Village

Year built: 2021

Rent Estimate: \$15.00 - \$19.00 NNN

City: Wood Village

The Byway strip commercial center was recently completed on the site of the former Wood Village city hall. This strip retail center offers a variety of retail spaces for retail and office tenants. Adjacent to this site new multifamily housing was recently built to complement this retail center.

Office Market Trends

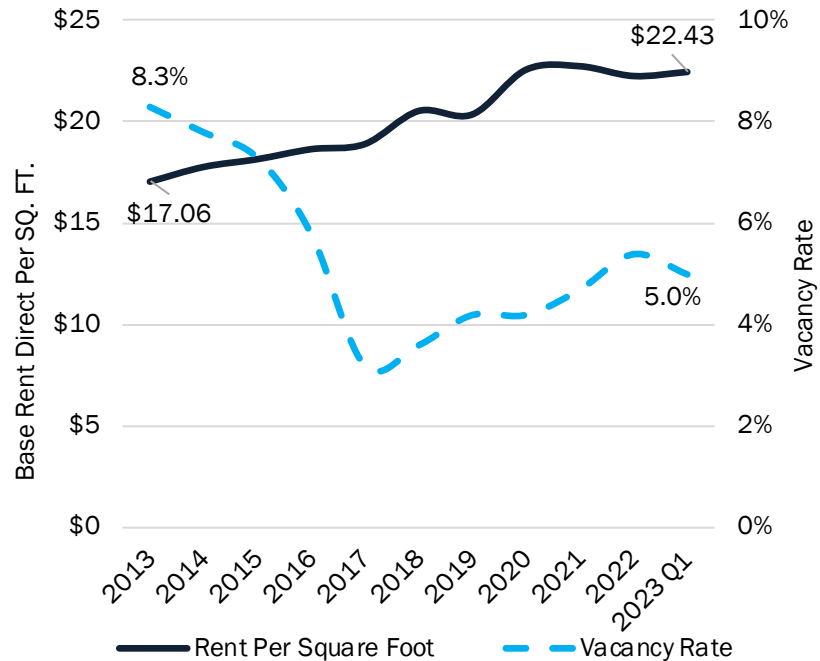
Office Lease and Vacancy Rates. Steadily increasing rents coupled with vacancy rates well below historical averages demonstrate that the office market is strong. Suburban office has a higher concentration of tenants that provide personal services (medical, dental, financial) that are less susceptible to pandemic-related shifts in space utilization. Top-of-the-market rents exceeding \$25 per square foot would likely support new suburban scale office development commensurate with demand growth.

Office market rent rates in the market area rose steadily from 2013 to 2023, increasing 31%, or \$5.37 per square foot over the time period. As of early 2023, office rents are \$22.43 per square foot.

Office vacancy rates fell from 8.3% in 2013 to a low of 3.2% in 2017. From 2017 to 2022, vacancy rates climbed to 5.4%. As of early 2023, office vacancy rates are 5% in the market area.

Exhibit 15: Office Market Rents and Vacancy Rates, Gresham-Pleasant Valley Market Area, 2013-2023

Source: CoStar



Office New Construction and Absorption. The market has not shown momentum in building to speculative multi-tenant office development targeting professional services firms. Because of these conditions, development in Pleasant Valley will likely development be suburban scale development as a part of mixed-use development serving the local population.

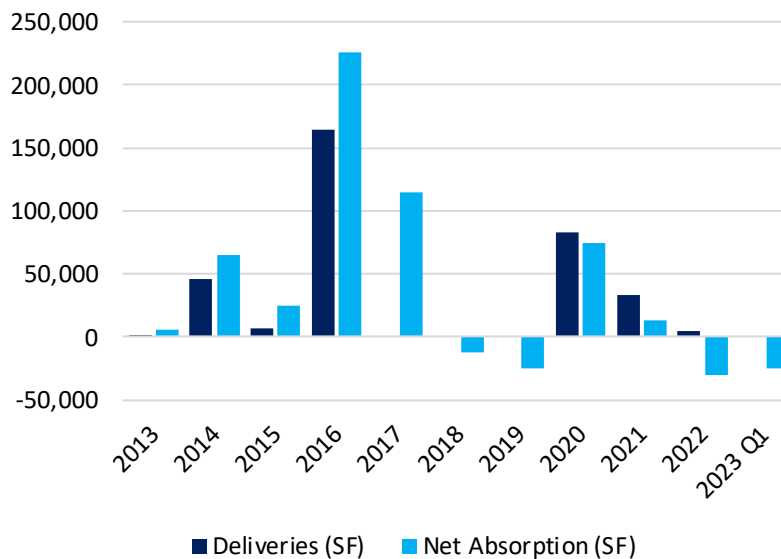
From 2013 to 2023, roughly 430,000 square feet of office space were delivered to the market area.

Over the period, roughly 340,000 square feet of office space was absorbed by the market. Net absorption for office space has been low or negative since 2021.

Construction activity in the market has been measured over the last decade. Much of the development that has occurred has been small stand-alone medical office or in mixed-use development. Speculative multi-tenant office space development targeting professional services has been limited.

Exhibit 16: Office Space Deliveries and Net Absorptions, Gresham-Pleasant Valley Market Area, 2013-2023

Source: CoStar



Recent Office Development

The exhibit below shows representative examples of recently completed successful office developments in the Pleasant Valley Market Area. New office development in the Market Area has generally been built within a suburban office campus setting or as part of a mixed-use development.

Exhibit 17: Example Recent Office Developments in the Pleasant Valley Market Area

Source: CoStar



Sunnyside Center—Happy Valley

Year built: 2016

Rent Estimate: \$25.00 - \$30.00 FS

City: Happy Valley

The Sunnyside Center is suburban medial office campus with a variety of tenants composed of medical and professional services. The center is adjacent to housing and small-scale grocer across the street.



Rockwood Rising—Gresham

Year built: 2020

Rent Estimate: \$28.00 - \$34.00 FS

City: Gresham

The new Rockwood Rising development offers Class A office space in the upper floors of a mixed-use market hall building. The development offers a variety of amenities such as a grocer, micro restaurants, micro retail, and a public plaza. This development is centrally located in the heart of Gresham adjacent to the MAX Light rail station.

Rental Residential Market Trends

The multifamily rental market in the Market Area has generally performed well in recent years – vacancy rates have remained low while rents have increased year over year. From 2013 to early 2023, multifamily residential rents increased 50 percent to \$1.64 per square foot, while vacancy rates remained relatively stable at just under five percent. In the past decade, new multifamily units have quickly been absorbed by the market, indicating a strong demand for multifamily in the area.

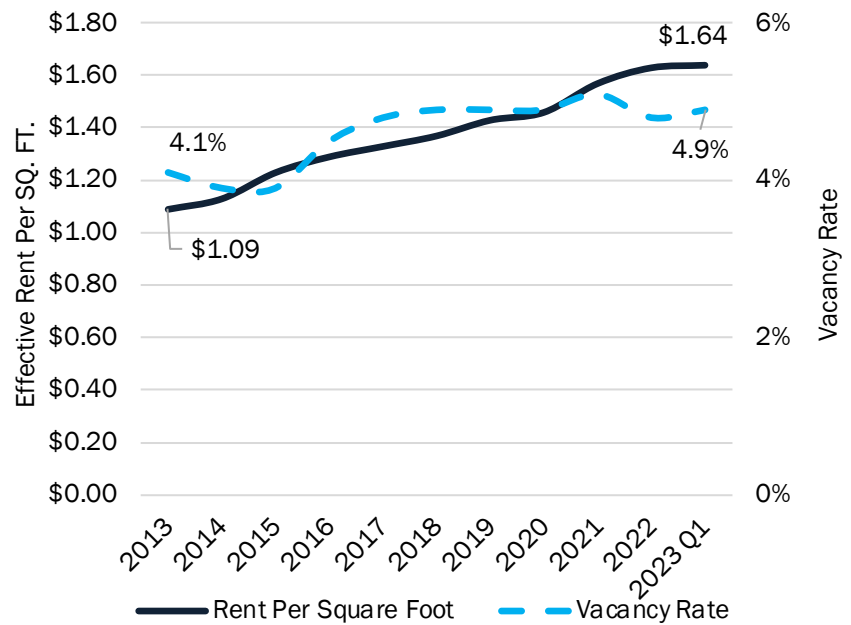
Multifamily Lease and Vacancy Rates. Annual rent escalation of 4.2 percent is in line with regional averages over the last decade. Multi-family development in the Plan District would target a typology like what is being developed in Happy Valley. This would require commercial amenities to execute. Top of the market rents in the \$2.15 to \$2.25 range is only likely to support three to four story wood frame development with surface parking.

Multifamily market rents in the market area rose steadily from 2013 to 2023, increasing 50%, or \$0.55 per square foot over the time period. As of early 2023, multifamily rents are \$1.64 per square foot on average.

Multifamily vacancy rates remained relatively steady over the time period, rising slightly to a vacancy rate of 4.9% in early 2023.

Exhibit 18: Multifamily Market Rents and Vacancy Rates, Gresham-Pleasant Valley Market Area, 2013-2023

Source: CoStar



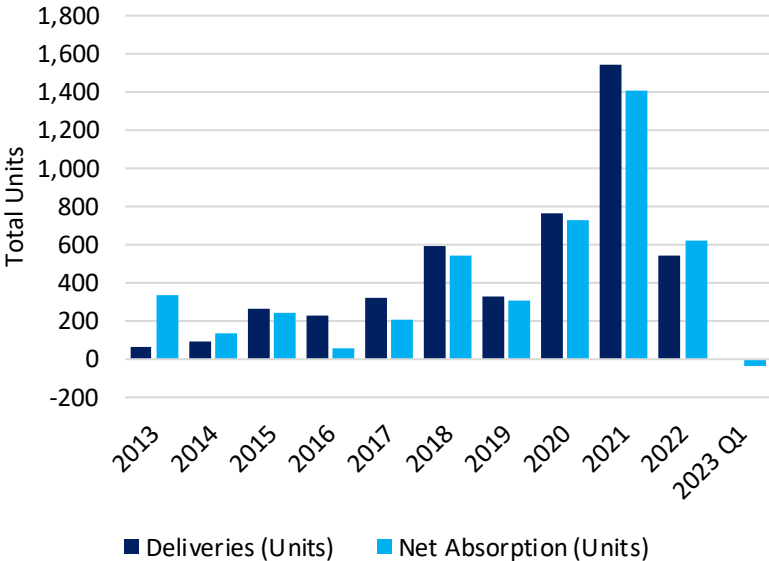
Multifamily New Construction and Absorption. The ramp up of deliveries over the last five years, balanced with immediate absorption demonstrates a market that has transitioned to supporting new construction apartment units. Much of the development that has occurred has been concentrated in Happy Valley and along the Burnside Corridor. We do not see regional market depth as a constraint on multifamily development in Pleasant Valley.

Over the study period, 4,773 multifamily units were delivered to the market.

Net absorption was positive from 2013 to 2022 for multifamily spaces, with 4,571 units absorbed. While net absorption is negative in the first quarter of 2023, it is likely too early in the year to determine overall trends.

Exhibit 19: Multifamily Deliveries and Net Absorptions, Gresham-Pleasant Valley Market Area, 2013-2023

Source: CoStar



Recent Multifamily Development

The exhibit below shows representative examples of recently completed successful multifamily developments in the Pleasant Valley Market Area. Recent development in the area includes both mixed-use development (either with ground floor retail or as part of a commercial shopping center with commercial uses built separately) and stand-alone multifamily. The scale of multifamily built is typically between 3 to 6 stories high, with the mixed-use buildings built in more urban settings, while the garden style apartments are typically built in a more suburban environment with surface parking.

Exhibit 20: Example Recent Multifamily Developments in the Pleasant Valley Market Area

Source: CoStar



Residences at Butler Creek

Year built: 2021

Asking Rent: \$1.83 PSF (\$2,600 per unit)

City: Gresham

The Residences at Butler Creek are 71-unit townhomes located near Pleasant Valley in Gresham. Each townhome is a two-story home with 3 bedrooms and 2.5 bathrooms. Each townhome has its own garage.



Heather Lodge—Happy Valley

Year built: 2020

Asking Rent: \$2.19 PSF (\$1,900 per unit)

City: Happy Valley

The Heather Lodge apartments is a 4-story apartment complex with 178 units within a 150,000 square foot building. The apartment complex was recently developed within a strip retail center along SE Sunnyside Road.

For Sale Residential Market Trends

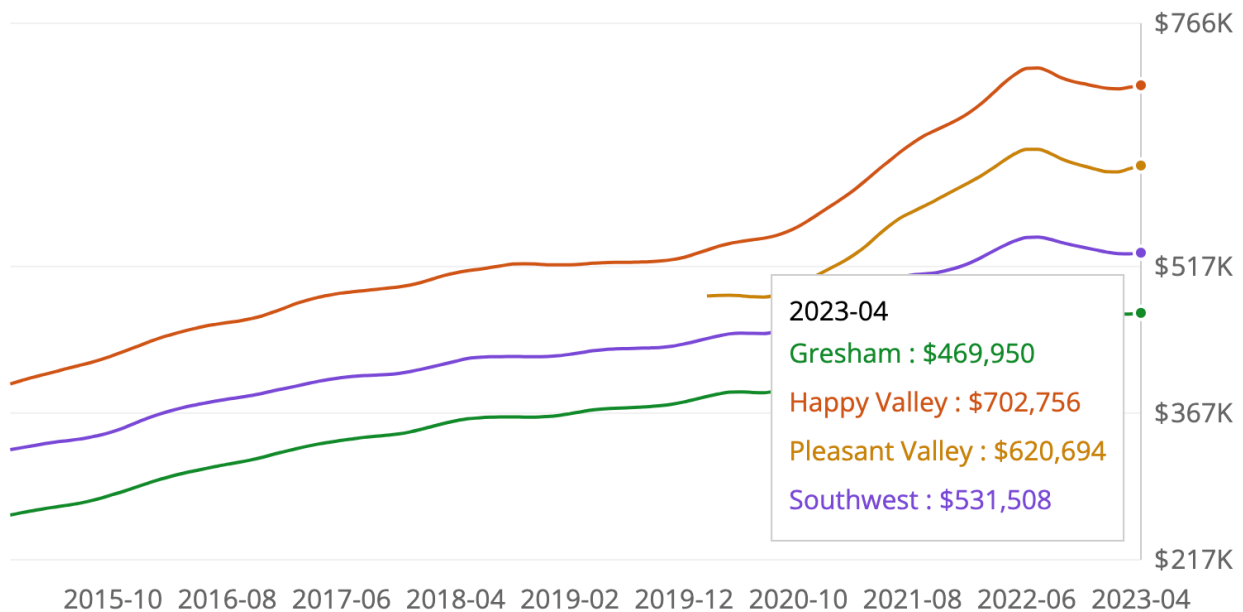
For-Sale Residential Market Trends. The for-sale market has seen robust growth in home prices over the last development cycle. Prices have moderated over the last year due in large part to increases in interest rates and deterioration in purchasing power. So far, developers have been able to deliver housing at prices discounted off Happy Valley, which expands the available market depth. We would expect demand for single-detached units to remain strong once the interest rate environment becomes more stable.

Home values have increased in Gresham—including Pleasant Valley and the adjacent Southwest neighborhood—since 2020, as they have throughout the region. Pleasant Valley and Happy Valley both appear to have seen greater price increases since 2020 than Gresham overall or the Southwest neighborhood. This may reflect the prevalence of new homes coming to the market during this period and an increase in demand for larger homes during the pandemic. The estimated “typical” home value in Pleasant Valley as of April 2023 was roughly \$621,000, as shown in Exhibit 21.³

Exhibit 21: Single-Detached Home Price Trends: City of Gresham, City of Happy Valley, and Southwest Gresham

Source: Zillow.com

— Gresham — Happy Valley — Pleasant Valley — Southwest

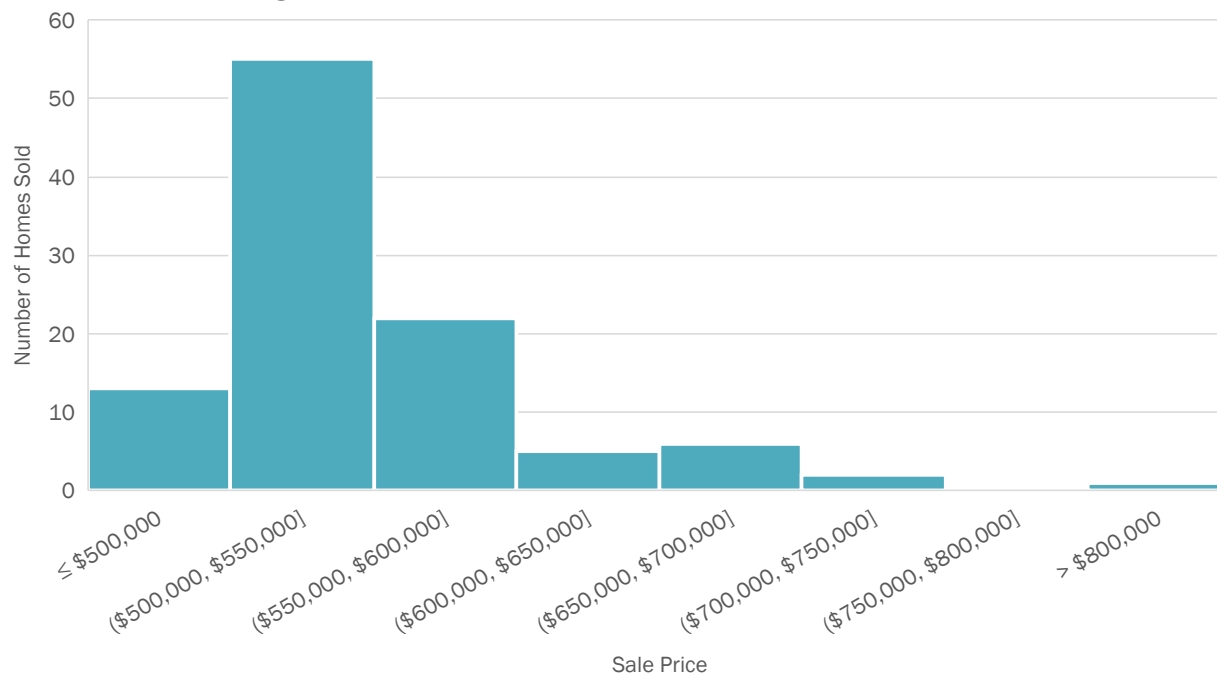


New homes in the area have sold for between about \$475,000 and over \$800,000 in Southwest Gresham over the past 12 months, but the bulk of newer home sales have been priced between \$500,000 and \$550,000, as shown in Exhibit 22.

³ Zillow Home Value Index for single family homes.

Exhibit 22: Sale Price Distribution of New Homes in Southwest Gresham

Source: ECONorthwest using data from Redfin for Southwest Gresham from March 2023, for the last 12 months.



New homes include all homes built since 2017.

Two subdivisions within Pleasant Valley are currently selling new homes: Sunset Village by LGI Homes, and Skyliner Crossing by Lennar. Sunset Village is currently selling smaller single-detached units (1,285-2,020 square feet) for roughly \$445,000 to \$500,000, while units at Skyliner Crossing are somewhat larger (1,660-2,630 square feet) and priced between about \$490,000 and \$635,000.⁴ The fact that at least one developer is able to deliver new construction housing at prices similar to existing homes in the Southwest Gresham area generally, and below the typical prices in Happy Valley, suggests that this area may be able to offer moderately-priced homeownership opportunities compared to some other greenfield development areas. However, development in the area may be sensitive to land and infrastructure costs, due to the need to keep sale prices attainable for a broader range of households.

City staff also reports an increased interested in middle housing development within Pleasant Valley, which could align well with the more moderate for-sale pricing in the area.

⁴ Newhomesource.com

Market Depth/Demand Analysis

Commercial Development

Retail Demand

At the most fundamental level, market support for commercial retail development is a function of three sources of demand:

- **Resident Household Spending.** The consumption from the discretionary spending of resident households within a reasonable distance of the establishment.
- **Visitor Spending.** Spending from temporary, non-resident visitors. This spending is most common in tourist destinations, along Interstate freeway systems, or in proximity to hotels, entertainment attractions, or other uses that draw visitors from a great distance.
- **Daytime Population.** The typical population during working hours within a reasonable distance of the establishment. This population could include employees, students, or residents that do not commute out of the market.

Delineation of a Primary Trade Area

For retail development, we define a Primary Trade Area (PTA) as the geographic region from which a retail development generates the majority of its customers. As a general rule, 75 percent of market support is derived from the PTA. Many variables factor into the delineation of a PTA, including:

- **Proximity and Access to Household Concentrations.** Pleasant Valley is a new urban area on the periphery of the existing development pattern. Further urban development to the southeast of the Pleasant Valley District is unlikely within the planning horizon. In the near-term, retail market support will be reliant on existing housing concentrations on other sides of the Pleasant Valley District. Over time, residential development within Pleasant Valley will offer marginal growth in market support. At present, only 1,583 households reside within the Pleasant Valley District.⁵
- **Planned/Zoned Retail Development Form.** The scale of retail development previously envisioned for the plan area— “a shopping area and neighborhood center for meeting daily needs of residents”⁶—is classically defined in the real estate industry as neighborhood or convenience retail. Tenants in this category generally serve local populations as opposed to regionally drawing retail formats. Neighborhood serving retail generally draws from a five- to ten-minute drive-time. This development form is consistent with the study area’s position on the periphery.

⁵ ESRI Business Analyst (2022)

⁶ Pleasant Valley Plan District Plan, Page 4-13

- **Size, Location, and Retail Mix of Competing Locations.** The theory of retail gravity asserts that time and distance are primary determinants of shoppers' willingness to patronize a particular center. Households are not generally willing to travel past (or further than) a comparable or superior center. Where competitive alternative centers exist, the ability to draw from a progressively larger geography is a function of tenant differentiation. For the study area, major arterials to the north, west, and south offer well-established retail concentrations. We would expect these centers to continue to draw their fair share of market support.
- **Presence of Pass-through or Daytime Employment.** The Pleasant Valley District does not have an existing employment center; the influence of daytime employment will be limited unless/until the area is able to attract additional employment uses. The study area is also not positioned along a major commute route between household and employment concentrations, though NE 172nd Ave provides a connection to employment areas in Clackamas County for some Gresham residents. This condition reinforces the expectation of a neighborhood serving form.
- **Presence of Physical or Manmade Barriers.** Physical barriers will have a significant impact on the study area's PTA, principal among these are large open space areas including Powell Butte Nature Park and Willamette National Cemetery. Topography influences the road network and presence of through arterials as well.

Primary Trade Area

The delineation of the PTA boundary for the Pleasant Valley District was based on the following location considerations for the area:

- Natural resources will truncate the PTA to the east up to Gresham, Hogan and Sunshine Buttes.
- Existing retail concentrations exist along Powell Boulevard to the north. These include established retail centers anchored by Walmart, Fred Meyer, and Safeway. These centers will continue to draw a share of retail patronage from households up to and including the project study area. However, the character of the tenant mix differs from what might be expected in the study area, allowing the PTA to extend up to Powell to capture a share of this market. Hogan Butte and the other areas to the east of the PTA boundary are not included due to the Butte representing a natural barrier for households with limited roadway east-west access to the PTA area. Additionally, most roadways in the Gresham Butte converge to the Powell Valley Junction, providing easy access to these households to goods and services in that area.
- To the south, existing retail concentrations serve Happy Valley along Sunnyside Road. These include retail centers anchored by New Seasons and Fred Meyer. Both centers offer a competitive mix of specialty grocery, food and beverage, personal services, and other neighborhood convenience tenants. These centers will continue to draw from their existing market base. Due to this competitiveness, we would expect the PTA to extend south roughly halfway to existing retail along Sunnyside.

- Similarly, we would expect the PTA to extend roughly halfway commercial concentration around the I-205 corridor.

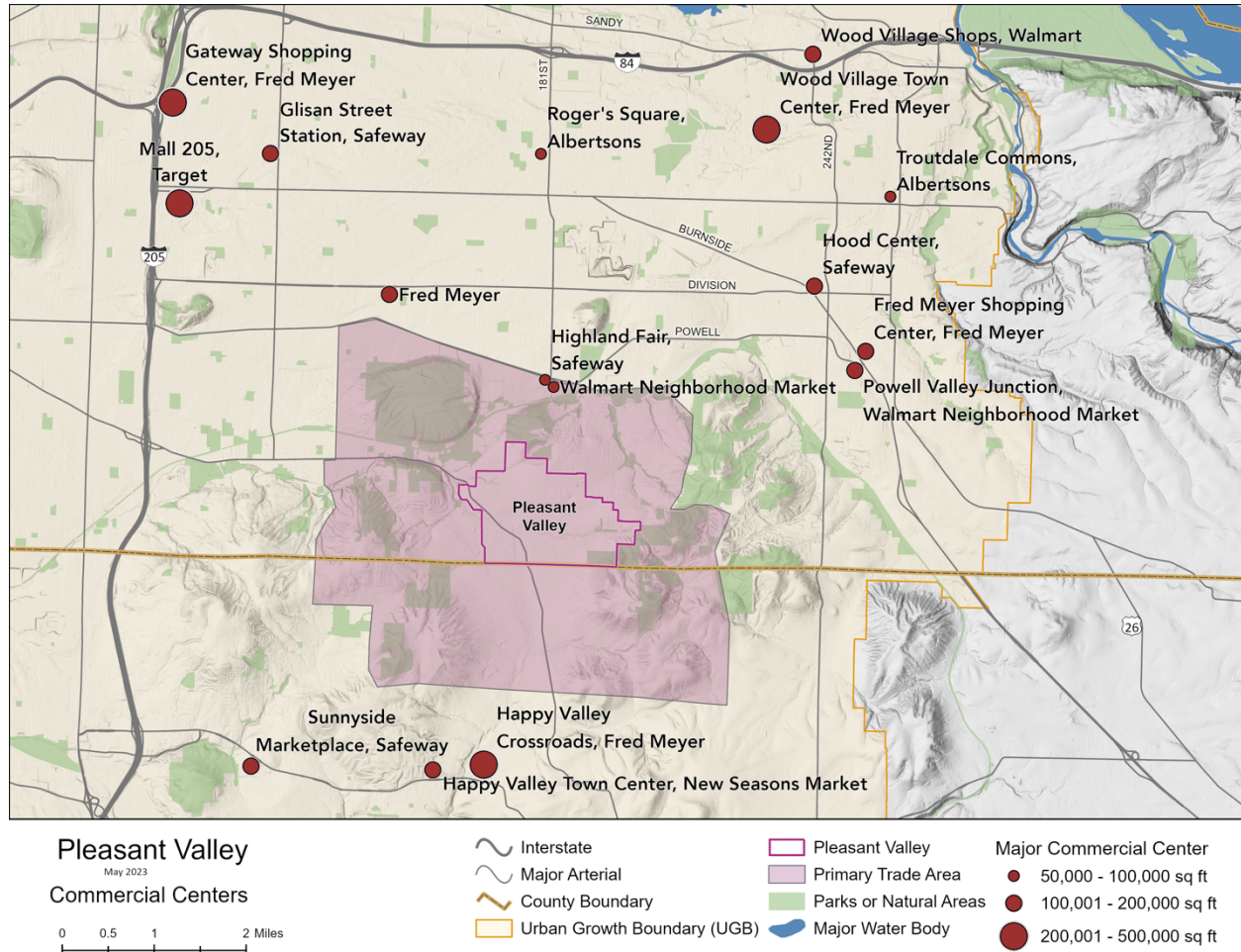
The PTA boundary is shown on Exhibit 23, along with the locations of major grocery stores that are an anchor to a larger commercial centers.

Exhibit 23 focused on identifying major grocery stores that would likely be a competitor to the type of commercial center that would be attracted to Pleasant Valley District. Smaller grocery stores exist in the area however they were not shown in Exhibit 23 because they are not considered direct competitors to the major grocery store that would service the PTA households. The criteria used to identify if a grocery store was considered a major grocer anchor are the following:

- It is a nationally or regionally recognized grocer.
- Minimum grocer building footprint is at least 50,000 square feet.
- The grocer is within a commercial center with strip retail and/or stand-alone retail.

Exhibit 23: Pleasant Valley Primary Trade Area Boundary and Major Grocery-Anchor Commercial Centers

Source: ECONorthwest



Consumer Spending Patterns

Demand for retail space in the Plan District will be a function of its ability to capture discretionary consumer spending. Some retail categories have a higher propensity to have spending be local versus gravitating outside of the local market. For example, people will shop for groceries closer to home than purchasing a new washing machine. Therefore, some retail categories have a “natural” rate of leakage unless an area has the characteristics that are supportive of serving as a community or regional retail hub.

In the exhibit below we present retail spending in the Primary Trade Area compared to spending that is captured by retailers within the same geography. In 2023 we estimate that households within the PTA will spend over \$353 million on retail goods and services, only \$121 million of which is retained locally. The remaining \$232 million is being “leaked” outside the market. Leakage tends to be higher in retail sectors that are commonly served by large format retailers (Costco, Walmart, Home Depot, regional malls) where people are willing to travel farther distances for large purchases.

Exhibit 24: Retail Gap/Surplus Analysis, Pleasant Valley Primary Trade Area, 2023

Source: ECONorthwest Analysis of Claritas Data

Retail Store Type	Demand/ Spending Potential (\$)	Supply (\$)	Retail Gap (\$)
Furniture and home furnishings stores	11,298,196	4,191,845	7,106,351
Electronics and appliance stores	8,626,069	4,032,242	4,593,827
Building material and garden equipment and supplies dealers	38,460,687	17,621,214	20,839,473
Food and beverage stores	78,604,649	26,680,149	51,924,500
Health and personal care stores	31,756,223	761,452	30,994,772
Clothing and clothing accessories stores	26,888,594	735,220	26,153,374
Sporting goods/hobby/musical instr/bookstores	8,961,021	5,305,148	3,655,873
General merchandise stores	69,438,020	23,754,094	45,683,925
Miscellaneous store retailers	11,519,037	6,900,018	4,619,019
Food services and drinking places	68,071,405	31,524,255	36,547,150
Total Goods	353,623,901	121,505,637	232,118,264

Commercial Space Demand

As physical places, brick-and-mortar retail stores have a fixed amount of space for inventory, which translates into a limit on the amount of supportable sales at any given store. Using estimates of supportable sales per square foot for different retail categories, we can convert retail spending into supportable square footage. In Exhibit 22 below, we calculate the demand profile for the Primary Trade Area. We make adjustments to the overall demand profile to account for structural leakage and a share of the market that is likely to continue to gravitate to retail centers along Powell Boulevard and Happy Valley.

Exhibit 25: Retail Demand Potential, Pleasant Valley Trade Area, 2023-2028

Source: ECONorthwest Analysis of Claritas Data

Retail Sector	Per HH Spending	Sales Support Factor	Local Capture Potential	Market Support from Growth (SF)	Potential Existing Market Capture (SF)
Furniture and home furnishings stores	\$1,120	\$275	Very Low	842	1,292
Electronics and appliance stores	\$855	\$450	Low	786	1,021
Building material and garden equipment and supplies dealers	\$3,814	\$400	Very Low	985	1,302
Food and beverage stores	\$7,795	\$675	High	24,163	38,943
Health and personal care stores	\$3,149	\$450	Moderate	7,231	17,219
Clothing and clothing accessories stores	\$2,666	\$500	Low	3,306	7,846
Sporting goods, hobby, musical instrument, and bookstores	\$889	\$300	Low	612	609
General merchandise stores	\$6,886	\$350	Very Low	2,033	3,263
Miscellaneous store retailers	\$1,142	\$250	Moderate	2,833	2,771
Food services and drinking places	\$6,750	\$425	High	13,129	17,199
Total	\$35,068			55,919	91,467
20-year household growth:	4,133 households ⁷				

Based on very conservative estimates of local market capture, we estimate that the residential build-out of Pleasant Valley could translate into market support for at least 56,000 square feet of retail space. Demand from existing residents could potentially support an additional 91,000 square feet of commercial space. This is sufficient to support a grocery anchored neighborhood center once a critical mass of housing in proximity to potential commercial sites is achieved in the Plan District. This scale of development in a suburban context typically occupies between 6 and 20 acres of commercial land.

Commercial Office/Employment

Office/Employment uses are generally characterized by three use types:

- 1) **Household:** Uses that provide professional and personal services for households (banks, insurance agents, health care, education, social services).
- 2) **Business:** Uses that provide professional services to businesses or corporate management (back office, corporate headquarters/public administration, laboratory testing, architecture and design, engineering).

⁷ Assumes full-build-out of residential capacity, based on estimated capacity from the City's recent Housing Capacity Analysis.

- 3) **Production:** Uses that produce, store, package, or transport physical goods (manufacturers, logistics, warehousing).

Attracting business and production uses generally requires a distinct competitive advantage. These advantages could include proximity to a major industry cluster, site and infrastructure assets, presence of specialized workforce characteristics, housing affordability, natural resource and amenities, or relative cost/regulatory conditions, among other factors.

Relative to other established and emerging employment centers, we observe limited competitive advantages in attracting non-household driven uses. Lack of major transportation corridors, infrastructure deficiencies, site assemblage, and distance from existing employment centers are all contributing factors. For these reasons, we would expect office and employment uses in Pleasant Valley to be limited to those that are primarily driven by household demand.

Combined Opportunities for Commercial Development

Taken together, the retail and office/employment demand analysis suggest the following opportunities for commercial development in Pleasant Valley:

Exhibit 26: Opportunities for Commercial Development

Source: Summarized by ECONorthwest.

Type	Potential Uses	Typical Form
Non-retail Sector		
Medical and Health Services	Dental Office, Neighborhood Clinic, Optometrist, Veterinary Clinic	Standalone Pad, Retail/Mixed-Use Tenant, Single/Multi-story Medical Office Building
Financial Services	Neighborhood Bank/Credit Union, Financial Advisory Services, Real Estate Brokerage, Insurance	Standalone Pad, Retail/Mixed-Use Tenant, low-rise campus
Personal Care	Salons, Fitness Centers, Nail Salon	Standalone Pad, Retail/Mixed Use Tenant
Household and Other Services	Childcare Facilities, Education, Co-working Spaces	Standalone Pad, Retail/Mixed Use Tenant
Retail Sector		
Food Services and Household Goods	Small-format Grocery, Convenience Stores	Standalone Pad, Retail/Mixed-Use Tenant, Single/Multi-story
Food and Beverage	Café, Tavern, Restaurant	Standalone Pad, Retail/Mixed-Use Tenant, Single/Multi-story
Local, Specialty Goods	Florist, Bookstore, Hobby	Standalone Pad, Retail/Mixed-Use Tenant, Single/Multi-story

The kinds of businesses that locate in new neighborhood commercial areas can vary widely. Established, existing businesses are the expected candidates. These businesses can range from local companies looking to move to a new emerging area or start a new satellite location to national "credit-tenant" businesses like franchises that want a foothold in a new market. Startups and new businesses (including some minority-owned and culturally-specific businesses) face obstacles leasing space in new commercial developments. Their lack of proven business experience and a financial track-record makes it difficult for them to secure business

loans and the rents offered by new development are typically more than they can afford. Overcoming these obstacles would require targeted small-business support from the public or philanthropic sectors.

Non-market uses, especially public uses that generate a lot of activity or foot traffic can be a huge support for neighborhood commercial spaces. Uses like libraries and community centers draw people to a location multiple times per day and across the week. Parks and trails similarly have this effect. People looking to combine trips or get a snack or a meal after an event or day trip will look for commercial businesses near these uses. These non-market uses also create opportunities for partnerships that foster new businesses, like a library that is paired with a daycare center or preschool.

This suggests that the City (and other public bodies) can influence the success and character of commercial development in Pleasant Valley through siting of public uses (e.g., a library or community center) and through support for small and local businesses to locate in new commercial developments in the area.

Comparison to Other Commercial Centers

To understand the commercial development potential that could be achieved in the area, it is helpful to compare the area in question to other areas with recent commercial development similar to the type and scale desired for the Pleasant Valley. Below we provide a brief snapshot of three recent suburban commercial centers in areas with similar locational and demographic characteristics for comparison to the Pleasant Valley Primary Trade Area.

- **Happy Valley Town Center:** The Happy Valley Town Center is a 138,696 square feet commercial center with a mix of retail, restaurants, medical office, and civic space. Anchor tenants include the New Seasons Market and Bank of America. Key tenants include Orange Theory, T-Mobile, Umpqua Bank, Floyd Family Orthodontics, and Happy Valley Food Hall.
- **Happy Valley Crossroads:** Built in 2016, the Happy Valley Crossroads is a 216,622 square foot commercial center with a mix of retail, restaurants, office, and fuel center. The commercial center is anchored by the Fred Meyer grocer which includes an onsite fuel center. Key tenants of the center include Umqua Bank, Mud Bay, OnPoint Community Credit Union, Chipotle, Five Guys, and AT&T Store.
- **Progress Ridge TownSquare:** Built in 2011, This commercial center is 213,000 square feet in size and anchored by the New Seasons Market grocer and ACE Hardware. The surrounding tenants of this commercial center are a mix of lifestyle retailers and entertainment, medical health, professional office, and restaurants. Key tenants include AMC Theatre, Providence Medical Group, Gentle Dental, Pure Barre, Petco, and Bank of America.

Exhibit 27: Key Retail Demand Factors for Pleasant Valley PTA and Comparison Commercial Areas

Source: ESRI Business Analyst

Area	Population (2022)	Households (2022)	Median Household Income (2022)	Key Traffic Count (ADT)	Square Feet of Commercial Space (SF)	Acres
Pleasant Valley PTA	14,605 (~25,200 estimated at buildout*)	5,143 (~9,100 estimated at buildout*)	\$92,036	9,000	0	N/A**
Happy Valley Town Center***	18,706	6,288	\$113,456	18,605	138,696	17.81
Happy Valley Crossroads***	16,231	5,357	\$113,889	6,668	216,622	29.9
Progress Ridge TownSquare***	36,120	14,233	\$107,020	11,196	213,850	14.45

* Buildout population and households based on estimated housing capacity within Pleasant Valley in the City's recent Housing Capacity Analysis and average household size for Gresham.

** The original plan called for a Town Center that would be up to 20 acres, including any civic uses.

*** Population, household, and income data based on a 5-minute drive time, which covers a comparable area as the Pleasant Valley PTA.

This comparison further reinforces the finding that the Plan District can potentially support a similar scale of commercial development, particularly when residential uses are fully built out.

Desired Site Characteristics

Locally serving neighborhood commercial space, and retail space in particular, relies on locations that are easy for consumers to see and access. Locations visible from major streets, or that receive a lot of foot traffic, are preferable for these business types because they offer natural marketing to passersby. Accessibility by foot and by car is also important. Accessibly refers to the ease with which a consumer can get to a business. Inadequate parking, unclear access points, and setback storefronts can all inhibit consumers' ability to access certain businesses and deter them from shopping there.

Site plans for the three comparable developments described in the previous section are shown below. All are located at an intersection with retail spaces surrounding a surface parking lot.

Exhibit 28: Happy Valley Town Center Site Plan

Source: Retail Opportunity Investments Corp. (https://www.roireit.net/shopping-centers/property-details/shopping-centers_20100914.htm)



Exhibit 29: Happy Valley Crossroads Site Plan

Source: Gramor Development (<https://gramor.com/development/happy-valley-crossroads/>)

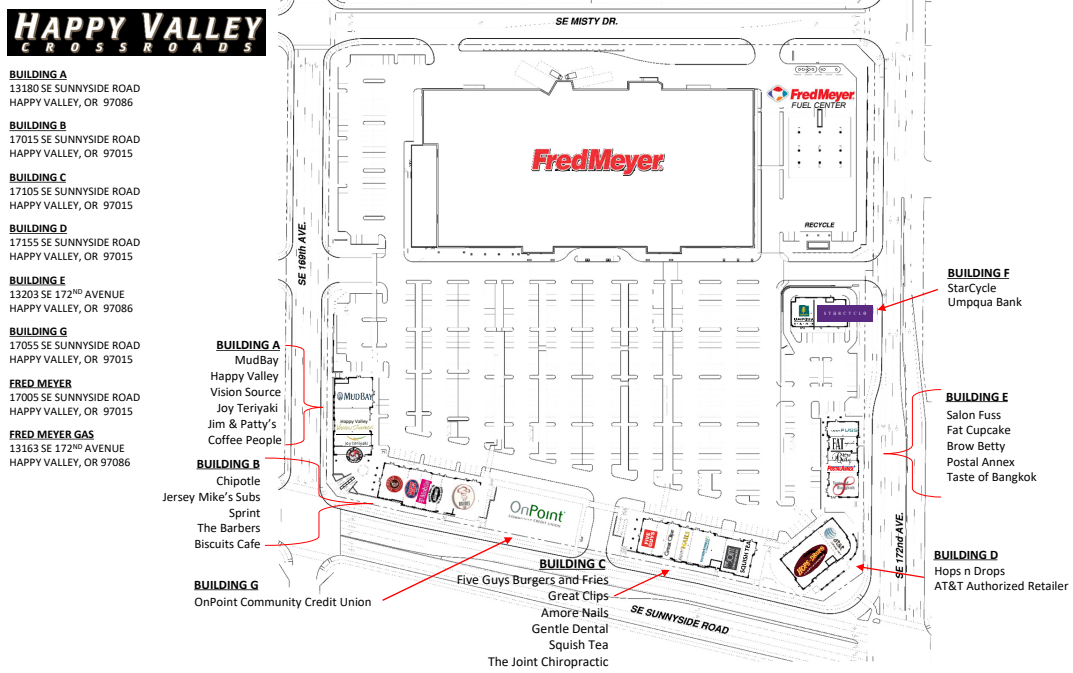
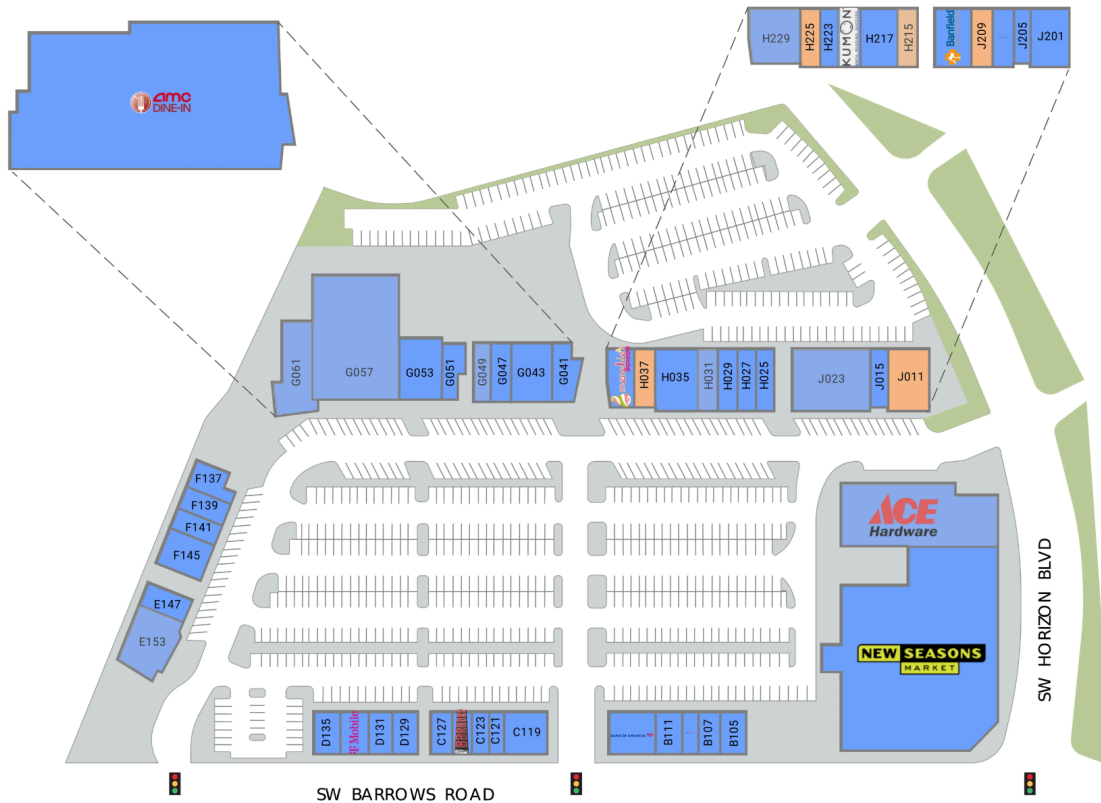


Exhibit 30: Progress Ridge TownSquare Site Plan

Source: First Washington Realty (<https://firstwash.propertycapsule.com/p/commercial-real-estate-listings/Beaverton-OR-97007/progressridgetownsquare#site-plan>)



Residential (for-sale and rental)

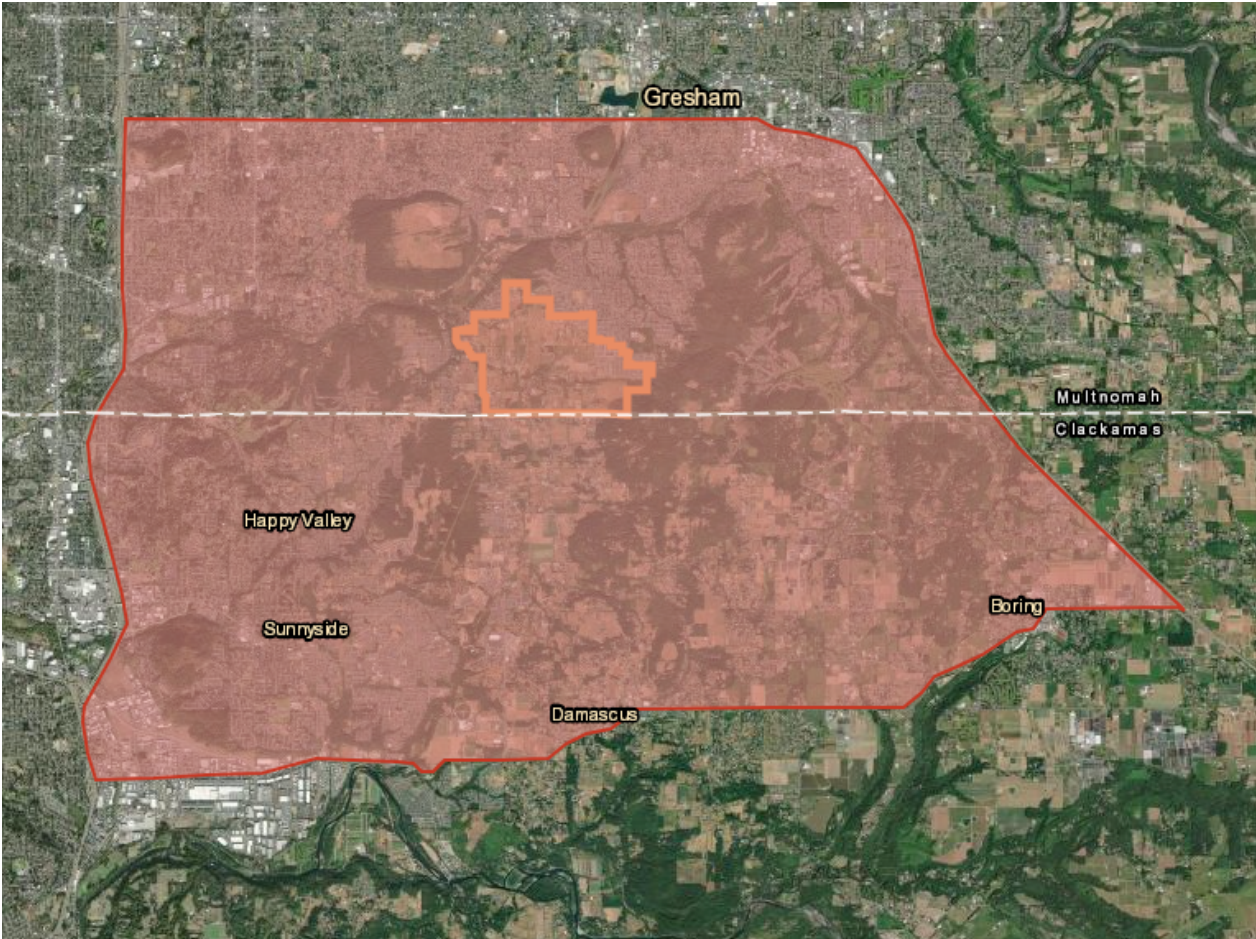
The residential market depth analysis is intended to estimate how much housing of the types envisioned for the area and the price-points that are likely for new market-rate construction could be supported by anticipated market demand. In addition to market-driven demand for housing, there is a need for additional affordable housing in Gresham and throughout the region. However, availability of funding to make affordable housing development possible is the primary constraint on affordable housing production rather than depth of demand at that price point.

Residential Primary Market Area

The Primary Market Area is the geographic region from which the majority of demand is expected to originate. Household growth and existing households within this area will provide market support and drive the sale of residential units in Pleasant Valley. For this analysis, the PMA is represented in Exhibit 32. This area includes a large cross-section of east Multnomah and Clackamas Counties bounded by Interstate-205 to the west, SE Division to the north, Highway 26 to the east, and Highway 212 to the south.

Exhibit 31: Residential Primary Market Area

Source: ECONorthwest



Market Depth Methodology

Total market depth is a function of net-new growth in households, the propensity to rent or own (tenure split), and incomes required to support rents and prices for varying housing types.

Market depth is supported by net-new household growth in the market area. A forecast of households by age and income is compared to a matrix of propensity to rent and own. The forecast of households is further refined to include households only with sufficient income to afford the development typologies that are being observed and planned in the market. Those include a range of housing types (e.g., single-detached housing, middle housing, and multifamily housing). As noted above, this analysis focuses on demand from households with the ability to afford the anticipated price points that are likely for new market-rate housing in this area to identify potential for the private sector to deliver new housing in the area.

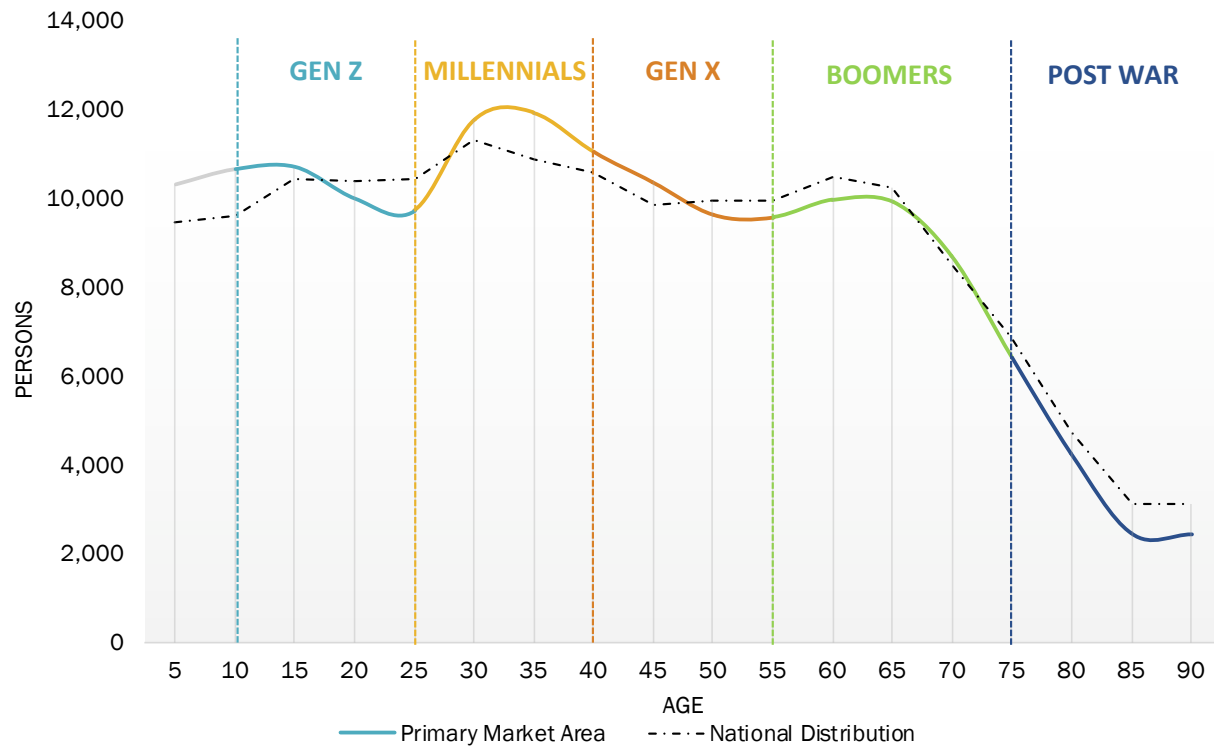
Generational Composition

The composition of the market is weighted toward mid-lifestage groups that are entering homeownership years but may be constrained by pricing pressures. As the demographic “blip” in Millennials age into their 40s and beyond, this will continue to support moderately priced for-sale homes in the market.

Households at different life stages have varying preferences in their housing choice. For example, middle-aged families are more likely to seek single-detached homes compared to younger households who are more likely to rent. Exhibit 32 shows the composition of the local population by generational cohort, compared to national averages. Generally, the local market tracks the national average, with only a slightly above average concentration of Millennials and younger Gen Xers.

Exhibit 32: Generational Composition of the Primary Market Area (2022)

Source: ESRI



Income Qualified Demand

To identify potential demand for new market-rate housing, we estimate the expected lower bound of future rents and sales prices for new market-rate housing in Pleasant Valley based on similar recently built housing and around Pleasant Valley and estimate how many households are likely to have incomes that allow them to afford that new housing.⁸

Renter Household Assumption: We assume that the typical household spends 30% of gross income on rent. With new construction rents averaging \$2.00 and \$2.50 per-square-foot, we assume a household income lower bound of \$75,000 annually.

For Sale Household Assumption: We assume a standard 28% of income toward housing payment with a 20% down, 30-year term, and 5% mortgage rate. To afford a \$450,000 to \$500,000 home, the minimum supported income would be \$100,000 annually.

⁸ Many households in Gresham pay more for their housing than the standards used to estimate ability to pay in this section. However, for the purposes of estimating market-supported demand, this is a more conservative approach that does not assume that additional households will cost-burden themselves in order to live in this area, or, in the case of homebuyers, have access to additional home equity or other accumulated wealth to make a larger down payment. This approach does not incorporate programs to support lower-income households in accessing market-rate housing, such as housing vouchers or down payment assistance programs, which may or may not be sufficient to allow them to afford new market-rate housing. Strategies to support housing affordability are addressed separately.

Household Growth Forecast

For this analysis we project household growth over an intermediate-term forecast period of 10-years. We assume slight change in age and income distribution that trends toward a slightly older and slightly more affluent demographic base consistent with observed trends in the Primary Market Area. This assumes the housing stock built in Pleasant Valley will be broadly similar to what has been built in and around Pleasant Valley to date. We apply a growth factor of 1.1% annual growth to this distribution. This rate is a conservative estimate for a greenfield development area, but is consistent with Metro's blended average growth rates for Gresham and Happy Valley combined.

Exhibit 33: Residential Market Depth by Price and Tenure Split

Source: ECONorthwest analysis based on data from ESRI, Metro, and Census ACS data⁹

Income Cohort	Renter HH Growth	Max Rents ¹⁰	Owner HH Growth	Max Sales Price
\$75,000-\$99,999	100	\$1,875 - \$2,500	Not qualified	Not qualified
\$100,000-\$149,999	292	\$2,500 - \$3,750	3,672	\$485k - \$725k
\$150,000-\$199,999	472	\$3,750 - \$5,000	3,239	\$725k - \$950k
\$200,000+	71	\$5,000+	1,641	\$950k+
Total:	936		8,552	

We find 10-year income qualified demand of nearly 9,500 units. Demand is heavily weighted toward the for-sale market, which is consistent with rates of homeownership at these income levels. Development in Pleasant Valley will compete with other areas outside the planning area for this market depth, specifically Happy Valley. Some market segments may not be fully applicable to Pleasant Valley. For example, the market in Pleasant Valley is not currently supporting home prices above \$650,000 to \$700,000 dollars. A large share of this market depth with gravitate to areas that support this price point.

With maximum supported capacity of roughly 4,100 units in Pleasant Valley, it would take a 43 percent average market share to build-out Pleasant Valley in 10-years. In the context of the competitive landscape, this capture rate is probably unachievable. However, a capture rate closer to one-fifth of all income qualified demand would see residential development in Pleasant Valley build out within 20-years.

Demand Implications for Pleasant Valley

This section summarizes the area's strengths and weaknesses for various land uses and the implications for market potential in Pleasant Valley. The assessment of market potential uses the following scale:

Market Potential	Definition
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⁹ Household distribution from ESRI, growth forecast from Metro, tenure split from the U.S. Census American Community Survey 2017-2021, analysis by ECONorthwest.

¹⁰ In this analysis we assume a static 30% of gross income for rent for all income cohorts to calculate a maximum supported rent range without cost burdening. However, higher income renter households tend to spend less than 30% of income on housing on average.

High	High market interest. Limited policy support or subsidy needed; that is, the market is likely to develop these uses with little public support.
Medium	Limited to prime locations where development is most likely to occur, and may need some public support.
Low	Development will require public subsidy and targeted policy focus (e.g., strategic plans, dedicated funding, or specific programs) to support these uses.

Each section also identifies factors and locational considerations for where within Pleasant Valley each use is most likely to be successful.

Commercial Retail

Strengths and Weaknesses

Strengths

- Ability to capture market support from existing residential base.
- Incomes above the regional average that support strong spending capacity.
- Growth in rooftops from the build-out of residential uses in the Plan District.

Weaknesses

- Plan District location will not allow for capture of much non-resident spending.
- Planned transportation network requires re-routing existing major roads in parts of the Plan District and extending others, making near-term commercial development along major roads even more challenging.
- Limited number of sites with suitable scale for larger commercial developments (e.g., 10-20 acres).
- Market size is truncated by existing competition and natural barriers.

Market Potential

Development Type	Market Potential
Grocery Stores	Medium-to-high. A smaller grocery anchored (less than 40k sq. ft. anchor) retail center is the most likely commercial development form for the Plan District. The tenant typology will depend on the evolving demographic composition of the market area. Some tenants (i.e., Trader Joes, Whole Foods) have very specific site selection criteria that the Plan District may not reach. Other regional or independent tenant types (Market of Choice, World Foods) may be more viable.
Food and Beverage (Restaurants/Cafes/Brewpubs)	Medium-to-high. Growth in rooftops and spending will support additional food and beverage (F&B) tenants. Outlook for independent F&B is less certain. Best outlook will be for nationally branded tenants in the mid-scale tier.
Neighborhood Retail/Services	Medium-to-High. Household growth from the build-out residential in Pleasant Valley coupled with the opportunity to capture some market support from nearby residential centers will likely support neighborhood scale retail.

The most likely outcome for commercial retail development in the Plan District will be a grocery anchored neighborhood center ranging from 65,000 to 85,000 square feet (less than 40k sq. ft. anchor) that includes both retail and office/services tenants.

Location considerations within Pleasant Valley

- A site that is at least 10 to 15 acres in an excellent retail location is likely needed to accommodate a grocery-anchored center.
- While there is a desire for walkable development in the area, most of the comparable developments are a single development on one side of a major street rather than a two-sided Main Street configuration.
- Location along an existing major road that is planned to remain an arterial when the area is fully developed could make a commercial center viable sooner. This could suggest locations along SE 190th Ave.
- The intersection of two major roads will provide optimal visibility and accessibility. Currently, Foster Rd. and SE 172nd Ave is the only intersection of two major roads within the Plan District, but this area is planned for reconfiguration of the transportation network. The intersection of SE 190th Ave and Geise Rd is planned to be a major intersection in the future, though Geise Rd currently offers little connectivity and carries very little traffic.

Commercial Office and Employment Uses

Strengths and Weaknesses

Strengths

- Forecasted household growth will provide market depth for personal services office uses.
- Limited competition exists in market.

Weaknesses

- Limited competitive advantage in attracting users that are not driven by household demand.
- Location of the Plan District on the urban edge limits synergy with economic agglomerations.
- The Rock Creek Employment Center in Happy Valley is further along in planning, has a better competitive position, and has sufficient capacity to accommodate growth in the market over at least the next economic cycle.
- Location and lack of larger sites limit opportunities for industrial development.

Market Potential

Exhibit 34: Pleasant Valley Office and Industrial Market Potential Summary

Source: ECONorthwest

Development Type	Market Potential
Neighborhood Services (Medical, health,	High. These uses are common in a neighborhood community context and are commonly located in commercial nodes alongside retail uses. Tenants in this suburban office type tend to be driven by population and household growth.

Development Type	Market Potential
financial, and household services)	
Coworking	Medium. The market for flexible office space is likely to grow over the intermediate-term. Suburban examples like CENTRL Office’s space at The Beacon in Lake Oswego have been successful.
Corporate Offices	Low. Slight potential as a “home run” use if a competitive site was assembled. Would capitalize on natural amenities and quality of life. Corporate sitings in Camas/East Vancouver are an example of this development in a similar locational context.
Flex/Business Park	Low. Slight potential for small-scale park that supports local businesses or “markers”. Rock Creek capacity is more likely to capture demand.
Industrial	Low. Pleasant Valley lacks sites with adequate transportation connectivity and other competitiveness factors.

Location considerations within Pleasant Valley

- Neighborhood services will likely locate within a larger commercial development. Coworking space would also be likely to locate in a similar area.
- Corporate offices or Flex/Business Park, if there was demand, would require a large enough site with good accessibility from major roads. The northwest portion of the study area offers more direct access to major roads via Foster Road and Jenne Road, and is closer to Powell Butte and the Springwater Corridor, but there are few large properties in that area.

Residential

Strengths and Weaknesses

Strengths

- Proximity to recreation opportunities and natural resources (including Powell Butte, the Springwater Corridor, and new and planned trails and parks within Pleasant Valley).
- Access to employment concentrations in the Clackamas Industrial Area.
- Proximity to Happy Valley’s Town Center, as well as planned future commercial areas within Pleasant Valley.

Weaknesses

- Fragmented property ownership and smaller parcels.
- Need for major transportation investments to extend new streets.
- Lack of easy accessibility to other major employment centers.

Market Potential

Exhibit 35: Pleasant Valley Residential Market Potential Summary

Source: ECONorthwest

Development Type	Market Potential
Single-Detached	High. Strong market depth and proven market success.
Multi-family	Medium. Market depth is there and rents are supporting wood frame development nearby in Happy Valley. Major multifamily development may require or benefit from synergy with commercial uses to attract institutional investors. Likely in later phases of the Plan District’s build-out. Smaller multifamily development could be possible on a lower-cost site (accounting for land and infrastructure/site development costs) where total development costs are low enough to enable developers to move forward without institutional investors. Three-story wood frame walk-up apartments with surface parking are most likely given the current market rents.
Multi-family Mixed Use	Low to Medium. Current market rents are not likely to support vertical mixed use over the intermediate term.
Middle Housing (Duplexes, Triplexes, Quadplexes, Townhouses, and Cottage Clusters)	Medium to High. Market depth is strong, product type is emerging in the Plan District and in Happy Valley as a proven development form. Lower costs allow for lower sales prices that are attainable to a broader segment of the market. Tends to be cost-sensitive given lower price-points and sometimes tighter profit margins and may not be able to bear high infrastructure costs required for developing some sites. ¹¹
Affordable Housing*	Low. Market/need is present. Will require public subsidy to be delivered.

*Note: Affordable housing is a non-market use. Across all timeframes, affordable housing will require targeted strategy and actions to be achievable.

Location considerations within Pleasant Valley

- Most of the Pleasant Valley District is suitable for a range of residential uses, though locations immediately adjacent to power line corridors and busy streets such as 190th Avenue may be less desirable.
- Suburban multifamily development generally requires roughly 3-5 acres of land with good access to roads that can carry a higher volume of traffic, such as an arterial or collector road.
- None of the area currently has access to transit, but it will be easier to provide service along bigger roads in the future, so focusing higher density and affordable housing development on sites within an easy walk of those major roads will make future transit service more viable.

¹¹ If infrastructure costs are fixed, building more units through middle housing can help spread those costs over a broader base; however, if costs are already allocated per unit (e.g., through SDCs and the rates do not provide discounts for smaller or denser housing types) the costs can make middle housing less viable compared to larger single-detached housing.

Conclusion

This study shows that there is moderate to strong demand in the Pleasant Valley area for a range of housing types and for commercial development to serve a growing population.

The market for single-detached housing is strong in the area and Pleasant Valley home sales prices are favorable compared to nearby areas. The potential for middle housing development also aligns well with the market conditions in the area. Large-scale higher-density multi-family housing development is more likely to occur once the area has some commercial amenities to serve and draw people to the area, though smaller multifamily development may be possible before then.

We can expect commercial growth to occur once a critical mass of households in the area has been reached. Neighborhood commercial scale development is most suited for this area, with potential for a grocery anchor and other household serving uses. However, the fragmented ownership in the area and the need for major transportation network changes create challenges for delivering commercial development. A closer look at property-specific opportunities and challenges is needed to determine where within the area are the most suitable locations for commercial and multifamily development, which should ideally be located in close proximity to one another to align with Pleasant Valley goals for a complete community and ensure that the uses are mutually supportive. The most viable form for these types of development is likely to remain more suburban in nature given the market conditions: single-story commercial development with surface parking (ideally with liner buildings adjacent to the street) and three-story, walk-up apartment development with surface parking are most likely. Market conditions in the area are unlikely to support vertical mixed-use development, and a two-sided Main Street-style commercial development does not align well with typical development forms and real estate models for a suburban context. The City should consider how different uses support one another when considering phasing for the area: single-detached development and middle housing are viable now and can support neighborhood scale commercial development, which could then support additional higher density residential.

Industrial development is unlikely to occur in Pleasant Valley. Between physical, locational, and parcelization constraints, the area lacks a competitive advantage for industrial siting compared to other places in the region. Opportunities for office development are also limited, though the area could support some household serving office uses such as medical and dental office.

From a market perspective, the findings in this study suggests that Pleasant Valley could be attractive for at least some of the uses envisioned in the original concept plan, though development may occur at a slower pace than originally expected, and some of the planned land uses have limited market support. Refinements to planned land uses may consider the location of commercial areas, the amount and location of land planned for employment uses (and whether a specific employment designation is warranted), and the balance of land planned for various housing types and densities.