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CC: Project File #1859

RE Happy Valley Town Center TGM Project Market Overview, Task 2.4

A. INTRODUCTION

This memorandum provides an overview of the real estate and demographic trends in Happy Valley as part of Task 4 Real Estate Market Overview for the Happy Valley Town Center Plan. As part of this task, FCS GROUP (subconsultant) performed the following activities:

- ◆ Evaluated current real estate trends in retail and office lands within the Portland Metro area as well as the primary market area for Happy Valley
- ◆ Evaluated state and regional data which identifies projected growth patterns in population and employment in Happy Valley
- ◆ Utilized census and local market data to identify further demographic and socioeconomic trends that define Happy Valley
- ◆ Incorporated findings from the 2011 Happy Valley Economic Opportunities Analysis (EOA) to address issues identified in that report as they are pertinent to the Real Estate Market Overview

The preliminary findings for each of these activities can be found below.

B. ECONOMIC OVERVIEW

FCS GROUP conducted an economic overview and real estate market analysis of commercial office, retail, and housing development potential in a defined Primary Market Area (PMA) which includes the City of Happy Valley and surrounding areas.¹ (**Figure 1**) The PMA is considered to be the area that will provide the primary support for new development within the Happy Valley Town Center. The emerging Happy Valley Town Center will also derive market support from a much larger Secondary Market Area (SMA) (not shown) that extends well beyond the PMA to include the southeast portion of the greater Portland Region. The economic and market findings are intended to document near-term and mid-term market demand for conceptual redevelopment projects in the

¹ *The defined Primary Market Area includes the area that is contained within approximately a 10-minute drive time (30-minute bicycle commute) of the Happy Valley Town Center study area.*

National and Regional Overview

The current economic slowdown, which began in December 2007, is now the longest on record since World War II. Consumers are now more cautious as home foreclosures rise and companies shed jobs and trim inventories to remain profitable. Oregon posted an overall job gain of 27,400 jobs between March 2010 and March 2011, as the state's unemployment rate fell slightly to 10.5 percent in March 2011.

The U.S. and Oregon economies are now poised for a sluggish economic recovery according to many business economists. The April survey of the National Association of Business Economists reported better (less negative) results for industry demand, profit margins, employment, capital spending, and credit conditions. National economic growth (as measured by Gross Domestic Product) is expected to increase by between 3.1 percent and 3.4 percent annually this year, according to the Federal Reserve Bank.²

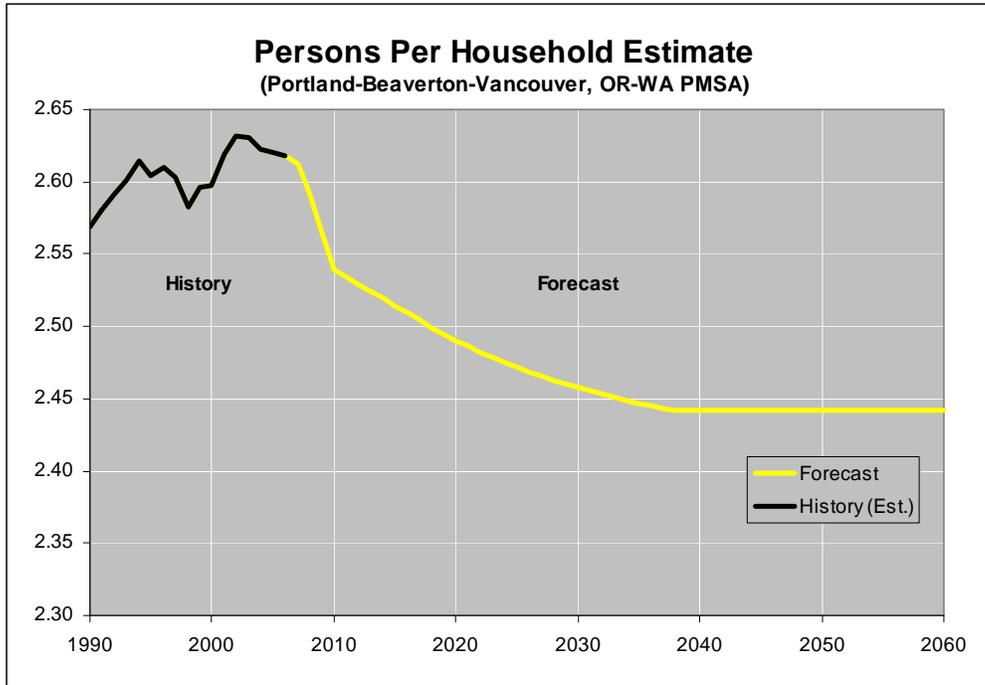
Like many regions across the U.S., the Portland Region is experiencing declining home values, stagnate income levels, high unemployment, and relatively high office and retail vacancies. However, as population increases within the greater Portland Region and new households are formed there will be emerging housing development opportunities, especially once the current housing inventory is absorbed. Commercial development opportunities will likely follow, once firms begin to hire new workers, and household incomes begin to rise.

National population migration patterns, increases in immigrant population levels, and natural population increases are expected to result in urban population growth rates for the greater Portland Region that exceed national averages. The population of the Portland-Beaverton-Vancouver Primary Metropolitan Statistical Area (PMSA) increased from 1.9 million in 2000 to nearly 2.2 million by 2010. According to Metro, the regional government, PMSA population is forecasted to increase over the foreseeable future. Metro expects the PMSA to add between 650,000 and 950,000 people over the next 20 to 30 years.

Within Clackamas County, the historic 2000 to 2010 population growth rate was 1.1 percent per year, as the County expanded in population from 340,000 to 376,000 people. Household size is a key driver in understanding housing demand. An aging baby boom population (U.S. citizens born between 1945 and 1964) combined with changes in socioeconomic patterns (such as single-parent households and fewer children per couple) are driving down the average household size. As indicated in **Figure 2**, the number of persons per household within the Portland Region was 2.62 in 2005 and is forecasted to decline to 2.49 by 2020. As a result of declining household size, the rate of household formations is expected to exceed population growth over the next few decades.

² Reported at April 27, 2011 press conference in presentation by Federal Reserve Chairman, Ben Bernanke.

Figure 2 Persons per Household Estimates and Long-term Forecast

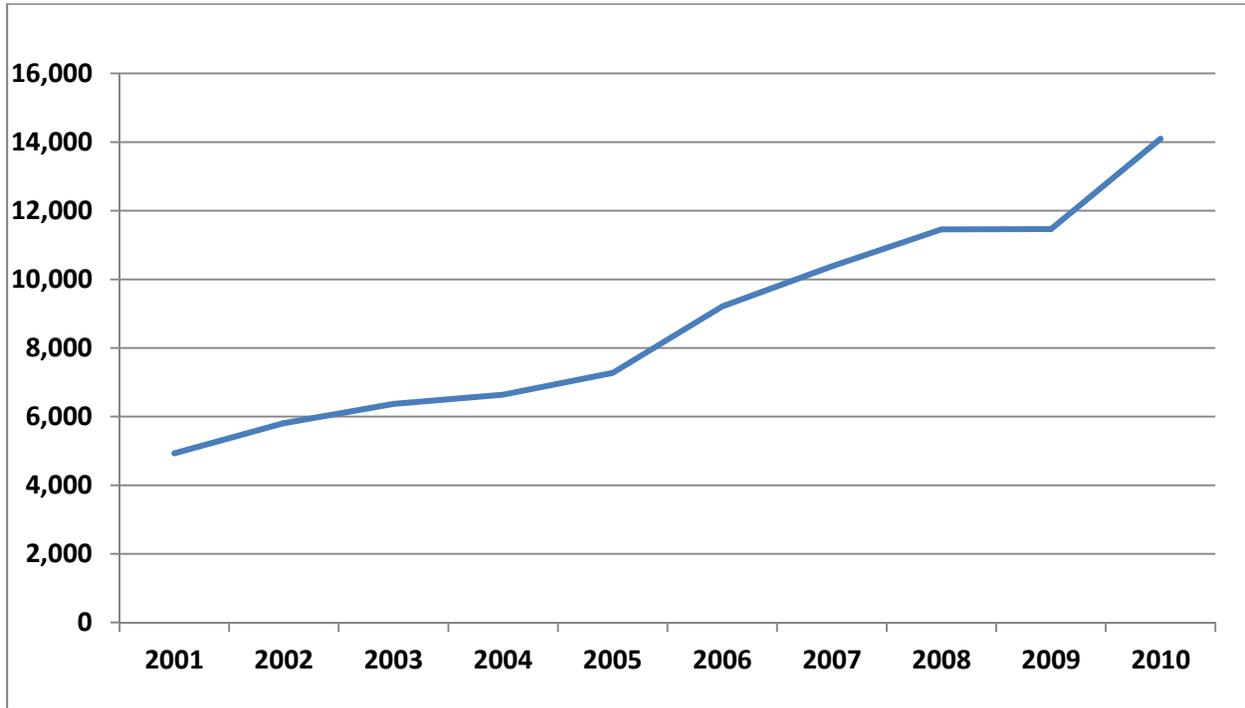


Source: Metro.

Increasing population within the greater Portland Region will also result in an expanding labor force. Long-term job growth forecasts by Metro expect an increase over the next 50 years. Metro forecasts between 167,000 and 282,000 new jobs added to the PMSA between 2010 and 2020.

As the Portland Metro area grows, suburban areas will experience rising population. Over the last ten years Happy Valley has been one of Oregon’s fastest growing cities. According to the Portland State University Population Research Center, the City of Happy Valley had a population of 4,930 in 2001 and by 2010 it had grown to 14,100, as shown in **Figure 3**. Over the past decade (2000-2010), the City added 9,581 people, more than doubling its population base.

Figure 3. Happy Valley Population, 2001-2010



Source: Portland State University Population Research Center.

U.S. Census data further substantiate this rapid increase in population. As identified in **Table 1**, population growth in Happy Valley far exceeded the county, regional and state growth rates.

Table 1. Population Trends 2000-2010

	2000	2010	Change	% Change
Happy Valley	4,519	14,100	9,581	212%
Clackamas County	338,391	375,992	37,601	11%
Tri County Region*	1,444,219	1,641,036	196,817	14%
Oregon	3,421,399	3,831,047	409,648	12%

* Tri County Region includes Multnomah, Washington and Clackamas Counties.

Source: U.S. Census; Compiled by FCS GROUP.

The most detailed demographic data that is available for Happy Valley is provided by the U.S. Census “American Community Survey” that was conducted between 2006 and 2008. The American Community Survey indicates that Happy Valley’s residents have the following characteristics:

- ◆ Large amount of family households in owner-occupied homes. The vast majority (86 percent of households) are identified as family households;
- ◆ Residents are comparatively younger; and
- ◆ Residents are more affluent than the county and state by a fairly significant margin.

Table 2. Demographic and Socioeconomic Characteristics Circa 2007

	Happy Valley	Clackamas	Oregon
Population	11,239	375,858	3,727,407
Households	3,405	140,370	1,464,196
Family Households	2,936	97,117	935,944
Nonfamily Households	469	43,253	528,252
Average Household Size	3.3	2.7	2.5
Average Family Size	3.6	3.2	3.1
Median Age	33.9	39.4	37.7
Median Household Income	\$100,510	\$62,030	\$49,033
Median Family Income	\$107,818	\$74,700	\$60,025
Per Capita Income	\$44,731	\$32,681	\$25,893
Individuals Below Poverty Level	455	33,205	496,433

Note: Income reported in 2009 dollars.

Source: U.S. Census Bureau 2006-08 American Community Survey; Compiled by FCS GROUP.

Market research data provided by ESRI includes existing 2010 estimated population, age and household characteristics and short-term (2010-2015) growth projections for the Happy Valley PMA. As shown in **Table 3**, the Happy Valley PMA currently includes an estimated 70,602 people that reside within 26,061 households. The PMA is expected to add about 2,217 households over the next five years.

Table 3. Population and Household Forecast, Primary Market Area, 2010 to 2015

	2000	2010	2015	2010-2015 Change	2010-2015 Annual Change
Population	56,161	70,602	76,860	6,258	1.71%
Median Age	35	36.5	36.5	-	-
Households	21,057	26,061	28,278	2,217	1.65%
Average Household Size	2.66	2.70	2.71	-	-

Note: The primary market area reflects the area within a 10-minute drive (30-minute bicycle commute) of the existing Happy Valley Town Center (intersection of 162nd and Sunnyside Road).

Source: ESRI.

While Happy Valley residents enjoy relatively high overall income levels, the PMA has a diverse spectrum of household income levels. As indicated in **Table 4**, approximately 27 percent of the households earn less than \$35,000 per year; 61 percent earn between \$35,000 and \$99,000; and 12 percent earn over \$100,000 per year.

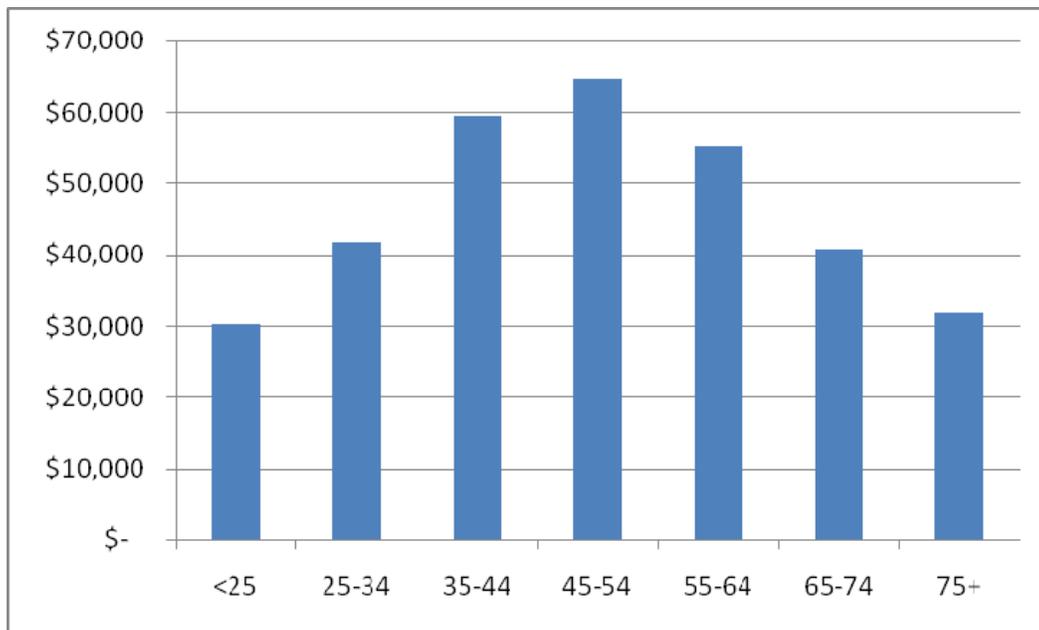
Table 4. Households by Disposable Income, Primary Market Area, 2010 Estimate

	Households	Percent
Total	26,062	100.0%
<\$15,000	1,812	7.0%
\$15,000-\$24,999	1,956	7.5%
\$25,000-\$34,999	3,325	12.8%
\$35,000-\$49,999	5,321	20.4%
\$50,000-\$74,999	6,497	24.9%
\$75,000-\$99,999	3,523	13.5%
\$100,000-\$149,999	2,672	10.3%
\$150,000-\$199,999	500	1.9%
\$200,000 +	501	1.9%
Median Disposable Income	\$51,472	-
Average Disposable Income	\$64,816	-

Source: ESRI.

The highest income levels are identified for households in the 45 to 54 age group, followed by the 35 to 44 age group, and the 55 to 64 age group, as noted below in **Figure 4**.

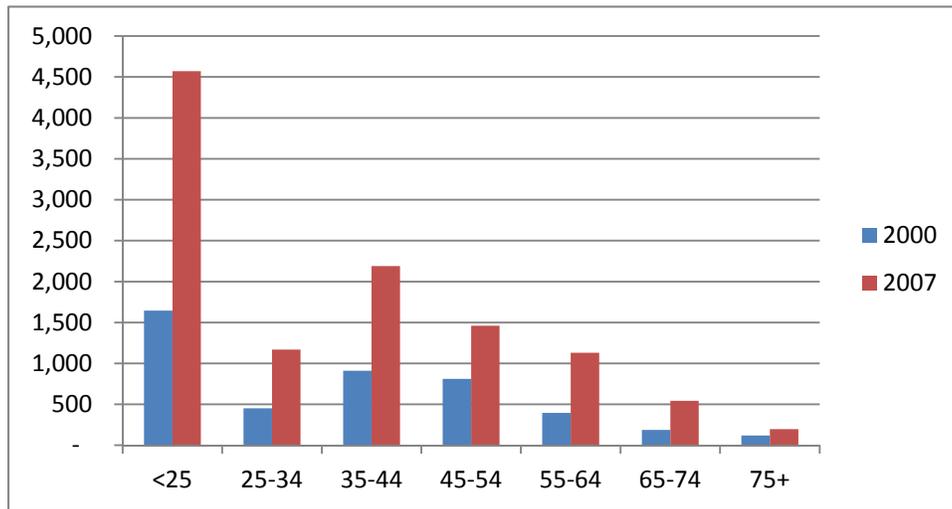
Figure 4. Disposable Income by Householder Age, Happy Valley PMA, 2010



Source: ESRI.

Since 2000, Happy Valley has experienced an increase in population in all age cohorts, especially young residents (under the age of 25), and middle-age residents (ages 25 to 54). Older residents (over the age of 64) are also increasing, albeit at a lower rate, as indicated in **Figure 5**.

Figure 5. Population by Age Cohort, City of Happy Valley, 2000 to 2007



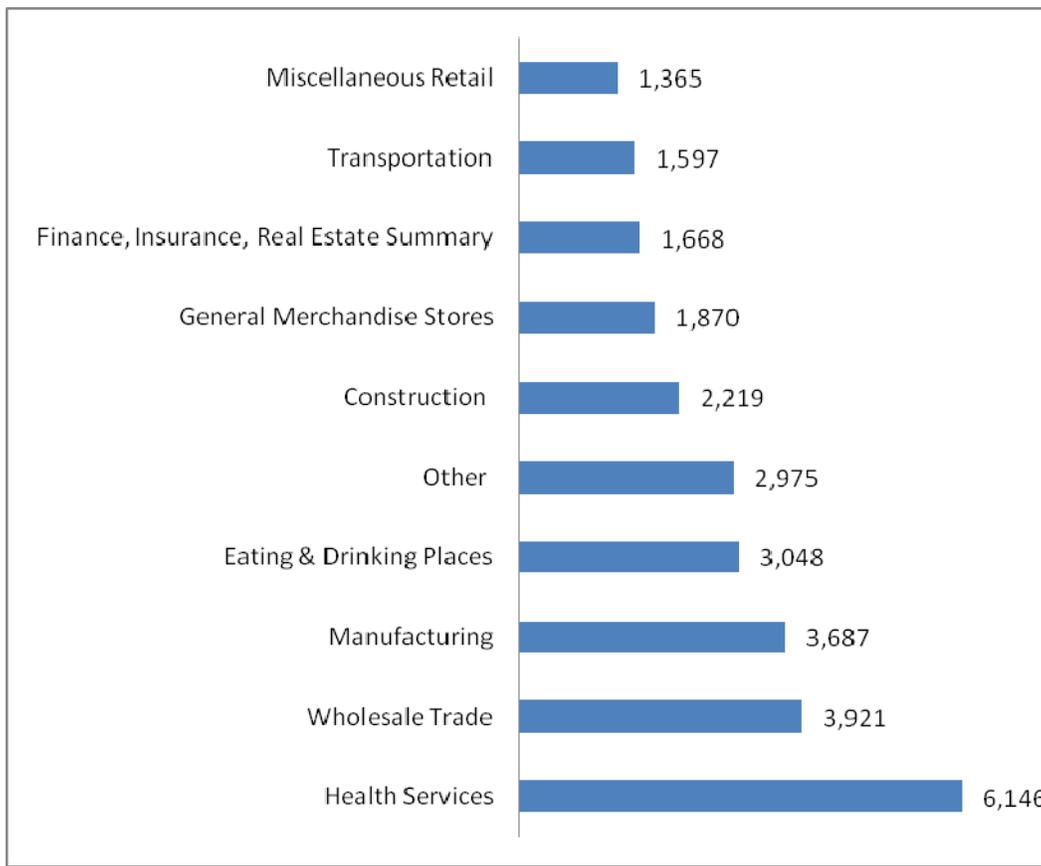
Source: U.S. Census Bureau; Compiled by FCS GROUP.

Existing Employment

There were an estimated 3,028 businesses with 37,427 employees within the Happy Valley PMA in 2010, according to ESRI data estimates. As shown in **Figure 6**, the top 10 leading employment sectors (by number of employees) within the PMA include: health services; wholesale trade; manufacturing; eating and drinking places; other; construction; general merchandise; FIRE (finance, insurance, real estate); transportation; and miscellaneous retail.

The Happy Valley PMA is home to Oregon’s largest health care industry and related business sectors. Some of the largest county employers are located here, including Kaiser Sunnyside Medical Center, Providence Clackamas Medical Plaza, Providence Medical Office Building, and over two dozen medical-related businesses.

Figure 6. Top 10 Employment Sectors, Happy Valley PMA, 2010



Source: ESRI.

Long-term Growth Forecasts

The long-term (2005 to 2035) growth forecast for households and employment for the Happy Valley area (generally consistent with the city boundary), have been prepared by Metro and included as part of the *Draft Happy Valley Economic Opportunities Analysis* (May 2011). Happy Valley is expected to add approximately 11,854 households and 11,298 jobs over the 2005 to 2035 timeframe, as indicated in **Table 5**.

Table 5. Forecasts for Households and Employment, 2005-2035

	Households			Projected Change 2005-2035	Projected Avg. Annual Change (%)
	2005	2030	2035		
Happy Valley	4,746	14,665	16,600	11,854	4.2%
Clackamas County	140,415	241,821	269,594	129,179	2.2%
Tri County Region *	619,266	887,732	955,578	336,312	1.5%
	Employment			Projected Change 2005-2035	Projected Avg. Annual Change (%)
	2005	2030	2035		
Happy Valley	2,471	11,886	13,769	11,298	5.9%
Clackamas County	145,581	251,286	280,273	134,692	2.2%
Tri County Region *	908,912	1,407,977	1,538,098	629,186	1.8%

*Note, the Tri-County Region, includes Clackamas, Multnomah, and Washington Counties.

Source: Metro adopted housing and employment growth forecasts, 2007; MetroScope Gen. 2.3, extrapolated to 2035 by FCS GROUP.

The Draft Happy Valley Economic Opportunities Analysis (May 2011) reflects a range in job growth for employment sectors, for the 2011 to 2031 timeframe, which is reflected in **Table 6**.

Table 6. Happy Valley Employment Growth Forecasts, 2011 to 2031

	Low	Medium	High
Retail	315	419	524
Services	3,904	5,205	6,507
Industrial/Other	1,431	1,907	2,384
Government	259	345	432
Total	5,908	7,877	9,847

Source: Medium forecast consistent with MetroScope 2.3 and related traffic analysis zone forecast assumptions for the Happy Valley area adopted by Metro Council in 2005; medium and high forecasts vary the medium forecast by 25 percent.

The Economic Opportunity Analysis also identifies key employment clusters for future growth, including: health care (bio-medical research and development, and health services); specialty manufacturing, wholesale trade; professional office/business services; and advanced education.

C. MARKET OVERVIEW

Office Market

The demand for office development is typically driven by existing businesses and employment growth within the PMA, as well as the ability of an area to attract professional, service-oriented businesses from outside the PMA. New commercial development (retail as well as office) carefully surveys the strength of a trade area before expanding or relocating there. One indicator is vacancy

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and lease rates. Additional site selection considerations include the age and market orientation of the existing building space, buying power of the local market (for professional offices such as lawyers, accountants, doctors, etc.), traffic counts, and institutional investment in the area.

Real estate brokers consider Happy Valley to be located in what is known as the *Southeast* market area of the Portland Region. According to COSTAR, Happy Valley's office local market sub-area is referred to as the *Milwaukie/Clackamas* area and is contained in the broader the Southeast market area along with the *Mall 205*, *Oregon City*, and *SE Close-in* sub-areas.

Current office market statistics (end of the fourth quarter 2010) indicate that the Southeast area had a total inventory of 7.3 million square feet of rentable building area, an 8.5 percent average vacancy rate, and average lease rates of \$18.16. The Southeast market area experienced a net decline in absorption during 2010 of negative 95,580 square feet. However, the vacancy rates and average lease rates in the Southeast region are relatively low compared to the rest of the Portland Region as indicated in **Table 7**.

Table 7. Office Characteristics, Portland Region, Q4 2010

	Existing Inventory	Vacant Inventory	1st Q. Net Absorption*	Vacancy %	Quoted Rates
CBD	25,305,630	2,404,026	429,568	9.5%	\$21.40
Clark County	10,618,860	1,390,624	145,281	13.1%	\$19.17
I-5 Corridor	9,312,439	1,705,685	(103,220)	18.3%	\$22.28
Lloyd District	4,918,027	311,568	75,604	6.3%	\$18.19
Northeast	8,478,255	645,073	197,059	7.6%	\$18.26
Northwest	3,862,627	218,316	(15,593)	5.7%	\$18.46
Southeast	7,331,361	624,133	(95,580)	8.5%	\$18.16
Southwest	11,464,975	1,686,206	23,353	14.7%	\$19.04
Westside	10,090,501	1,293,860	30,929	12.8%	\$17.63
Total	91,382,675	10,279,491	687,401	11.2%	\$19.18

Source: COSTAR Office Report 4th Q 2010.

Trends in the Clackamas/Milwaukie market sub-area are a bit weaker than the overall Southeast market area. As indicated in **Table 8**, vacancy rates for office buildings are the highest in the Southeast market area at 12.9 percent and net absorption is negative 109,309 square feet and the rent rates are the highest in the area at \$20.15. The overwhelming quantity of buildings in the sub-market is also a negative indicator of future development of office buildings.

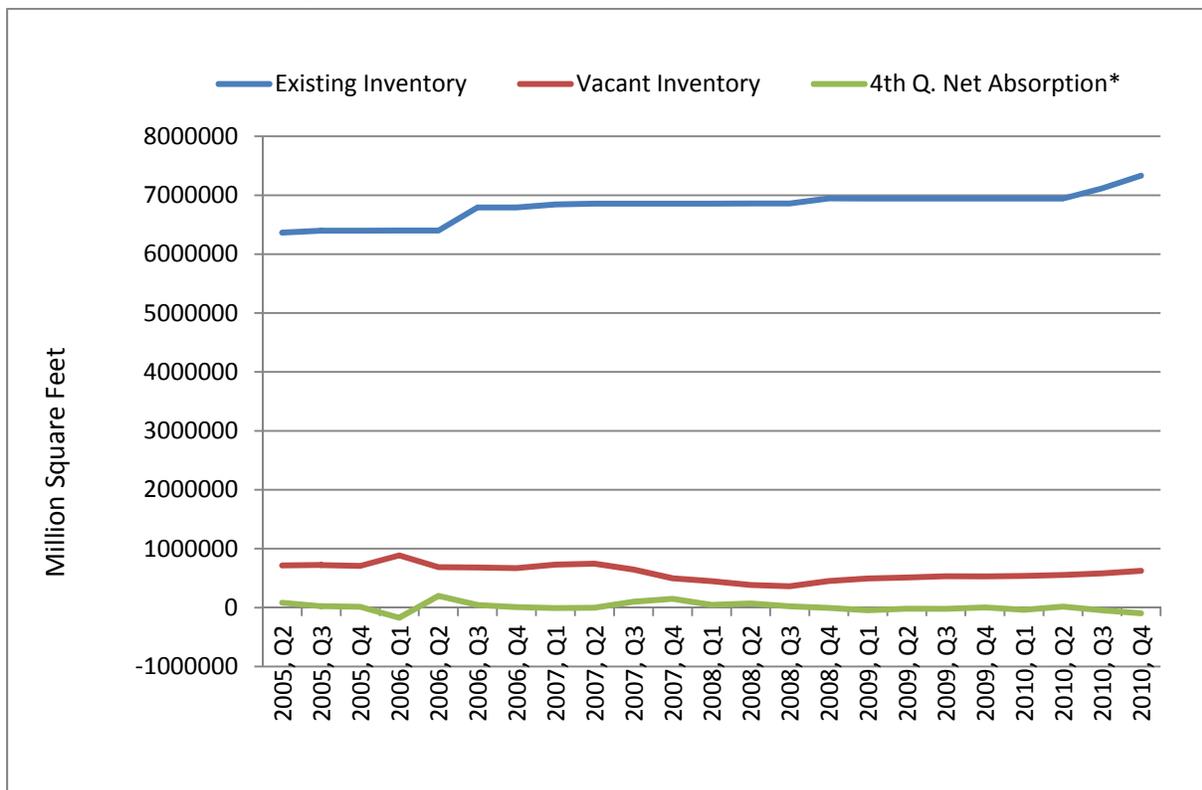
Table 8. Office Characteristics, Southeast Market Area, Q4 2010

Market Area	Existing Inventory		Vacancy		YTD Net Absorption	YTD Deliveries	Under Const SF	Quoted Rates
	# Buildings	Total RBA	Total SF	Vac. %				
Southeast	768	7,331,361	624,133	8.5%	(95,580)	-	-	\$ 18.16
Clackamas/Milwaukie	288	2,905,512	375,249	12.9%	(109,309)	-	-	\$ 20.15
Mall 205	223	1,230,918	68,580	5.6%	8,607	-	-	\$ 13.01
Oregon City	83	770,162	50,978	6.6%	(2,861)	-	-	\$ 16.23
SE Close-in	174	2,424,769	129,326	5.3%	7,983	-	-	\$ 15.44

Source: COSTAR Office Report 4th Q 2010.

The office absorption in the Southeast market area increased on average by 19,400 square feet per quarter between 2005 and 2010. As indicated in **Figure 7**, the average vacancy rate trended downwards between 2006 and 2008 but increased afterwards to 8.5 percent as of the fourth quarter 2010. Average annual absorption was over 131,000 square feet per year between 2005 and 2010. As employment declined after late 2008 and the vacant office inventory increased to 624,133

Figure 7. Office Characteristics, Southeast Market Area



Source: COSTAR 2005 to 2010.

New planned office developments in Happy Valley include a new medical office building within the Happy Valley Town Center area, and planned lifestyle housing, office and retail development as part of the Eagle’s Landing Planned Unit Development near I-205.

The City has also been working with Clackamas County on plans for a new Rock Creek Employment Center located between 152nd and 172nd Avenues north of Highway 212. This area has been subject to recent City/County investment in improvements to 172nd Avenue, and extension of water and sewer service to the site. The 176-acre Rock Creek Employment Center is planned to primarily serve industrial growth, and is also the location of where Providence is planning its newest hospital campus.

Retail Market

The recently developed Happy Valley Town Center (built in 2008 by Gramor Development) added 170,900 square feet of retail space to the local inventory, and was only 6.4 percent vacant as of June 2009. This recent retail addition is on the high-end of the market with quoted lease rates of \$30 per square foot per year (excluding utilities and common area charges). Its success provides evidence of the strength of the buying power within Happy Valley.

Another major retail center adjacent to the Happy Valley PMA includes the 1.2 million-square-foot Clackamas Town Center, which opened in 1981. The mall operator/owner, General Growth Properties, recently expanded the mall by adding 250,000 square feet to accommodate 40 new stores/restaurants primarily in a lifestyle format. In addition, a new 75,000-square-foot, 20-screen multiplex theatre was added along with exterior building, landscaping, and traffic/pedestrian circulation improvements.

According to COSTAR, the Southeast market has remained a bit stronger for retail than for office demand. The overall average vacant rate for retail space in the Southeast market was 5.4 percent at the end of the fourth quarter in 2010. However, a large amount of vacant space (over 1 million square feet) was listed at that time.

The Clackamas/Milwaukie sub-market had a total inventory of 554 buildings and 4,222,519 square feet, but has an 8.2 percent average vacancy rate and average lease rates of \$14.59, lower than the Southeast market area average. It is also the only sub-market in the Southeast market area with any square feet under construction with 15,050 square feet scheduled to open as indicated in **Table 9**.

Table 9. Retail Characteristics, Southeast Market Area, Q4 2010

Market Area	Existing Inventory		Vacancy		YTD Net Absorption	YTD Deliveries	Under Const SF	Quoted Rates
	# Buildings	Total GLA	Total SF	Vac. %				
Southeast	2,066	20,113,781	1,079,293	5.4%	70,577	39,226	15,050	\$16.12
Clackamas/Milwaukie	554	4,222,519	345,979	8.2%	34,388	25,600	15,050	\$14.59
Mall 205	599	2,966,670	67,411	2.3%	40,895	13,626	-	\$13.25
Oregon City	82	760,335	58,672	7.7%	(24,631)	-	-	\$18.90
SE Close-in	488	3,168,862	70,658	2.2%	3,925	-	-	\$16.19

Source: Costar Office Report 4th Quarter 2010.

Within the Primary Market Area for Happy Valley, many industries achieve what ESRI refers to as a *surplus*, which means that the retail sector “imports” trade/revenue from outside the PMA. In contrast, when a retail sector sells less than what the people within the PMA would typically spend on that category of goods or services, the sector has what is referred to as a *trade leakage*. **Table 10** reflects the retail sectors which experienced a trade leakage during 2010. The retail sectors that

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experienced that greatest trade leakage included department stores, general merchandise stores, grocery stores and food and beverage stores. The proximity of the nearby Clackamas Town Center certainly contributes to the trade leakage from the Happy Valley PMA.

New development within the planned Happy Valley Town Center study area could be positioned to intercept a portion of the retail *trade leakage* and benefit from long-term growth in household buying power that would occur as additional people move into Happy Valley.

Table 10. Business Sectors with Trade Leakage, Happy Valley PMA

Industry Group	Demand	Supply	Retail Gap	Number of Businesses
Other Motor Vehicle Dealers	\$ 14,046,685	\$ 19,703,305	\$ (5,656,620)	17
Food & Beverage Stores	\$ 129,154,819	\$ 185,533,669	\$ (56,378,850)	49
Grocery Stores	\$ 117,960,663	\$ 176,769,576	\$ (58,808,913)	24
Clothing & Clothing Accessories Stores	\$ 22,507,095	\$ 71,602,069	\$ (49,094,974)	96
Clothing Stores	\$ 17,728,629	\$ 59,204,834	\$ (41,476,205)	62
Shoe Stores	\$ 2,140,127	\$ 2,986,818	\$ (846,691)	13
Sporting Goods/Hobby/Musical Instrument Stores	\$ 6,028,668	\$ 9,900,982	\$ (3,872,314)	31
General Merchandise Stores	\$150,833,695	\$ 243,795,483	\$ (92,961,788)	22
Department Stores Excluding Leased Depts.	\$ 80,662,844	\$ 219,781,619	\$ (139,118,775)	16
Miscellaneous Store Retailers	\$ 12,744,769	\$ 15,830,596	\$ (3,085,827)	61
Office Supplies, Stationary & Gift Stores	\$ 2,807,940	\$ 4,033,796	\$ (1,225,856)	15
Used Merchandise Stores	\$ 894,508	\$ 2,317,983	\$ (1,423,475)	6
Other Miscellaneous Store Retailers	\$ 7,991,972	\$ 9,267,063	\$ (1,275,091)	35
Direct Selling Establishments	\$ 7,152,880	\$ 7,612,921	\$ (460,041)	4
Food Services & Drinking places	\$119,995,408	\$ 149,441,203	\$ (29,445,795)	162
Full-Service Restaurants	\$ 49,321,620	\$ 52,686,124	\$ (3,364,504)	65
Limited-Service Eating Places	\$ 55,055,795	\$ 89,003,283	\$ (33,947,488)	83

Source: ESRI.

Housing Market

Happy Valley's residential development patterns were dominated by single-family detached housing units during the past decade, as the City added over 1,651 single-family dwellings between 2000 and 2007, according to the U.S. Census. The City also added 80 single-family attached homes and 308 multifamily dwellings during that time period (see **Table 11**). Median home values at the end of 2007 were approximately \$475,000 and median rent levels were \$1,106, according to U.S. Census estimates.

Table 11. Happy Valley Housing Characteristics, 2000 to circa 2007

	Census 2000	Census 2006-08	Change
Dwelling Units			
Owner-occupied	1,386	2,901	1,515
Renter Occupied	71	504	433
Vacant	125	216	91
Total Unit Count	1,582	3,621	2,039
Structure Type			
Single-Family Detached	1,573	3,224	1,651
Single-Family Attached	9	89	80
Multifamily	-	308	308
Mobile Home	-	-	-
Total Unit Count	1,582	3,621	2,039
Median Home Value	\$ 306,600	\$ 475,600	\$ 169,000
Median Gross Rent	\$ 734	\$ 1,106	\$372

Source: U.S. Census; Compiled by FCS GROUP.

Housing vacancy rates are beginning to stabilize or decline in the greater Portland Metropolitan Region, as few new developments have occurred since the recent recession. Low vacancy rates are especially prevalent in multifamily developments. According to a study by NAI Norris, Beggs and Simpson, the multifamily vacancy rate in the Portland market area for the first quarter of 2011 was 2.7 percent, and the vacancy rate in the Clackamas sub-area (area includes Happy Valley PMA) had a vacancy rate of only 3.24 percent.³

FCS GROUP compiled the statistics for the Happy Valley residential real estate market through real estate website *www.zillow.com*, which reflects real estate sales over the past 12 months. Results for the Happy Valley area indicate that as of May 1, 2011 there were 302 homes listed for sale, of which 91 percent were single family and 9 percent were multifamily (condominiums), as indicated in **Table 12A**.

³ NAI Norris, Beggs & Simpson Market Summaries First Quarter 2011 Portland Metro Area.

Table 12 A. Happy Valley Home Listings as of May 1, 2011

Price Range	Single Family	Multi Family	Total
\$99K or less	75	5	80
100-149K	6	1	7
\$150-199K	12	2	14
\$200-249K	20	3	23
\$250-299K	28	0	28
\$300-349K	27	6	33
\$350-399K	27	6	33
\$400K or more	80	4	84
Total	275	27	302
Percent	91%	9%	100%

Source: Zillow.com Compiled By FCS GROUP.

Over the past 12 months, there have been 292 recorded home sales in the Happy Valley area, including 271 single family homes and 21 multifamily homes, as shown in **Table 12B**. This pace of sales indicates that the current standing inventory of unsold homes in Happy Valley now stands at slightly over 12 months, which is more in line with “normal” market activity than the past few years.

Table 12 B. Happy Valley Home Sales (past 12 months)

Price Range	Single Family	Multi Family	Total
\$99K or less	6	10	16
100-149K	8	2	10
\$150-199K	13	4	17
\$200-249K	22	2	24
\$250-299K	45	1	46
\$300-349K	47	1	48
\$350-399K	45	1	46
\$400K or more	85	0	85
Total	271	21	292
Percent	93%	7%	100%

Source: Zillow.com Compiled By FCS GROUP.

Residential building permit data for the tri-county Metro region, Clackamas County and city of Happy Valley was also evaluated over the past 10 years to ascertain emerging trends in new construction deliveries (see **Appendices D and E**). Over the past 10 years, the city of Happy Valley has approved 210 single family residential units, and 23 multifamily dwelling units per year, (issuing new building permits). Most new development has occurred outside the current Town Center study area boundary. In addition to building permit activity, the city had significant levels of residential subdivision activity over the past decade. According to analysis by city staff, as of April 25, 2011 included 1,402 “undeveloped” lots, including 353 new single family detached lots, 545 townhome/condo lots, and 304 other lots in pre-engineering planning phases. Almost all of these lots are located outside the Town Center Study Area.

D. PRELIMINARY DEVELOPMENT PROGRAM

Future residential development potential within the Happy Valley PMA looks favorable in light of its relatively low property tax rates, excellent public schools and convenient access to highway and mass transit systems. The fact that multifamily residential vacancy rates have dropped to below 4 percent in the Happy Valley PMA, indicates favorable near-and long-term development potential for medium-density apartments, mid-rise flats, and townhomes.

Future development potential within the Happy Valley Town Center is likely to consist of a mix of single-family (small lot “cottage” units), townhomes, and multifamily (apartments and mid-rise flat) development types. In light of the City’s desire to promote transit-supportive development patterns, the development capture rates assume a higher relative share of townhomes and multifamily development potential than other parts of the Happy Valley PMA.

The overall development forecast for the Town Center area assumes a relatively modest overall capture rate of the PMA that ranges from 6 to 12 percent of total development within the PMA. In addition to the level of growth anticipated within the Town Center area, the city will also experience significant development within the planned 1,402 “unimproved” subdivision lots and other master planned area, such as Eagle Landing. The preliminary market forecast for housing within the Town Center area is provided in **Table 13**. The analysis assumes that the Town Center area has adequate roads, sewer, water, stormwater and other necessary infrastructure conditions to serve new growth, and that market conditions improve measurably by year 2012.

Table 13. Preliminary Residential Development Program, Happy Valley Town Center, 2011 to 2035

	2011 to 2020	2021 to 2035	Total
Single family (dwellings)	60 to 120	120 to 240	180 to 360
Townhomes (dwellings)	120 to 210	240 to 450	360 to 660
Multifamily (dwellings)	210 to 450	450 to 870	660 to 1,320
Total New Dwellings	390 to 780	810 to 1,560	1,200 to 2,340

Source: compiled by FCS GROUP.

The preliminary office and retail/commercial services development program for the Happy Valley Town Center area is derived from the office and retail employment and building development projections contained in the *Draft Happy Valley Economic Opportunities Analysis*, May 2011. The forecast used for the Happy Valley Town Center is based on the expected level of vacant and redevelopment activity expected to occur over the next 2010 to 2035 time frame. (**Table 14** and **Appendix G**).

The low to high range of potential office and retail/commercial development depicts the range assumed by the *Draft Happy Valley Economic Opportunities Analysis*, May 2011 – which includes a 25 percent variance in the Metro growth forecasts for the Happy Valley area. This analysis assumes that the Happy Valley Town Center could potentially be positioned to capture approximately 10 percent of the expected net new office development and up to 40 percent of the net new retail/commercial service development potential within the Happy Valley urban service boundary by year 2035. The actual amount of development will vary from year to year, and will depend upon related strength in employment growth

(business investment) and household growth and buying power in the area. However, these long-range forecasts are generally in line with the Happy Valley EOA and Metro growth forecasts for the area.

Table 14. Preliminary Office and Retail/Commercial Services Development Program, Happy Valley Town Center, 2010 to 2035 (gross floor area in square feet)

	Low	Medium	High
Office	237,400	316,500	395,500
Retail/Commercial Services	524,400	699,200	875,200
Total	761,800	1,015,700	1,270,700

Notes:

**Derived from the Draft Happy Valley Economic Opportunities Analysis, May 2011; and assumptions shown in Appendix G.*

***Assumes 10 percent capture of office demand and 40 percent capture of retail demand.*

Source: compiled by FCS GROUP.

E. NEXT STEPS

These preliminary Happy Valley Town Center development program recommendations should be incorporated into the urban design framework options for the Town Center, and incorporated into the *Final Happy Valley Economic Opportunities Analysis* to ensure that surrounding vacant commercial zones complement (not compete with) Town Center development potential. Task 3 of the TGM project will focus on strategies and public investments that help implement and facilitate desired Town Center development.

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Happy Valley Town Center TGM Project Market Overview, Task 2.4

APPENDIX A – HOUSEHOLDS BY INCOME LEVEL, HAPPY VALLEY PMA, 2010

Happy Valley Town Center TGM Project Market Overview, Task 2.4

	Number of Households						
	<25	25-34	35-44	45-54	55-64	65-74	75+
Total	1,551	4,388	4,859	5,897	4,963	2,380	2,025
<\$15,000	233	264	165	165	254	312	418
\$15,000-\$24,999	284	443	149	182	241	218	438
\$25,000-\$34,999	407	808	471	442	620	367	212
\$35,000-\$49,999	362	1,210	910	1,004	955	591	290
\$50,000-\$74,999	131	1,048	1,452	1,678	1,336	484	368
\$75,000-\$99,999	53	347	916	1,324	567	201	116
\$100,000-\$149,999	59	182	610	818	731	126	100
\$150,000-\$199,999	6	53	104	125	126	45	40
\$200,000 +	16	33	82	159	133	36	43
Median Disposable Income	\$ 30,337	\$ 41,731	\$ 59,526	\$ 64,525	\$ 55,282	\$ 40,845	\$ 31,835
Average Disposable Income	\$ 39,925	\$ 51,468	\$ 72,056	\$ 78,819	\$ 73,378	\$ 54,122	\$ 48,831

Note: The primary market area reflects the area within a 10 minute drive of the existing Happy Valley Town Center (intersection of 162nd and Sunnyside Road).

Source: ESRI.

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Happy Valley Town Center TGM Project Market Overview, Task 2.4

APPENDIX B – BUSINESSES AND EMPLOYMENT IN HAPPY VALLEY PMA, 2010

Happy Valley Town Center TGM Project Market Overview, Task 2.4

Happy Valley 10-Minute Businesses				
Business Type	Businesses		Employees	
	Number	Percent	Number	Percent
Agriculture & Mining	57	1.9%	607	1.6%
Construction	397	13.1%	2,219	5.9%
Manufacturing	181	6.0%	3,687	9.9%
Transportation	72	2.4%	1,597	4.3%
Communication	23	0.8%	179	0.5%
Utility	12	0.4%	70	0.2%
Wholesale Trade	237	7.8%	3,921	10.5%
Retail trade Summary	684	22.6%	10,262	27.4%
Home Improvement	62	2.0%	913	2.5%
General Merchandise Stores	21	0.7%	1,870	5.0%
Food Stores	69	2.3%	1,342	3.6%
Auto Dealers, Gas Stations, Auto Aftermarket	50	1.7%	358	1.0%
Apparel & Accessory Stores	75	2.5%	829	2.2%
Furniture & Home Furnishings	82	2.7%	519	1.4%
Eating & Drinking Places	170	5.6%	3,048	8.1%
Miscellaneous Retail	155	5.1%	1,365	3.6%
Finance, Insurance, Real Estate Summary	300	9.9%	1,668	4.5%
Banks, Savings & Lending Institutions	73	2.4%	427	1.1%
Securities Brokers	27	0.9%	37	0.1%
Insurance Carriers & Agents	57	1.9%	244	0.7%
Real Estate, Holding, Other Investment Offices	143	4.7%	960	2.6%
Services Summary	941	31.1%	12,040	32.2%
Hotels & Lodging	8	0.3%	274	0.7%
Automotive Services	88	2.9%	330	0.9%
Motion Pictures & Amusements	56	1.8%	294	0.8%
Health Services	136	4.5%	6,146	16.4%
Legal Services	10	0.3%	31	0.1%
Education Institutions & Libraries	39	1.3%	1,032	2.8%
Other Services	604	19.9%	3,933	10.5%
Government	32	1.1%	1,092	2.9%
Other	92	3.0%	83	0.2%
Totals	3,028	100.0%	37,427	100.0%

Note: Reflects trends for area within ten minutes of existing Town Center.

Source: ESRI.

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Happy Valley Town Center TGM Project Market Overview, Task 2.4

APPENDIX C – HAPPY VALLEY PMA RETAIL MARKET INFLOW/OUTFLOW, 2010

Happy Valley Town Center TGM Project Market Overview, Task 2.4

Happy Valley PMA Retail Market Inflow/Outflow, 2010

Industry Summary	Demand	Supply	Retail Gap	Number of Businesses
Total Retail Trade and Food & Drink	\$834,971,505	\$861,837,585	\$(26,866,080)	637
Total Retail Trade	\$714,976,097	\$712,396,382	\$2,579,715	475
Total Food & Drink	\$119,995,408	\$149,441,203	\$(29,445,795)	162
Industry Group	Demand	Supply	Retail Gap	Number of Businesses
Motor Vehicle & Parts Dealer	\$180,459,027	\$43,615,170	\$136,843,857	41
Automobile Dealers	\$153,766,819	\$11,836,881	141,929,938	8
Other Motor Vehicle Dealers	\$14,046,685	\$19,703,305	\$(5,656,620)	17
Auto Parts, Accessories and Tire Stores	\$12,645,523	\$12,074,984	\$570,529	16
Furniture & Home Furnishings Stores	\$23,747,107	\$18,712,739	\$5,034,368	40
Furniture Stores	\$12,642,469	\$9,710,589	\$2,931,880	17
Home Furnishings Stores	\$11,104,638	\$9,002,150	\$2,102,488	23
Electronics & Appliance Stores	\$22,385,098	\$13,100,036	\$9,285,062	18
Bldg Materials, Garden & Supply Stores	\$31,093,392	\$16,551,144	\$14,542,248	50
Building Material & Supply Dealers	\$26,468,570	\$15,607,008	\$10,861,562	39
Lawn & Garden Equipment & Supply Stores	\$4,624,822	\$944,136	\$3,680,686	11
Food & Beverage Stores	\$129,154,819	\$185,533,669	\$(56,378,850)	49
Grocery Stores	\$117,960,663	\$176,769,576	\$(58,808,913)	24
Specialty Food Stores	\$6,580,772	\$5,851,393	\$729,379	23
Beer, Wine & Liquor Stores	\$4,613,384	\$2,912,700	\$1,700,684	2
Health & Personal Care Stores	\$19,215,079	\$14,620,427	\$4,594,652	38
Gasoline Stations	\$95,721,051	\$64,142,509	\$31,578,542	19
Clothing & Clothing Accessories Stores	\$22,507,095	\$71,602,069	\$(49,094,974)	96
Clothing Stores	\$17,728,629	\$59,204,834	\$(41,476,205)	62
Shoe Stores	\$2,140,127	\$2,986,818	\$(846,691)	13
Jewelry, Luggage & Leather Goods Stores	\$2,638,339	\$9,410,417	\$6,772,078	21
Sporting Goods, Hobby, Book & Music Stores	\$10,618,064	\$14,091,250	\$3,473,186	35
Sporting Goods/Hobby/Musical Instrument Stores	\$6,028,668	\$9,900,982	\$(3,872,314)	31
Book, Periodical & Music Stores	\$4,589,396	\$4,190,268	\$399,128	4
General Merchandise Stores	\$150,833,695	\$243,795,483	\$(92,961,788)	22
Department Stores Excluding Leased Depts.	\$80,662,844	\$219,781,619	\$(139,118,775)	16
Other General Merchandise Stores	\$70,170,851	\$24,013,864	\$46,156,987	6

Happy Valley PMA Retail Market Inflow/Outflow, 2010 (continued)

Industry Group	Demand	Supply	Retail Gap	Number of Businesses
Miscellaneous Store Retailers	\$12,744,769	\$15,830,596	\$(3,085,827)	61
Florists	\$1,050,349	\$211,754	\$838,595	5
Office Supplies, Stationary & Gift Stores	\$2,807,940	\$4,033,796	\$(1,225,856)	15
Used Merchandise Stores	\$894,508	\$2,317,983	\$(1,423,475)	6
Other Miscellaneous Store Retailers	\$7,991,972	\$9,267,063	\$(1,275,091)	35
Non-store Retailers	\$16,496,901	\$10,801,290	\$5,695,611	6
Electronic Shopping & Mail-Order Houses	\$5,608,856	\$2,946,436	\$2,662,420	1
Vending Machine Operators	\$3,735,165	\$241,933	\$3,493,232	1
Direct Selling Establishments	\$7,152,880	\$7,612,921	\$(460,041)	4
Food Services & Drinking places	\$119,995,408	\$149,441,203	\$(29,445,795)	162
Full-Service Restaurants	\$49,321,620	\$52,686,124	\$(3,364,504)	65
Limited-Service Eating Places	\$55,055,795	\$89,003,283	\$(33,947,488)	83
Special Food Services	\$6,438,950	\$4,586,870	\$1,852,080	8
Drinking Places - Alcoholic Beverages	\$9,179,043	\$3,164,926	\$6,014,117	6

Note: Reflects the area located within a 10-minute drive time (20-minute bicycle commute) of the existing Town Center.

Source: ESRI.

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Happy Valley Town Center TGM Project Market Overview, Task 2.4

APPENDIX D – RESIDENTIAL BUILDING PERMIT
TRENDS, 2001-2009, CLACKAMAS COUNTY
AND PORTLAND REGION

Residential Building Permit Trends, Clackamas County and Tri-County Region, 2001 to 2009

	2001	2002	2003	2004	2005	2006	2007	2008	2009	Ave.
Clackamas County										
Single Family Detached Units	1,742	1,519	1,606	1,971	2,450	2,212	1,942	865	580	1,654
Two Family Units	12	66	18	28	4	2	8	0	0	15
3-4 Family Units	4	20	17	20	0	4	0	0	7	8
5 or more Family Units	327	208	81	181	226	564	100	0	128	202
Subtotal	2,085	1,813	1,722	2,200	2,680	2,782	2,050	865	715	1,879
Portland Tri-County Region Total										
Single Family Detached Units	6,635	6,405	6,292	6,915	7,917	6,741	5,653	2,804	1,970	5,704
Two Family Units	162	198	244	174	210	194	204	84	22	166
3-4 Family Units	202	324	277	351	397	230	158	59	49	227
5 or more Family Units	2,057	2,423	3,976	3,371	3,402	4,025	3,632	2,699	917	2,945
Grand Total	9,056	9,350	10,789	10,811	11,926	11,190	9,647	5,646	2,958	9,041
Clackamas County Share of Regional Permits										
Single Family Detached Units	26%	24%	26%	29%	31%	33%	34%	31%	29%	29%
Two Family Units	7%	33%	7%	16%	2%	1%	4%	0%	0%	9%
3-4 Family Units	2%	6%	6%	6%	0%	2%	0%	0%	14%	4%
5 or more Family Units	16%	9%	2%	5%	7%	14%	3%	0%	14%	7%
Average Capture	23%	19%	16%	20%	22%	25%	21%	15%	24%	21%

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Happy Valley Town Center TGM Project Market Overview, Task 2.4

APPENDIX E – HAPPY VALLEY RESIDENTIAL
BUILDING PERMITS,
FY 2000/01 TO FY 2010/11

Residential Permit Activity (Dwellings Approved), City of Happy Valley, FY 2000/01 to FY 2010/11 (preliminary)

	Single family	Multifamily	Total
FY 2000/01	107	0	107
FY 2001/02	197	0	197
FY 2002/03	174	0	174
FY 2003/04	213	0	213
FY 2004/05	412	0	412
FY 2005/06	595	8	603
FY 2006/07	220	14	234
FY 2007/08	163	228	391
FY 2008/09	60	0	60
FY 2009/10	91	0	91
FY 2010/11*	78	0	78
Avg. Annual	210	23	233

** Note; FY 2010/11 data depicts permit activity up until May 1, 2011 (excludes May and June). Data for multifamily reflects dwelling units not permits.*

Source: City of Happy Valley.

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Happy Valley Town Center TGM Project Market Overview, Task 2.4

APPENDIX F – HOUSING DEVELOPMENT FORECAST, HAPPY VALLEY TOWN CENTER, 2010-2035

Happy Valley Town Center TGM Project Market Overview, Task 2.4

Happy Valley Primary Market Area Population Forecast, 2010-2035

	2010	Est. 2015	Est. 2035	Change: 2010-05	Change: 015-35
Population	70,602	76,860	114,210	6,258	37,350

Source: ESRI (2010 and 2015), and FCS (2035 consistent with Metro forecasts).

Happy Valley PMA Population Change/Capture, 2010-2035

	2010-15	2015-25	2025-35	Total
Happy Valley PMA Pop. Change	6,258	18,675	18,675	43,608
Happy Valley Town Center Capture				
<i>Low Capture</i>	6%	6%	6%	2,616
<i>Medium Capture</i>	8%	8%	8%	3,489
<i>High Capture</i>	12%	12%	12%	5,233

Projected Potential Town Center Housing Demand, 2010-2035

	Low	Med	High
Pop. Change	2,616	3,489	5,233
Avg. HH Size	2.4	2.4	2.4
Occupied Dwellings	1,090	1,454	2,180
Vacancy Allowance (@4%)	57	77	115
Total New Dwellings	1,148	1,530	2,295

Projected Potential Housing Demand by Type, 2010-2035 (Dwellings)

	Low	Med	High	<i>Dwelling Mix Assumptions</i>
Single Family Detached	172	230	344	15%
Townhomes	344	459	689	30%
Multifamily	631	842	1,262	55%
Total New Dwellings	1,148	1,530	2,295	100%

Likely Town Center Capture Rates by Time Period (Dwellings)

		2011-2020	2021-2025	2025-2030	2025-2035	Total
Single family (dwellings)	*	60 to 120	40 to 80	40 to 80	40 to 80	180 to 360
Townhomes (dwellings)	*	120 to 210	80 to 150	80 to 150	80 to 150	360 to 660
Multifamily (dwellings)	*	210 to 450	120 to 290	130 to 290	140 to 290	600 to 1,320
Total New Dwellings	*	390 to 780	240 to 520	250 to 520	260 to 520	1,140 to 2,340

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Happy Valley Town Center TGM Project Market Overview, Task 2.4

APPENDIX G – OFFICE AND RETAIL/COMMERCIAL
DEVELOPMENT FORECAST,
HAPPY VALLEY TOWN CENTER, 2010-2035
(GROSS FLOOR AREA IN SQUARE FEET)

Happy Valley Town Center TGM Project Market Overview, Task 2.4

Projected Net New Development In Happy Valley, 2010-2030* (floor area in SF.)

	Low	Medium	High
Office	1,899,000	2,532,000	3,164,000
Retail/Commercial Services	1,049,000	1,398,000	1,750,000
Total	3,091,000	4,122,000	5,152,000

Projected. Avg. Annual Net New Development In Happy Valley, 2010-2030* (floor area in SF.)

	Low	Medium	High
Office	94,950	126,600	158,200
Retail/Commercial Services	52,450	69,900	87,500
Total	147,400	196,500	245,700

Projected Net New Redevelopment in Happy Valley: 2010 to 2035 (floor area in SF.)

	Low	Medium	High
Office	2,374,000	3,165,000	3,955,000
Retail/Commercial Services	1,311,000	1,748,000	2,188,000
Total	3,685,000	4,913,000	6,143,000

Potential Town Center Floor Area Capture, 2010 to 2035 (floor area in SF.)

	Low	Medium	High
Office	237,400	316,500	395,500
Retail/Commercial Services	524,400	699,200	875,200
Total	761,800	1,015,700	1,270,700

Notes:

**Derived from the Draft Happy Valley Economic Opportunities Analysis, May 2011.*

***Assumes 10 percent capture of office demand and 40 percent capture of retail demand.*

Source: compiled by FCS GROUP.