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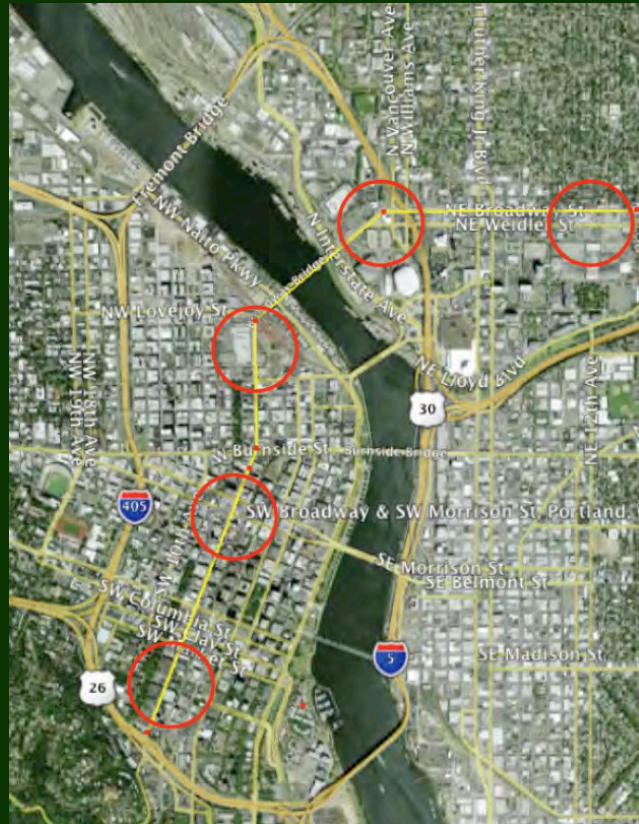
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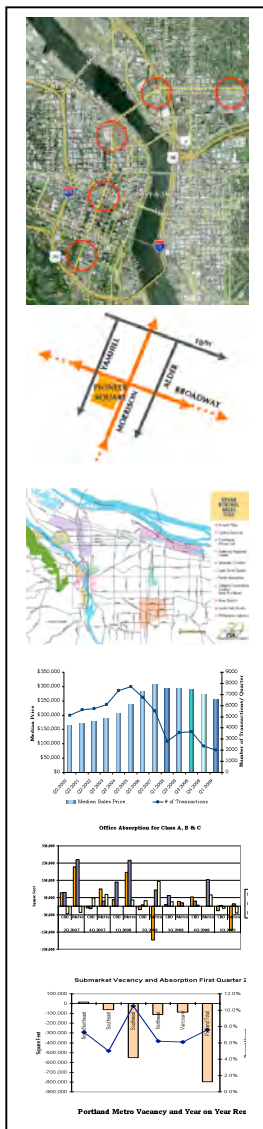
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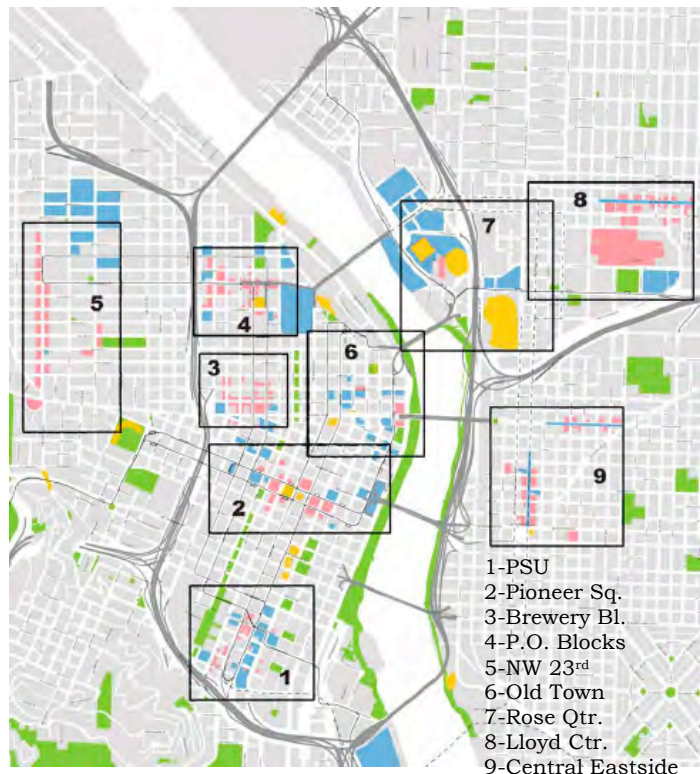
Editor's Urban Development Journal:

Professor Will Macht, Editor

The Downtown Retail Conundrum: Cores, Cars & Credit

The Great Recession has created great havoc in the urban hearts of our cities. Retailers and restaurateurs, upon whom we have relied to activate our streets, have closed or downsized as patrons have found extraneous spending expendable and credit unavailable. With vacancies accelerating and finance evaporating, developers have retrenched. The conventional wisdom is to nurse one's wounds and hope recovery will return things to former patterns.

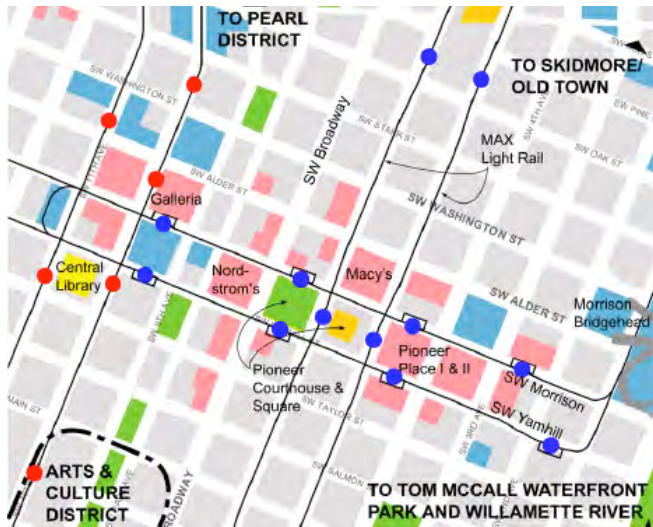
But it is precisely in these troubled times that one can see more clearly fundamental flaws that were concealed by ephemeral prosperity. What is revealed is a puzzling conundrum. How can one revitalize downtown retailing when every indication is that we will be able to support less of it? The essence of the downtown retail conundrum is that we have too much ground floor area seeking too much retail space from too few retailers, who seek to sell too many non-essential goods to too few customers, who increasingly have too little money to buy them and too little space in which to store them. What we need is not a marketing, advertising and branding solution to the retail conundrum, but rather a consolidation strategy to move surviving retailers to a Broadway corridor articulated with pulse point nodes of retail and other active street front uses implemented through a comprehensive urban design and development solution. Fortuitously, in the precipitous decline of the Great Recession are the very seeds of rebirth that will make it possible.



Cores

Recent attention by the Mayor and PDC has focused on the downtown retail core, branding it and putting gateways into it. One of the problems is that we have many retail cores and downtown retailing is fragmented, dispersed with haphazard and incomplete tenant mixes, disorganized operating hours and less than competitive with centrally managed regional malls and lifestyle centers.

The feature article in this issue by David Leland and Katherine Krajnak explores a current effort to revitalize the downtown retail core, currently defined as SW 2nd to SW 12th Avenues, Washington to Salmon Streets. That is an area including 45 of our 40,000-square foot blocks plus five of the South Park Blocks, which are half-blocks.



But that retail core is only about 10% of the total downtown core, defined as the area between the Willamette River and I-405, which contains about 460 city blocks. There are several other cores each of which has a retail heart.

The Brewery Blocks are the retail heart of the 45 blocks of the South Pearl district, from West Burnside to NW Glisan, Broadway to I-405. A growing retail corridor on NW Lovejoy from I-405 to NW 9th serves the 45 blocks of the central Pearl district

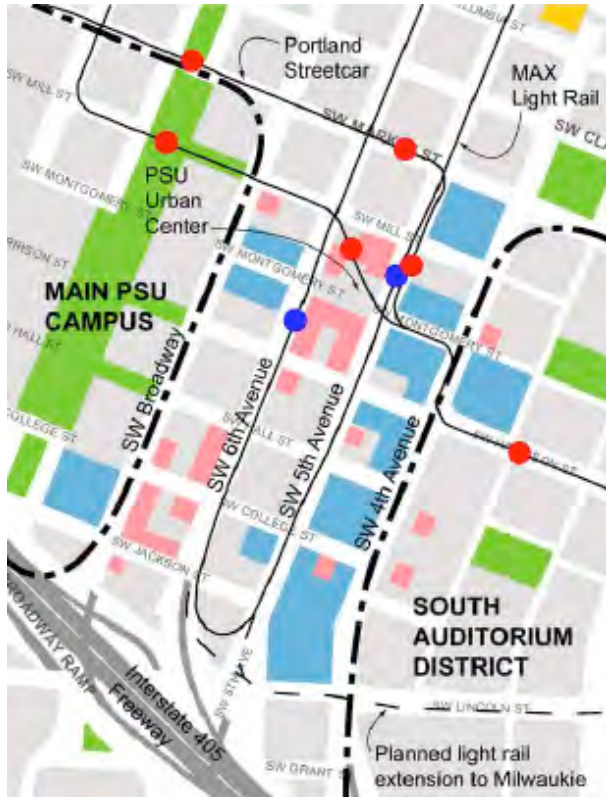
between NW Glisan and NW Lovejoy west of Broadway, as well as the 40 blocks of the North Pearl district triangle and 10 blocks of the waterfront between the Broadway and Fremont Bridges. When the 12 blocks of the old downtown Post Office are added to the central Pearl, they could act as a retail anchor for the Lovejoy retail corridor.



The 40 blocks of Old Town/Chinatown lack a retail core now, but the plans for a new Uwajimaya may help give it one. It is instructive to note that each of these areas has a grocery store at its heart: Whole Foods in the Brewery Blocks, the new Safeway on NW Lovejoy and the proposed

Uwajimaya between NW 4th and 5th, Couch and Davis. The Museum Place Safeway at SW 10th and Jefferson acts as the seed for a retail core for the 40 blocks of southwest end of downtown, south of Salmon and west of the South Park Blocks.





The 48 blocks east of the South Park Blocks between SW Salmon and SW Market that are built around a line of four full-block parks between SW 3rd and 4th Avenues contain City Hall, Federal and County courthouses, the Justice Center and Federal building, as well as the Wells Fargo tower, but are almost devoid of retail space. One might call that the government quarter and the large institutions, both public and private that predominate, in buildings that are recessed from the street and have little retail store frontage, are unlikely to gain much if any retail momentum.

In what might be called SoMa, the 48 blocks south of Market, east of the South Park Blocks, plus the four blocks of University Place, despite the large number of housing units in the South Auditorium renewal area and the 30,000 students, faculty and staff at Portland State University, lack a grocer or even significant retail space to serve the university. New development along SW Broadway and in the Urban Center plants the seeds for a retail core, but it has not yet blossomed.

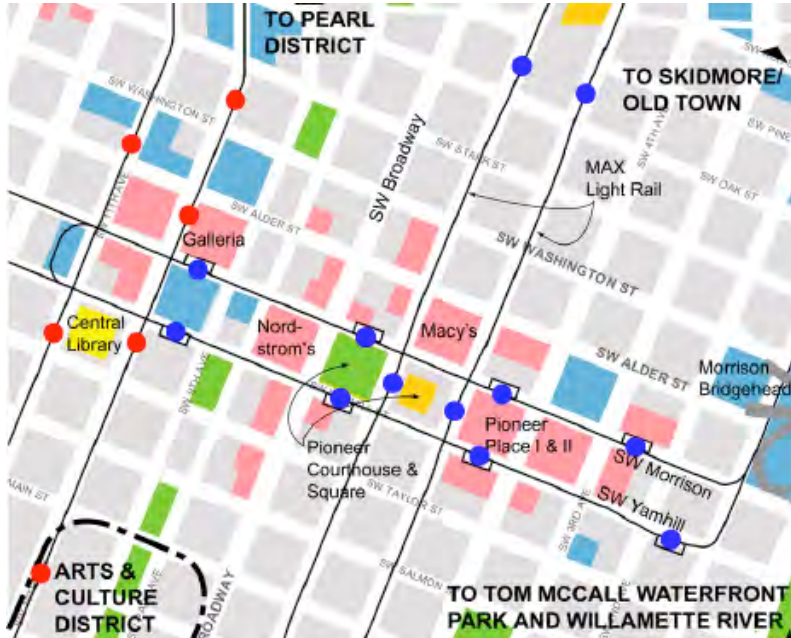
Finally, the 16 blocks at RiverPlace do have a small retail core but its isolation, lack of parking and small size has relegated it to minor seasonal status. The eventual buildout of South Waterfront and the OHSU Schnitzer campus may somewhat diminish its isolation and increase its eventual appeal. Yet it almost certainly will remain functionally separate from downtown.

Scale

When one realizes the scale of the downtown relative to its potential retail space, it appears inevitable that only a small fraction of the ground floor space will be used for retail purposes. The 460 blocks downtown provide about 18.4 million square feet of ground level space. The 45 blocks of the downtown retail core, plus five half-block Park Blocks, provide maximum total ground floor area of 1.9 million square feet, just 10% of the total.

Urban retail and restaurant space is predominantly a street level phenomenon, generating the highest sales and rents. Upper level retail space is difficult at best, and second level restaurant space is mostly non-existent for logistical and market reasons. Multiple level retail space is confined primarily to department stores and malls. While Macy's has six retail levels and Pioneer Place four, Nordstrom and Saks have only two. Pioneer Square, Park Block 5, several parking structures and surface parking lots are dispersed throughout the retail core, so the actual built space, only a portion of which is actual retail space, is significantly less.





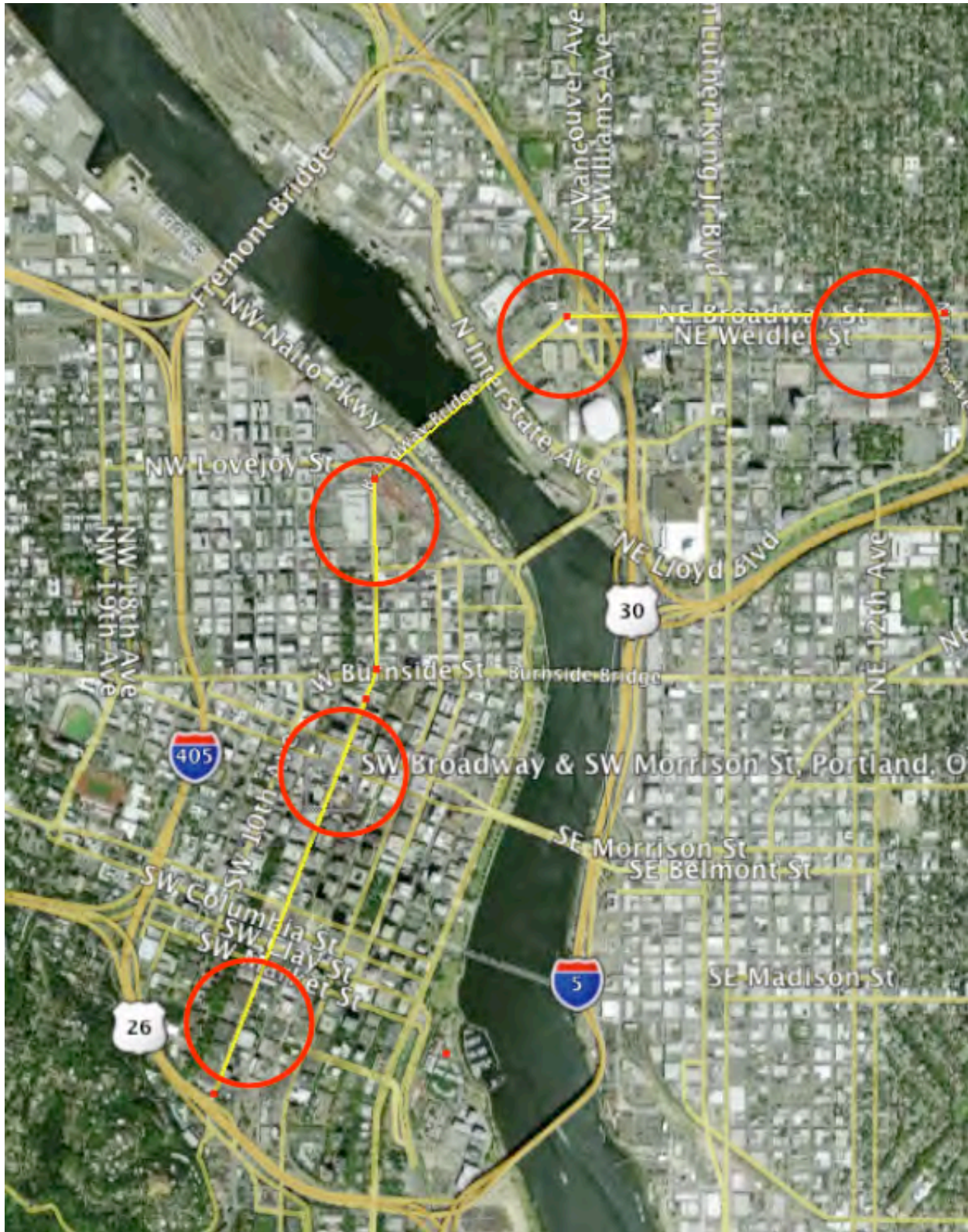
Even accounting for upper level retail space in the retail core, total retail space is only about 1.3 million square feet, according to estimates from Cushman Wakefield based on a CoStar search. That is about half the 2.4 million reported by Economics Research Associates, which apparently did not remove parking space included from the scan. Cushman Wakefield's estimates are very close to the 1.3 million square feet estimated by CBRE in a slightly larger area that extended south to SW Main. Surprisingly, the PDC does not track actual retail space in the downtown retail core by location, tenant and size, nor have its consultants.

Each of the other downtown retail cores, if actually tracked, would likely be quite small. The largest, the Brewery Blocks, was developed with about 160,000 square feet of retail space. When one adds the 68,000 square feet in the largest anchor to that area, Powells City of Books, along with peripheral stores, the total is unlikely to be much higher than 250,000 square feet. The Museum Place and Pearl Safeways, each about 47,000 square feet, of which only about 40,000 is retail space, are the largest anchors in the North Pearl and West End districts. RiverPlace has only about 26,000 square feet of retail space. So the aggregate scale of retail space downtown is likely to be only slightly larger and roughly comparable to that in Lloyd Center which has 180 stores in about 1.4 million square feet. However, downtown retail is far more dispersed, does not have uniform shopping hours, centralized management, diversified tenant selection or free parking.



The larger point with respect to scale is that roughly 1.8 million square feet of total downtown retail space is only about 10% of the 18.5 million square feet in street level space theoretically available. Conversely, over 90% of ground level space downtown must be activated by something other than downtown retailing, and it is unrealistic to think that retail space can ever be the public activator that many planners and civic boosters have hoped. Furthermore, we have spent too little time thinking about other ways to activate and use ground level space.

The Broadway Strategy: Connection



Lloyd Center
Rose Quarter

P.O. Blocks

Pioneer Sq.

PSU

What becomes quite apparent when looking at an aerial image of downtown is that the retail cores are widely dispersed and disconnected. However, it is also apparent, with a concerted

development strategy, that Broadway could become the natural and logical linking connection. Broadway is the most accessible street in the center of downtown with three lanes of through traffic plus continuous parking lanes on both sides of the street. Stores are very visible and accessible through its entire length. And it is the only downtown street that connects to two major freeways at each end making access to shoppers more convenient than any other.

The 100% intersection, what retail experts call the Main/Main intersection, is the intersection of SW Broadway and SW Morrison, where Nordstrom and Macy's abut Pioneer Square. However, with light rail on SW Morrison, there is little parking on SW Morrison and a large retail gap in the form of Pioneer Courthouse and Pioneer Square itself.

Broadway is also the natural link between the Pearl district and Old Town/Chinatown and it is the terminus of the growing Lovejoy retail corridor. Felicitously, the 12 blocks of the old downtown Post Office intersect the Lovejoy corridor and terminate the North Park Blocks. Their size, accessible location and efficient multi-block underground parking potential for up to 1,300 cars per level offer significant opportunities to locate larger diversified anchor retailers not represented downtown. For example, if a Target were to be located down-town, it could be accommodated and integrated with mixed-use development with the least disruption, yet efficiently serve the thousands of housing units that have been built around it.



The Post Office Blocks and Broadway are not only the nexus between the north and south Pearl district with Old Town/Chinatown, they are also a gateway to the Rose Quarter and to the 30 blocks of the Lloyd Center as well as to other retail revitalization on East Broadway.

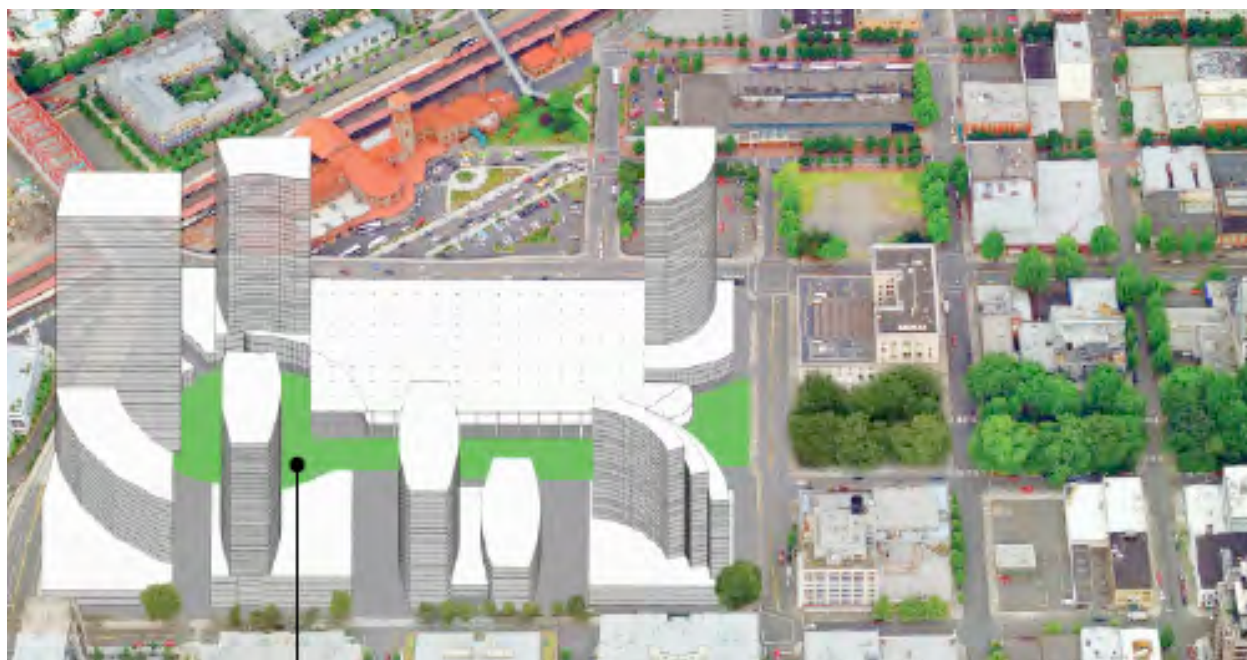
At the other, south end of Broadway, the Broadway housing project has begun the creation of a retail corridor node at Portland State University. PSU draws about 30,000 people to its 45-block campus and it owns about 4,000 parking spaces. Retail development at the PSU Urban Center is one block away.

The Broadway Strategy: Consolidation

Therefore, the Post Office Blocks and PSU could become two anchors to the mile and a half length of Broadway downtown. From Burnside to PSU is just one mile, 20 blocks long, and from Burnside to the Post Office Blocks at Lovejoy is a half-mile, just 10 blocks long. In their article in this journal, David Leland and Katherine Krajnak refer to their case study of examples for Portland, and Chicago's Magnificent Mile is among them. That was the result of a concerted effort by Chicago developer Arthur Rubloff. The Magnificent Mile was proposed in Daniel Burnham's 1909 Plan of Chicago, and constructed in the 1920s. But it was Rubloff and New York developer partner Bill Zeckendorf who bought or gained management control of much of the property along the avenue, still at Depression-level prices in the 1940s, and proceeded to develop and promote it as the most prestigious address in the city.

In terms of scale, if the half block depth on each side of Broadway for the 30 blocks downtown were all retail space, there would be 1.2 million square feet of space, the size of a regional shopping center, all of which would be accessible from on-street shared parking of 600 spaces, about the size of a six-story full-block parking structure. The 20 blocks from Burnside to PSU could house up to 800,000 square feet at half-block depths.

Of course, it is unlikely that a mile of continuous retail space would be infilled anytime soon, but there could well be many pulse point retail nodes along the way. There are significant development opportunities along the 20 blocks from PSU to Burnside, the 10 blocks to the Post Office, and the 20 blocks on East Broadway to Lloyd Center at Broadway NE 17th. The largest development opportunity are the 12 blocks of the old downtown Post Office Blocks. As noted above, the sheer scale, pivotal nexus location at the terminus of the Park Blocks and the Lovejoy Pearl retail corridor, 13.4-acre multi-block underground parking potential for up to 3,900 cars, adjacency to the 420-space Station Place SmartPark, and proximity to the streetcar, light rail and intercity rail at Union Station give the Post Office Blocks the potential to be a major anchor to the Broadway retail corridor. In a development workshop we did in the summer 2008 term, we determined that a retail center of 270,000 square feet on the Post Office Blocks was feasible in the context of an overall mixed-use development that included 850,000 square feet of offices, 1600 housing units and a 200-unit hotel.



At the other end of Broadway, many of the Portland State buildings could be reconfigured to offer storefront orientation to Broadway. Besides aggregating retail activity oriented to the 30,000 students, faculty and staff, such storefronts could be used to provide university services like admission, registration, cashier, loan services, housing rentals, information technology help services, parking permit sales, visitor information, ticket sales, public safety services and other similar services. One needs to be careful to view retail activity to include public activity providing services as well as private activity providing goods.



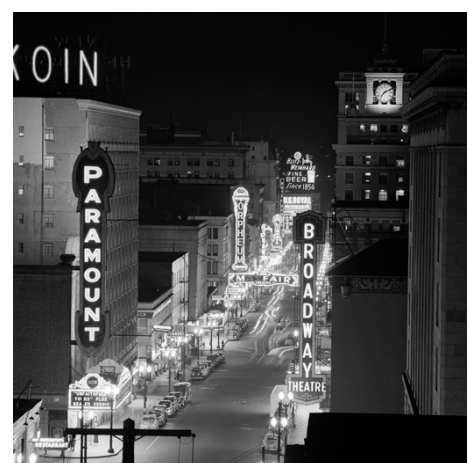
In between the Post Office Blocks and PSU there are eight surface parking lots and many underutilized buildings. In addition, there are some very significant buildings that need to be integrated with a Broadway strategy. The 511 Building being given to the Portland Northwest College of Art (PNCA) can have arts-related retail and service functions on Broadway.

The Broadway Strategy: History

The Broadway strategy is really one that builds on history. It is clear that Broadway was conceived as the Main Street of Portland. It is the only street in the center of the long rectangle of the city that connects across its own bridge to the east side of Portland, where it changes its course from north/south to east west. It is the street on which the main Post Office and Union Station were built, where the Federal Customs House was located, where the Benson Hotel and other main hotels were built, where the elaborate U.S. Bank and other major banks were sited, where the iconic Jackson Tower stands in the precise center of Broadway between PSU and the Post Office Blocks, and where every major theater was built.



In short, the Broadway strategy is one to revitalize the historic Main Street of downtown Portland, a fitting antidote to ersatz life-style centers.



The Customs Building is a notable building that may house the International School, which could help attract more people even to its less impressive NW Broadway side shown on the previous page. The Burger King site occupies a strategic corner at Burnside that could be re-developed for a visible anchor. The south side of the Burnside-Broadway intersection has a parking building on axis with Broadway that is highly visible. The U.S. Bank Building Annex directly across from the Benson Hotel also could be redeveloped. The Oregonian building could concentrate its services at its Broadway side. The AAA building is an anomalous automobile oriented use that occupies a full block at SW Market and Broadway that could be redeveloped more intensively. While some of the PSU buildings present formidable walls to Broadway, there are several locations that are redevelopable. In addition, there are wide openings into the campus on pedestrian streets at Mill, Montgomery, Harrison, Hall and College Streets that could be filled with retail kiosks.

It is clear that in a time of the Great Recession and its aftermath, developers are most unlikely to be attempting the kind of retail development, just outlined for the longer term. However, the bad fortune of the increase in downtown retail vacancies, the decline of rents and the availability of a good retail building stock on the central connecting main street of Portland, with easy access and available parking, creates a fortuitous opportunity to entice retailers with less optimal locations to locate along a revitalizing Broadway. A quick glance at the map at right shows how splintered retail (in red) actually is in downtown Portland. The success of concentrating both pedestrian and vehicular retail traffic on a main street is a well-established principle of both retailing and urban planning. In fact, the very economic stress of this current period can be the stimulus to rational consolidation. It is often said there is nothing like the prospect of a hanging to concentrate the mind. But one needs to think.



What is lacking is a concerted, block-by-block review of each block to identify and measure each site and building for its potential contribution to a revitalized Broadway retail corridor. With a concerted Broadway strategy, it should be possible to attract retailers from other peripheral locations. But downtown retailing is fragmented and no one has been charged with formulating and implementing a viable retail strategy, especially a retail master leasing strategy.

PDC Retail Master Leasing

At a time when retail activity downtown is depressed, now is the time that PDC could formulate and implement such a retail master leasing strategy. When doing research for this piece it became apparent that no one could even provide, with consistent particularity, just how much active retail space actually exists downtown and what is the tenant mix of active retailers. As noted above in comments about scale, different brokerage houses define different areas with different criteria. Databases like CoStar include extraneous uses and areas in square footage calculations. And PDC has no detailed block-by-block, tenant-by-tenant inventory.

PDC has relied upon consultants but recent ones, like Economics Research Associates and Leland Consulting Group, have not been charged with conducting such an inventory. Think about the implications of that. There is not a single regional retail center, like Lloyd Center or smaller ones like Pioneer Place, whose manager could not tell you instantly how much gross leasable floor area it holds, how many stores, their respective sizes, the tenant mix as well as the location of each store, and the annual sales of each store. Moreover, the manager could tell you which stores are vacant, when leases expire, how many parking spaces support the center, when peak occupancy periods are and assure you, through common lease provisions, that every one of the stores is open the same hours. This is just base data that could be in a database managed by PDC for downtown. The implications are far reaching. How can PDC plan a strategy to revitalize downtown retailing if it does not even collect detailed basic data to know with precision what the problem is?

Once PDC would know detailed basic data, it would also know which buildings are vacant, which are critical in location and size, and begin to be able to determine an appropriate tenant mix that fills gaps, and which tenants might be appropriate to do so. Any regional retail center has a complete, clear leasing plan the essence of which is apparent on a directory. Downtown Portland does not.

The virtue of formulating and implementing a comprehensive tenant mix and location plan during a deep recession is that there are high retail vacancies that could be master leased by PDC at rents lower than at any time in recent history. Downtown property owners would be eager to lease at favorable market rents to a credit tenant like the City's PDC.

The next step would be for PDC to sublease to key targeted tenants at a below-market base rent. This process is analogous to what PDC has done throughout its history when it aggregates land parcels that it has purchased at fair market prices and then resells the aggregated land to a developer at a below market price. Land resale price write-downs are a staple way that redevelopment agencies do business. The problem is that PDC never directly recovers the subsidies of the land write-downs.



By contrast, retail master leasing builds in a method to recover the retail rent subsidies of the below market base rent. This is through the standard retail practice of percentage rents. If the PDC has done its job well and attracted the right tenant for the right space and for downtown, the key tenant should be able to exceed base rent sales levels and essentially repay rent subsidies to PDC through percentage rents.



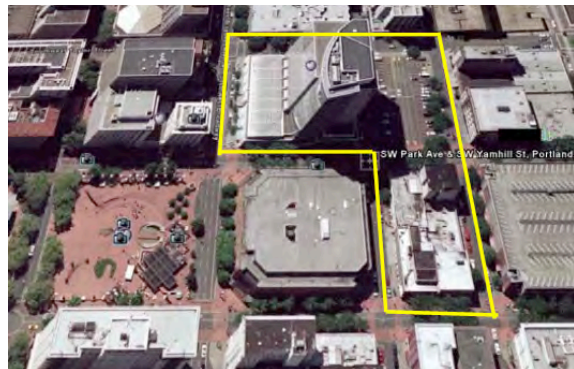
Moreover, there are other vital benefits to retail master leasing. As a condition of every sublease that PDC negotiates, there should be a provision that requires the store to be open for extended common operating hours. The busiest times for retail shopping are evenings and weekends, not surprisingly when most people are out of work. But many downtown stores are not open during those hours and there is no consistency among downtown stores. It is axiomatic that if stores are not open, they can make no sales. PDC could change that and once it has enough key stores in critical locations open common hours, there will be a tipping point when the rest must follow along.

Another critical point is that PDC can fill non-retailing spaces with retailers and thereby ameliorate or eliminate gaps in the urban fabric that short circuit consistent pedestrian shopping patterns. If the hole is too big, shoppers will refuse

to walk past it. Gaps do to the urban retailing fabric what missing teeth do to a smile.

Cars

Like it or not, traffic, cars and parking and have always been critical to the success of American retailing. It is no accident that the successes of the retail stores in and around the south Pearl district have been dependent upon the 1,300-space multi-block underground parking spaces under the Brewery Blocks.



As I pointed out in an analysis of multi-block underground parking¹ if one allocates the non-retail constituent uses at their common downtown parking ratios of one per thousand square feet or one per unit, the retail parking ratio of the Brewery Blocks retail space is four spaces per 1,000 SF of retail space, a common suburban parking ratio. And when one does the same thing for the Fox Blocks, the ratio is even higher at 4.5 spaces per 1,000 SF.

Why is that? Except in the most dense and largest cities, the numbers of people who could live within walking distance is simply nowhere near enough alone to support substantial retail activity. Although research is scarce, estimates suggest that one luxury condominium unit can support only about 20 square feet of retail space², so it would take approximately 1,000 units to support 20,000 square feet of retail space, just one half of a Portland city block. Support must come from other visitors to the area, and shoppers still primarily come by car. Moreover, when people shop they must carry the things they buy and most people are not content to carry them by hand or even on transit. There are also other paraphernalia, such as strollers, that many people use on shopping trips that do not travel well on transit.

Retail traffic requires both visibility and accessibility. It is not surprising that retail traffic has not thrived on the Transit Mall. Restrictions on both turning and parking limit both visibility and accessibility to the stores. Light rail on SW Morrison and Yamhill create a similar effect.

The situation on Broadway is very different. Stores are very visible to all passersby. Three lanes of traffic with synchronized traffic lights through the center of downtown attract visitors both in cars and on foot. Continuous parking lanes on both sides of the street make the stores accessible. Broadway's length creates multiple corners, always the most desirable for retailers for their visibility in two directions. Some have suggested making SW Broadway a two-way street, as it is north of West Burnside. Clearly, this would increase shopper flexibility and better connect Broadway across Burnside, but left turn movements might hinder movement on the east side, which would have a single travel lane.



¹PSU Quarterly & Urban Development Journal, 4th Quarter November, 2007, p. 24;

http://www.pdx.edu/realestate/research_quarterly.html

² Estimates are not definitive but, for example, Boston-based Goody, Clancy principal urban planner David Dixon states: "A block (30,000 square feet) of new retail would require approximately 1,500 units of new housing within walking distance."



Off-Street	488	450	1709	145	616	693	1429	0	2663	704
On-Street	87	82	80	86	89	47	18	60	86	82
Total	575	532	1789	231	705	740	1447	60	2749	786

Off-Street Spaces = 8,897
 On-Street Spaces = 717

 Retail Core Total Spaces = 9,614

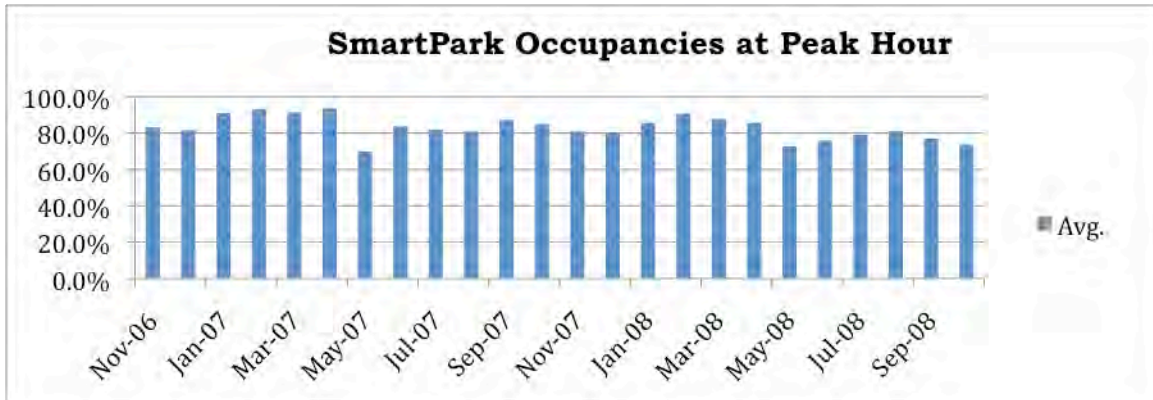
Source: City of Portland Department of Transportation & Macht & Company

Although PDC has defined the retail core as the 45 city blocks (plus 5 South Park Blocks, that are half-blocks) between SW 2nd and 12th Avenues, and SW Washington to SW Salmon, it has not related that to the parking available in that core area. The chart above shows that there are over 9,600 parking spaces in that area but only one quarter of those spaces (2,467 spaces)³ are in SmartPark structures, owned by the City, that are most attractive to shoppers because of their uniform consistent pricing and lower rates. If one adds the 717 on-street spaces in that area, which are more attractive to shoppers because of their accessibility, and not functional for employees and office workers because of their time limits, then one can conclude that 3,184 spaces are available to service the approximate 1.3 million square feet of retail space in the core. This quantity of parking equates to a retail parking ratio of 2.45 spaces per thousand square feet of retail space, 40% below the 4:1 ratio at the Brewery Blocks.

It is instructive to note that the SW 10th and Yamhill structure, nearest to Nordstrom and only a block and a half from Broadway, versus three blocks for the other two SmartParks, has frequently been filled to capacity. Such popularity should raise serious doubts about PDC plans to demolish that structure. The SW 4th and Taylor SmartPark, connected to Pioneer Place, has the highest consistent percentage of average peak occupancy at over 85%. The highest occupancies have tended to occur on Thursdays, while the lowest are weekends and evenings, quite the reverse of regional retail center patterns suggesting that downtown retailing has not been fully competitive during the times that most retail activity takes place. This is not surprising since there are no common operating hours among downtown retailers and there is no entity that is attempting to achieve that end.

³ SW 3rd & Alder = 839 spaces; SW 4th & Taylor = 833 spaces; and SW 10th & Yamhill = 795 spaces.

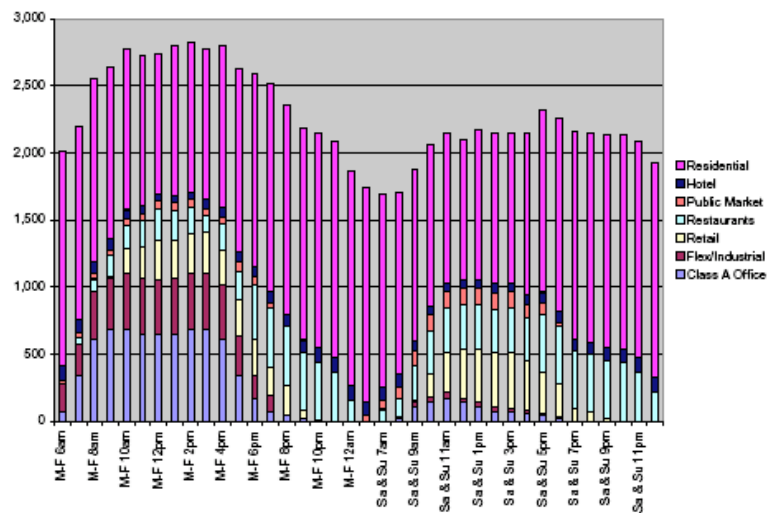
One can observe a decided decline in peak occupancies as the Great Recession has taken hold.



Parking strategy should be endemic to downtown retailing strategies. To look at the big picture, a Broadway retail consolidation strategy offers the greatest potential. Retail and parking pulse points can occur along the mile and a half of Broadway on the west side and even extending the full three miles to just past Lloyd Center at NE 17th and Broadway.

Along those 50 blocks alone, there should be approximately 1,000 on-street parking spaces [10 per block face, average] available at no additional cost to the city. Progressive parking management can increase functional capacity significantly beyond that. If each space turned over every two hours, on average, there would be functional shared parking capacity for 6,000 cars.

At the heart of the Broadway retail corridor there are about 2,300 parking spaces at the Fox Blocks and the 10th & Yamhill SmartPark. To the north at the Post Office Blocks there could be at least 1300 spaces per level of up to three levels of multi-block underground parking as part of a mixed-use development that anchors the Lovejoy Pearl retail corridor, NW Broadway and Old Town/Chinatown. At the south end of Broadway, PSU owns about 4,000 spaces that serve the 30,000 people who gather at the PSU campus. About 2,600 spaces exist in City-owned parking structures on Broadway at the Rose Quarter that are now mostly vacant except for games. Those structures should also be SmartPark garages and act as a catalyst for a non-event oriented mixed-use development. And finally, there are over 5,500 parking spaces at Lloyd Center.



Those five pulse points along Broadway, i.e. PSU, Pioneer Square, Post Office Blocks, Rose Quarter and Lloyd Center, should be the consolidated retail heart of Portland. Public policy through PDC can and should undertake the steps necessary to stimulate and catalyze that consolidation. And I say consolidation simply because there will not be enough retail activity to sustain splintered retail throughout downtown as economic patterns change in the early decades of the 21st Century.

Credit

The current credit crisis affects both retailers and consumers in myriad ways. There are many fewer credit tenants able to occupy retail spaces. This is not a new phenomenon but rather intensifies growing trends. Department stores, battered by competition from big box superstores, have been consolidating at record numbers, closing stores, downsizing retail space, reducing the number of SKUs [Stock Keeping Units] carried and inventory levels. Now many big box stores are suffering the same fate, such as Circuit City, Joe's and Linen 'N Things. While downtown Portland long ago lost downtown several department stores, since it has not housed big box stores it has not directly been affected by their closing.



But smaller independent retailers and restaurateurs of the type downtown are not credit tenants for the most part, and they have had a much harder time surviving. Even larger restaurateurs like McCormick & Schmick's closed its first and flagship restaurant on SW 1st and Oak. That does adversely impact downtown Portland as many have gone out of business and retail vacancies have risen to new highs. As online retailing—e-tailing—absorbs scarce consumer dollars, pressure on independent merchants will accelerate since e-tailers are the low-cost providers bearing lower rent, advertising,

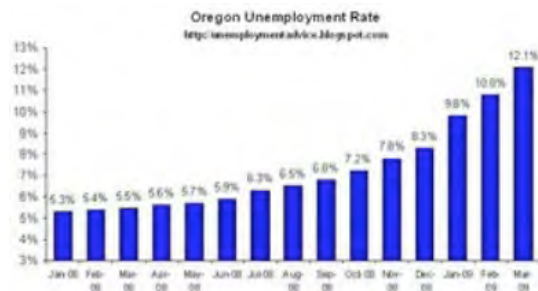
service and sales costs while reaching more consumers more frequently, on a 24/7 basis. At \$204 billion in 2008, online sales represent support for 816 million square feet of equivalent retail space, or over 800 regional malls, that will not be filled.⁴

There are many reasons to expect that the Great Recession's effects upon downtown Portland retailing will generate a secular shift in retailing habits. A variety of factors give rise to this. Having overdosed on both public and private credit, defaults on both consumer loans as well as housing loans have risen to epidemic proportions. Banks have not only constrained new lending, they have decreased credit limits, increased fees and shortened grace and payment periods. The decline in housing values has sharply reduced or eliminated the equity consumers have in their homes, which has in turn dried up home equity loans that consumers had used as credit cards to bankroll current consumption.



The rise in unemployment has taken many consumers out of the normal retail economy and made those who still have jobs wary about losing them. Portland is especially vulnerable because Oregon's unemployment rate is the second highest in the nation at 12.4%, trailing only Michigan. Portland's high attraction to the so-called creative class, college-educated 25 to 34-year-olds many of whom are unemployed, suggests that consumer expenditures by them and by their peers will be held in check both by lack of funds and fear of losing jobs.

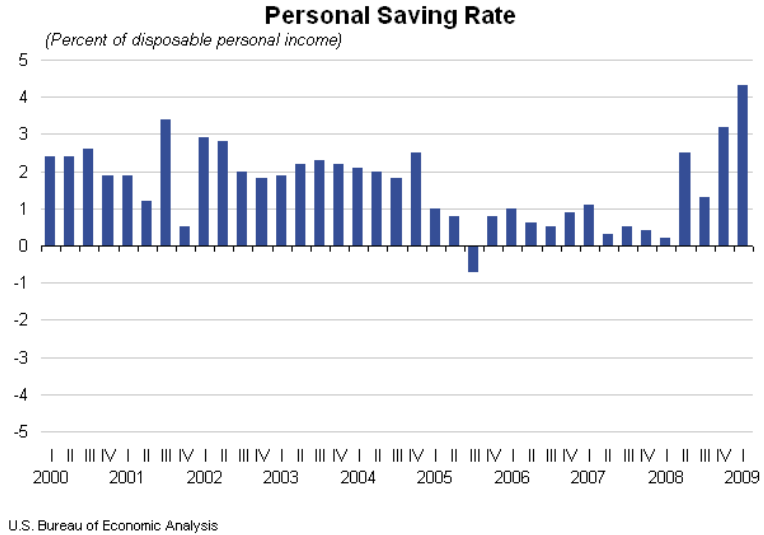
As a result of many of these factors, appreciation of economic apprehension has driven the personal savings rate, which had declined to nearly zero, rapidly to about 4.5% percent. Many



⁴ Source: Forrester Research, Inc., Cambridge, MA, based on an average \$250 per square foot in sales.

expect it to rise significantly more. It is ironic that the Chinese household savings rate, as a proportion of disposable income, is 30%, and has been rising rapidly in recent years. That figure is twice as high as the highest rate ever recorded in the United States. Yet it has been the poorer country that has financed the much richer one.⁵⁶

Besides the direct economic effect of the Great Recession, one should consider other issues. Baby Boomers and their children, the Echo Boomers, control two-thirds of consumer spending. The youngest of the Baby Boomers, (those born between 1945 and 1964), are now 45 and the oldest are 64. Both have purchased their wardrobes, their furnishings and all varieties of other consumer goods. Many are downsizing and finding the accumulation of what many refer to as “stuff” more of a burden than a benefit. Boomers are also finding that their retirement funds are severely diminished, compelling them to reduce expenditures. Lavish spending on the kinds of consumer goods and services many downtown Portland retailers have purveyed is no longer either affordable or fashionable. Both Baby Boomers and Echo Boomers have recognized such expenditures to be discretionary purchases that are among the things that can be reduced. As a result, both stores and restaurants have closed with increasing frequency. To a considerable extent, Echo Boomers have, both by necessity and choice, not adopted their parents’ earlier acquisitive consumer behavior. And many of their purchases are done online, not in downtown Portland stores.



This is particularly true in Portland where urban living has accelerated and where conspicuous consumption has been the exception, not the rule. It is no surprise that high fashion has not prospered here. Combine that with Portland’s lead in ecological and environmental movements and one finds that the accumulation of disposable consumer items has not flourished here. One must evaluate with exuberant skepticism rosy statements and projections from California economists, Economics Research Associates, that Portland is under-stored and that “ERA projects that the net increase in demand for retail space in Central Portland in the 20 years from 2010 to 2030 will be approximately 8.3 million square feet, or a better than 50 percent increase in retail space.” Moreover, this is not a pre-recession statement having been submitted to PDC in as recently as April 2009.

Some have observed that there is tipping point in consumer behavior, a deflection point in psychology that is tantamount to regaining the same kind of frugality as that adopted by the generation that suffered the Great Depression. That was a generation that deferred gratification and only purchased goods when they had the cash to do so. Rather than credit, there was layaway where goods were set aside and could only be received once the last installment was paid. The first “charge card”, to be paid in full at month’s end, was not introduced until 1951 when Diners Club issued the first card to 200 customers who could use it at 27 restaurants in

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⁵ <http://norris.blogs.nytimes.com/2009/06/22/why-do-chinese-save-boys-want-to-marry/>

⁶ <http://www.bea.gov/briefm/saving.htm>

New York City. But it was not until the establishment of standards for the magnetic strip in 1970 that the credit card became more common. By 1980, Citibank, which had lost more than \$1 billion on its foray into the credit card business, got South Dakota to quickly pass legislation that repealed usury laws. Citibank moved its credit card operations to the state and, through a 1978 Supreme Court decision, was able to export usurious rates to other states.

More broadly, why is it that the purchase of material goods is thought to be a public activator worthy of the expenditure of public subsidies? Why is it that the City of Portland awards FAR equal density bonuses for adding retail space?⁷ Why is the City of Portland stimulating marginal consumption when our credit is overextended, our landfills are overfilled, our citizens are overweight and our public budgets are over-expanded? Why is it that retail space is intended to be the primary required active ground floor use?⁸



More broadly, what other urban uses can activate the ground floors of buildings? Why are the service counters of all government institutions usually in the bowels of buildings? When one needs to obtain a driver's license, a passport, buy a stamp, mail a package, pay taxes, seek zoning information, obtain a building permit or pay a parking ticket, why is the service counter not visible and accessible from a storefront along a busy street? When a student needs to register for classes, pay tuition, obtain a student identification card, rent a housing unit or buy a parking permit, why cannot s/he do it at a storefront on the street?

Public policies need to be reexamined. Why is it that residential space is not allowed to occupy ground floor space? Historic New York brownstones have done it for generations and contemporary Vancouver, B.C. housing has adapted it successfully. Why is it that residential parking space is precluded by city ordinance from sharing parking spaces with commercial uses?

⁷ **Central City Plan 33.510.210(C)(3): "Retail use bonus option.** In the retail use bonus target area, shown on Map 510-4, projects providing retail uses receive bonus floor area. To qualify for this bonus option, floor area equal to at least 1/2 of the site area must be committed to retail space. For each square foot of retail space over this amount, one additional square foot of floor area is earned."

⁸ **33.510.225 Ground Floor Active Uses**

A. Purpose. The ground floor active use standards are intended to reinforce the continuity of pedestrian-active ground-level building uses. The standards are also to help maintain a healthy urban district through the interrelationship of ground floor building occupancy and street level accessible public uses and activities. Active uses include but are not limited to: lobbies, retail, residential, commercial, and office.

C. Ground floor active use standard. Buildings must be designed and constructed to accommodate uses such as those listed in Subsection A., above. Areas designed to accommodate these uses may be developed at the time of construction, or may be designed for later conversion to active uses. This standard must be met along at least 50 percent of the ground floor of walls that front onto a sidewalk, plaza, or other public open space.

So we have seen that the essence of the downtown retail conundrum is that we have too much ground floor area seeking too much retail space from too few retailers, who in turn seek to sell too many non-essential goods to too few customers, who increasingly have too little money to buy them and too little space in which to store them. What we need is not a marketing, advertising and branding solution to the retail conundrum, but rather a consolidation strategy to move surviving retailers to a Broadway corridor articulated with pulse point nodes of retail and other active street front uses implemented through a comprehensive urban design and development solution. If the PDC can recognize and capitalize on the historic opportunity presented by high vacancies and low rents along Broadway through a retail master leasing strategy it can truly consolidate and revitalize integrated retail activity along Portland's historic downtown Main Street.

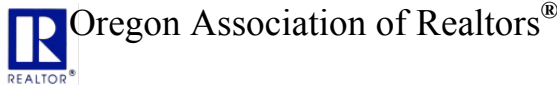


Respectfully yours,

William P. Macht

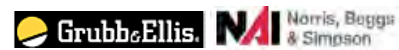
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Downtown Portland Retail: A New Renaissance?

David Leland, Managing Director, and Katherine Krajnak, Associate,
Leland Consulting Group¹



As citizens of Portland, it is important to understand that the success of retail in our downtown is a measure of downtown's overall success. Similarly, downtown's success is a barometer of health for the city and the region. A May 2008 Oregonian editorial best sums it up: "Downtown is the place we play, go out to dinner and show off when company comes. We want out-of-town guests to see the best of the region — and the best includes the center²." The notion that downtown's health is reflective of the city's health has been a guiding principle for Portland for almost 40 years. The Downtown Plan of 1972, along with then Mayor Neil Goldschmidt's leadership, set a new precedent for downtown reinvestment and revitalization. At that time, Mayor Goldschmidt understood the importance of making a high quality retail environment the center of downtown.

Mayor Goldschmidt's efforts resulted in the Downtown Waterfront Urban Renewal Area of 1974, a recently retired district. Significant downtown accomplishments followed as a result of public-private partnerships leveraged with tax increment financing (TIF) dollars: Pioneer Place, Tom McCall Waterfront Park, RiverPlace, the Yards at Union Station, along with many others. Major catalytic projects set the tone, with Pioneer Place being the most significant retail development.

Now, more than 30 years after the pioneering revitalization efforts initiated during the Goldschmidt era, downtown Portland leaders and the Portland business community are pursuing a new approach for addressing the issues and opportunities related to downtown Portland retail. At the heart of this emerging strategy are two core objectives not previously addressed in the history of downtown Portland retailing. First, the emerging strategy will include implementation tools that are designed to make property owners and downtown real estate professionals more integrally involved in realizing such a strategy. Second, downtown stakeholders and leaders realize that a greater strategy for how the retail sub-districts relate to each other and to other districts is lacking. Therefore, a physical solution is being proposed for how the downtown retail is branded, how the distinctive character of the retail streets and sub-

¹ Accompanying reports and publications on downtown Portland retail can be found at <http://www.pdc.us/retailvision>.

² Source: "Selling us on the Center". Editorial. The Oregonian. 28 May 2008.

districts relate, and how that translates to a clearly defined signature district at the heart of the city. This article describes how Portland leaders are working to define a new strategy for its downtown retail core with fresh eyes. With much discussion among downtown’s major players, a new strategy for a signature retail district in downtown Portland is emerging.

The Downtown Retail Core Defined

Before Pioneer Place, Nordstrom, or even Pioneer Square were developed, the 1972 Downtown Plan set the stage for investment in downtown’s retail core. The 1972 Downtown Plan defined the retail core as “All blocks fronting on Morrison, Alder, and Washington Streets from SW 3rd to SW 10th Avenues.” Since that time, the retail core boundaries have been extended west to SW 12th Avenue, south to SW Salmon Street and east to SW 2nd Avenue. Figures 1 and 2 below show the retail core boundaries today, as defined by the Portland Business Alliance (PBA) and the Portland Development Commission (PDC). It is interesting to note that recent investments such as Park Block 5, the Galleria, the Fox Tower, and the Meier & Frank building have indicated a shift in the retail core energy towards the West End, defined as the area between SW 10th Avenue and I-405, south of W Burnside Street.

Downtown Retail Core Boundaries

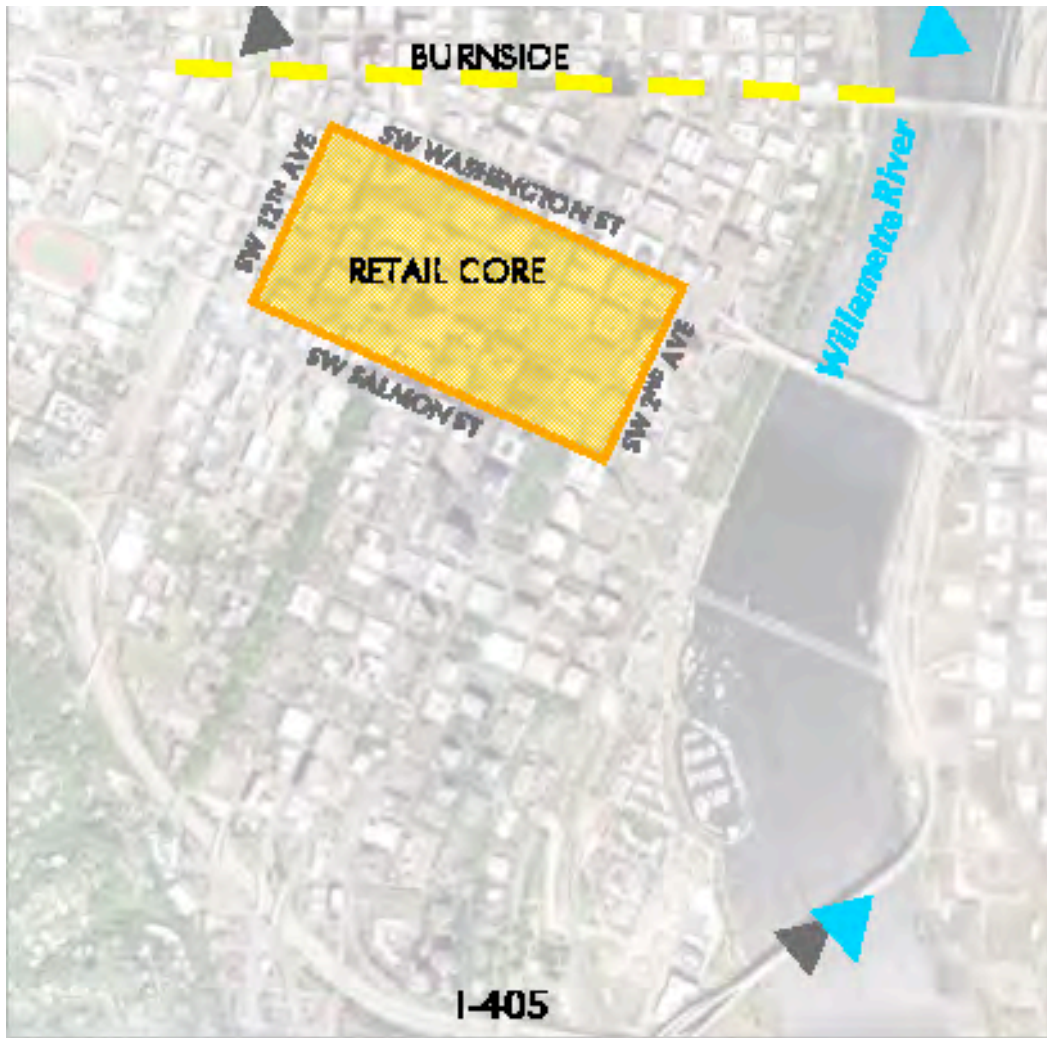


Figure 1 – Source: Leland Consulting Group

Downtown Retail Core Key Retailers and Landmarks



Figure 2 – Source: Leland Consulting Group and Portland Business Alliance

At the heart of the central city, the downtown retail core contains approximately 1.3 million square feet of retail space³, compared to 1.4 million square feet at Lloyd Center. The downtown area, bounded by W. Burnside, the Willamette River, and I-405, has approximately 1.7 million square feet of retail space. Retail vacancies throughout the downtown are on the rise. According to the Norris, Beggs, and Simpson Central City Vacancy Survey, vacancies for the Central Business District (downtown) increased from 5.4 percent in the fourth quarter of 2007 to 9.8 percent in the second quarter of 2009.

That said, the retail core is still in many ways the most attractive urban retail real estate in the Portland metropolitan area, despite the vacancies. No other retail district in the region contains a confluence of high-end, luxury retailers such as Saks Fifth Avenue, Louis Vuitton, Tiffany & Co., Mario's, Brooks Brothers, St. John, Mercantile, and others. While average triple net rents range from \$20 to \$35 per square foot in the retail core, spaces on Broadway (before the onset of the recession) commanded rents as high as \$60 per square foot. These are the highest street-level (non-shopping center) retail rents in the region.

The diversity in the retail core's customer base—residents, employees, and visitors—may give it the capacity to attract and support more retail than it has space to accommodate. Even in the context of these difficult economic times, the retail core may be able to sustain new retail growth over the next five years. The past five years have shown almost no growth—only 14,000 square feet of new space has been added since 2003³. Some downtown brokers and retail recruiters report that desirable retailers want to locate in the retail core, but they cannot find the right space they need to accommodate their business needs. Factors such as small block sizes, fragmented ownership, and costly upgrades make it challenging for new retailers with

³ Estimate derived from a number of sources: Norris, Beggs, and Simpson, Cushman & Wakefield, and Costar.

larger floorplate requirements to locate in downtown Portland. Said differently, attractive national retailers that want to locate in downtown Portland are often unable to find the right space that can fit their preferred format. What is more, landlords are finding themselves in a tenant market that demands lower negotiated rents and more landlord concessions, such as tenant improvement allowances and other tenant benefits. Combined public and private sector participation is a key component to overcoming this challenge.

Building a New Approach from Past Strategies

Over the years, various plans and strategies have identified key factors that impact downtown Portland's retail success. The key concepts, findings and recommendations of past strategies lay the foundation for the emerging retail strategy.

In 2002, the PDC and the Association for Portland Progress (now part of the PBA) analyzed the opportunities and challenges for downtown retail and recommended a strategy for moving forward. For the first time, Portland had a strategy that addressed multiple issues related to downtown retailing, market, policy and the physical realm. According to the 2002 Downtown Portland Retail Strategy, downtown Portland (bounded by the Willamette River, W. Burnside Street and I-405) would have the potential to support \$200 million in additional sales growth or 600,000 square feet of new retail space between 2005 and 2015. As noted above, only 14,000 square feet of that growth has occurred since 2002.

In 2007, the PBA and the PDC drafted an update to the action plan first presented in the 2002 strategy. Leland Consulting Group was retained by the PDC to revisit the 2002 strategy, update data and findings and evaluate the 2007 Downtown Portland Retail Strategy Update.

Two key messages surfaced from Leland Consulting Group's 2007 engagement. First, the state of downtown retail was healthy, yet vulnerable. At the time of this study⁴, the downtown retail core was doing well compared to other central city districts. A number of national chain stores such as Express, Gap, and Talbots were achieving their highest sales in their downtown stores, ground floor lease rates exceeded those of any other shopping districts in the central city and the downtown retail core yielded the highest annual sales of any other central city shopping district (Nob Hill, Pearl district, Old Town/Chinatown, and the Lloyd district). For as many indicators as point to its success, there are equally as many that show it could experience a downward slide, particularly in the current recession. Some concerns included significant presence of transients and aggressive panhandlers, lack of continuity in key retail areas and stiff competition from suburban lifestyle centers and shopping malls. In 2007, suburban shopping centers were outperforming central city shopping centers. Pioneer Place and Lloyd Center were averaging \$540 and \$415 in sales per square foot, respectively, and Washington Square and Bridgeport Village were averaging \$763 and \$850 in sales per square foot, respectively.

A second key message was that the public and private sectors together lacked a cohesive vision and collective strategy for downtown retail. Unlike a shopping center, fractured ownership and management structures in downtown make it extremely difficult to maintain a uniform and highly effective shopping environment. Therefore, equal participation from public and private champions is an essential component of the emerging strategy.

The Foundation for a New Signature Retail District Strategy

In late 2008, recognizing both the potential of the retail core to serve as a branding tool for Portland and the need to bring together public and private sector downtown leadership, Mayor Adams initiated a process to take a new look at the downtown retail core. He was particularly

⁴ Leland Consulting Group acknowledges that much of the real estate market data reported in the 2007 report is now outdated and, most likely, drastically different from 2007 numbers.

interested in how retail districts and streets such as the Magnificent Mile in Chicago happened, what Portland's version of a signature retail district would look like and what we would need to do to get there. Mayor Adams' initiative was timely as the future of urban renewal funding for downtown had either vanished or been called into question. The South Park Blocks and Downtown Waterfront Urban Renewal Areas had expired and the expansion of the River District Urban Renewal Area has been appealed.

Mayor Adams initiated two important actions. First, he formed a task force of downtown stakeholders, comprised mainly of property owners, brokers and other real estate professionals involved in downtown to help guide a new vision for the downtown retail core. Second, he retained Leland Consulting Group, urban strategists, to build on their previous work, to conduct case studies of five exceptional retail districts and to develop a set of recommendations for how principles derived from these successful retail districts can be applied to Portland.

Case Studies: What Makes an Exceptional Retail District?

What makes places like Newbury Street in Boston and the Magnificent Mile in Chicago special and successful? This question led to an in-depth study of how exceptional retail districts are physically defined, how those retail districts developed over time and what common principles guided the success of each district. With input from PDC and PBA staff, the following five retail districts were selected for the case studies:

- Old Pasadena; Pasadena, California
- Seattle retail core; Seattle, Washington
- Robson Street; Vancouver, British Columbia
- Magnificent Mile; Chicago, Illinois
- Newbury Street; Boston, Massachusetts

After conducting web, interview, and field research, Leland Consulting Group distilled a set of common success factors for each district and classified them into physical, organizational, market and political success factors. While each district was physically distinct in its own way, there are attributes common to most of the case study districts. The team evaluated each district based on how strongly it exhibited each success factor. These ratings were averaged and compared against Portland, with involvement from City of Portland, PBA, and PDC staff.

As a result of this research a number of key observations were made:

- **Through traffic and on-street parking.** All of the primary retail streets examined in the case studies have two or more lanes of traffic, either in a two-way configuration or a one-way configuration. Moreover, brokers and other stakeholders in other cities, including cities with a high transit mode share, such as Vancouver, B.C., emphasized the importance of on-street parking to create the reality, or at least the visual impression, that parking is available close to stores.
- **Compactness.** Most case study districts were focused on a relatively small area or had pockets of compactness. The best example of this is Robson Street in Vancouver, B.C., which extends three city blocks and achieves ground floor retail rents as high as \$200 per square foot (Canadian dollars). Compactness helps promote better continuity and concentration of retail energy.
- **Residential base.** As shown in the figure below⁵, all case study cities, with the exception of Pasadena (which has a significant visitor population), have extremely high residential

⁵ Vancouver B.C. is not included due to lack of comparable data. However, Vancouver is known for having achieved high downtown residential densities and most likely exceeds population counts exhibited here in Portland.

densities close to the retail districts. The Portland population within a half-mile and a mile of the retail core is lower than that in the case study cities. If Portland is to grow into a metropolitan region on the order of Chicago, Boston, Seattle, or Vancouver, B.C. and adhere to Metro 2040 growth principles, it will need to significantly increase its downtown residential population.

Close-in Residential Population to Case Study Retail Districts

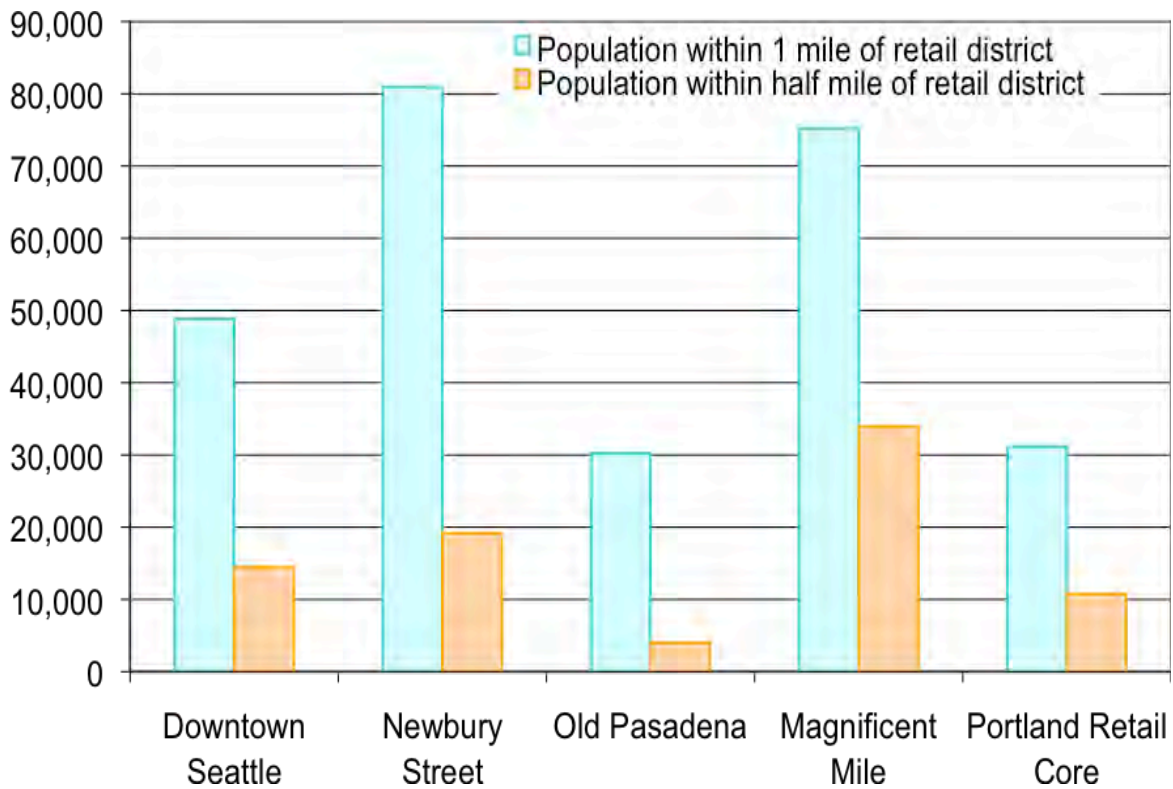


Figure 3 – Source: Leland Consulting Group and ESRI Business Analyst

Shown below on the next page are the descriptions and results of the physical success factors evaluation.⁶

⁶ Information on the other success factors and detailed methodology are not included here. For more information on the other success factors, the Findings and Recommendations Report is available at <http://www.pdc.us/retailvision>.

Physical Success Factor Evaluation for Case Study Cities and Portland

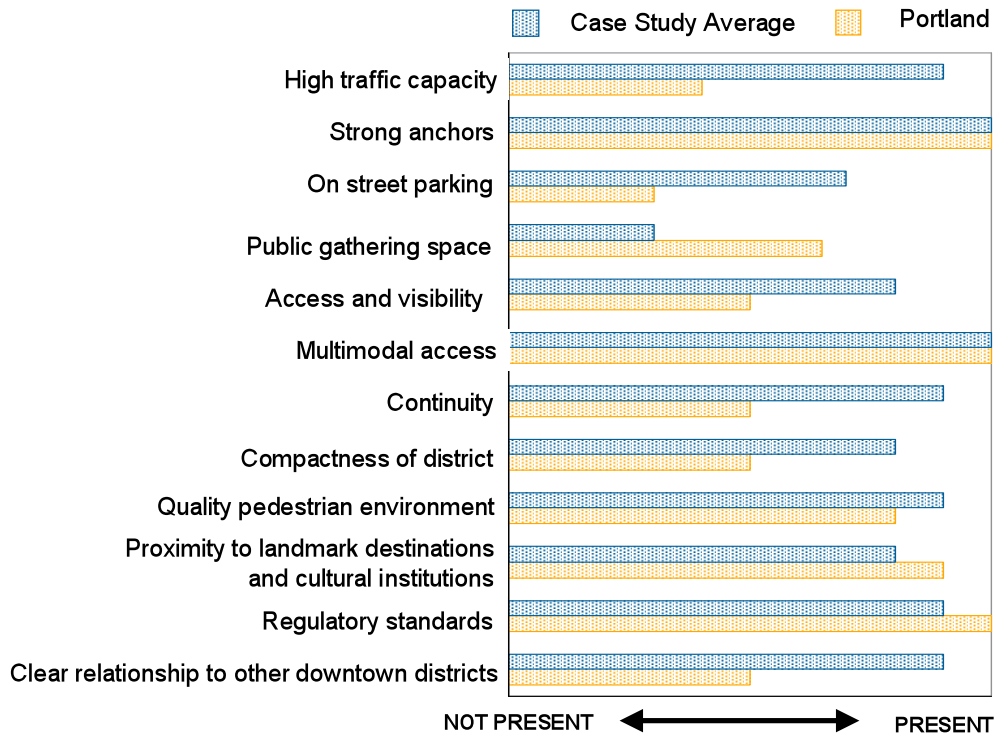


Figure 4 – Source: Leland Consulting Group

Physical Success Factors	
<p>High Traffic Capacity: Streets accommodate a significant traffic volume, either in a one-way or two-way configuration with at least two traffic lanes. Two-way traffic is preferred.</p> <p>Strong Anchors: Important retail anchors exist and are strategically located throughout the district to maximize their impact.</p> <p>On-street Parking: On-street parking is available on the main thoroughfare throughout the district.</p> <p>Public Gathering Space: A public plaza for large events and gatherings is located within or directly adjacent to the district.</p> <p>Access & Visibility: The retail district is conveniently located within the region, is highly visible and is easily accessed from nearby freeways and neighborhoods.</p> <p>Multimodal Access: The district is easily accessible by auto yet is also well-served by transit.</p>	<p>Quality Pedestrian Environment: Streetscapes are inviting to pedestrians with wide sidewalks, ample way-finding signage, street furniture and other amenities.</p> <p>Proximity to Cultural Institutions: The signature retail district is close to supporting destinations such as museums, galleries, theaters, etc.</p> <p>Regulatory Standards: Special zoning and/or design standards apply to the signature retail and specifically reinforce the retail character of the area.</p> <p>Clear Relationship to Other Downtown Districts: There are clear linkages to adjacent supporting districts such as office districts, cultural districts, civic centers residential neighborhoods and university districts,</p> <p>Continuity: There are few or no retail gaps in the district.</p> <p>Compactness of District: The district is compact and walkable.</p>

Components of Portland's Retail Strategy

The emerging strategy and action plan will build on previous strategies, modified with new information and a new approach. As a result of the aforementioned case study research, Leland Consulting Group was asked to develop a set of so-called big ideas that would help define a signature retail concept in the retail core. The following subject areas are currently being discussed by task force members to determine what will be included in the new strategy and how these strategy elements may be refined or altered. *[It is important to note that the concepts presented here will be somewhat different from the final recommendations that will be forwarded to the PDC by the task force.]*

District Definition: Signature Retail Concept

As shown in Figures 1 and 2, the retail core is currently defined as all blocks between SW Washington and SW Salmon Streets and SW 2nd and SW 12th Avenues. One topic of debate is whether the retail core is too large. The larger the district, the more likely there will be gaps in continuity and an encroachment into other downtown districts.

Mayor Adams has asked the consultant team and the Downtown Vision Task Force to consider a signature retail concept for the downtown retail core. This concept could take the form of a retail district, or set of streets, that function as the identifying mark for Portland's downtown and for the city as a whole. This signature street or district could act collectively as the retail anchor for downtown and as a starting point for Portland downtown visitors.

The case study research verified that such a street or district portrays many factors that work together to make it successful. A signature retail street does not stand-alone—it has supporting streets and a collaborative public and private effort guiding management and implementation

The Backbone

For a signature district to be successful, there needs to be a backbone of the retail core. Leland Consulting Group recommended that this backbone be defined as SW Morrison Street and SW Broadway Avenue. Those primary streets are where the majority of investment in retail stores has been concentrated and where, collectively, the greatest number of success factors is already present. As part of this concept, Leland Consulting Group recommended that the city consider returning SW Broadway Avenue to a two-way traffic flow to further strengthen its identity as a retail boulevard.

The Backbone and Supporting Streets of the Signature Retail Concept

Figure 5 – Source: Leland Consulting Group

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Supporting Streets

The supporting streets are where retail investment exists but, due to a lack of important factors, such as anchors, continuity or traffic, these streets play a different role in the retail signature concept. For example, SW Park Avenue functions as a restaurant row, SW Alder Street could serve as an excellent location for more price-sensitive fashion retailers, and the eastern section of SW Yamhill Street (between SW 3rd and 5th Avenues) is clearly a location for high-end, luxury retailers, such as Saks Fifth Avenue, Tiffany & Co., and Gucci. The following streets and street sections are defined as the district's supporting streets:

- SW Yamhill Street – SW 3rd to SW 10th Avenues
- SW Alder Street – SW 4th to SW 10th Avenues (possibly SW Park Avenue)
- SW 10th Avenue – SW Yamhill to W Burnside Streets
- SW Morrison Street – SW 3rd Avenue to SW Naito Parkway
- SW Broadway – SW Washington to W Burnside Streets
- SW Broadway – SW Taylor to SW Jefferson Streets

Quality of the Physical Realm

The quality of the retail experience is in large part a function of the quality of the pedestrian environment. This includes storefronts, street improvements, ease of mobility, the perception of safety and streetscape elements such as trash receptacles, benches, newspaper boxes and planters. The success of lifestyle centers suggests that shoppers want to be in an urban environment, but they want all of the conveniences and features of a mall or lifestyle center to go along with it: safety, management, cleanliness, evening and weekend operating hours, a continuous, diverse retail mix and more. While downtown Portland will never replicate a lifestyle center, it can learn from the basic operating principles of lifestyle centers and shopping malls.

Safety

Downtown retailers, brokers, and other stakeholders report that some of their top concerns are public nuisance issues. Loitering, aggressive panhandling and other acts of public disorder create the perception that downtown is unsafe. The sit/lie ordinance, which precludes loitering, remains a complex and controversial issue for both homeless and retail advocates. While the Street Access for Everyone (SAFE) initiative generated a comprehensive plan with broad-based support in 2007, following through with implementation and maintaining the momentum of the agreement between disparate groups has been challenging. In general, downtown and city stakeholders understand that approaching the public safety issue in a comprehensive manner (providing services for the homeless while also keeping the retail streets unobstructed) is the preferred strategy for addressing the issue.

Continuity

A second key public realm consideration is the need for continuity. The average shopper will walk approximately 1,200 feet (about a quarter mile) in a retail environment providing that there is a continuity of storefronts. Vacant storefronts, open spaces, parking garages, and buildings with no active ground floor retail all create gaps in continuity and thus dilute the success of the district. The proposed signature retail streets (SW Broadway Avenue and SW Morrison Street) have significant gaps in continuity:

- Weak retail on SW Morrison Street between SW Broadway Avenue and SW 6th Avenue across from Pioneer Square;
- No retail on the south side of SW Yamhill Street between SW Broadway Avenue and SW 6th Avenue;

- Spotty retail on both sides of SW Broadway Avenue between SW Morrison and SW Washington Streets;
- Weak retail on SW Alder Street between SW Broadway Avenue and SW 5th Avenue (with the exception of Macy's);
- Banks and service businesses occupying critical corners; and
- Other weak or spotty retail on the supporting signature streets.

Repairing continuity is likely to be tailored to each weak link. Leland Consulting Group proposed potential solutions for repairing weak links:

- Pioneer Courthouse, located immediately east of Pioneer Square, is a celebrated historic building. However, the Courthouse is a barrier to retailing. Its limited use (courts) contributes little or nothing to the signature retail district. A big idea is to purchase or lease this building from the federal government and activate it with cultural uses, retail, restaurants, and other attractions. Another idea is to create a local design competition to explore possible solutions.
- Banks on key retail corners is a universal issue in most downtowns, particularly as they close at or before 6:00 p.m. weekdays and have limited weekend operating hours. The reason is that banks have historically moved into downtowns and retail districts before major retailers. It is not necessary to remove the banks as long as retail continuity can be provided. If retail liner space can be cut into a portion of the bank's space and made accessible from the street, the bank could remain and the signature street can increase its retail continuity. In some cases, it may be appropriate for the city or an agency to lease key ground level space and re-tenant that space with the most desired tenants.

A final consideration in the public realm experience is quality of the streetscape itself. While the block-by-block program and Portland Mall Management, Inc. (PMMI) have successfully given the transit mall a new facelift, other key areas of the retail core could use the same treatment to make the physical realm more appealing.

Supporting Land Uses

The success of retail is as good as the size and demographics of the market that support it. As opposed to suburban retail, downtowns tend to have a much more diversified customer base. Downtown retailers not only serve nearby residents but also a significant number of employees and visitors. When evaluating a downtown's potential to establish and sustain a thriving retail district, an important rule of thumb is that a downtown resident will support more retail than an office worker. While the number of downtown Portland employees has remained fairly steady over the years, the number of residential units and central city residents has dramatically increased. From 2002 to 2007, approximately 7,000 market-rate and affordable units were either built, under construction, or on the drawing boards for both the downtown and the Pearl District combined⁷.

However, as noted above, Portland compares unfavorably with the case study retail areas with respect to the number of residents in close proximity to its retail core. It may be important to revise the city's height and FAR limits for downtown, particularly in the West End district as part of its emerging retail strategy. With a significant increase in the FAR limits, considering an affordable or workforce housing FAR bonus, site assembly and demolition for downtown housing may become more achievable.

⁷ Source: *Central City Development and Redevelopment Projects*. Portland Business Alliance. April 2007.

Many existing FAR allowances are approximately 9:1 in the West End district, with some bonus provisions for housing to bring the FAR to 11:1. Leland Consulting Group recommends allowing an additional 5:1 FAR bonus for affordable housing and an increase in the minimum FAR to make the economics of housing development more feasible in the West End. Consider a standard 40,000 square foot downtown block that could develop 360,000 square feet of floor area (40,000 x 9) plus a bonus of 80,000 square feet (40,000 x 2), for a total of 440,000 square feet. With a 20,000 square-foot footprint on the upper floors (the footprint of the first two floors would likely go street-to-street), a 20-story tower could be developed.

If the FAR limit was raised an additional 5:1, making a 16:1 total FAR, the tower might achieve 30 or more stories (see Figure 6 below). Consider the possibility that a portion of the additional 5:1 FAR might not be an outright allowance, but rather, an opportunity or option to purchase that capacity at say, \$20,000 per unit. Using this example, an additional 5:1 FAR could generate as much as \$3 million (150 additional units, or 10 floors at 15 units per floor, x \$20,000) that could go into a revolving fund to assist in financing affordable and/or workforce housing.

Potential Impacts of Increased Density Bonus

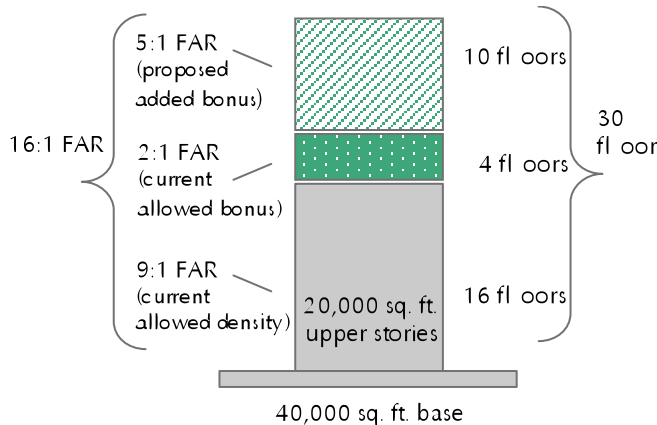


Figure 6 – Source: Leland Consulting Group

Retail Mix – Retailer Recruitment and Retention

Shopping mall and lifestyle center success is highly dependent on management’s ability to recruit and lease to a carefully selected mix of retailers. Selecting the right mix of retailers is essential. National anchors help support independent retailers by generating a large volume of foot traffic for retailers in the area. By combining national destination retailers with regional uniqueness and a local downtown flavor, the downtown becomes a one-of-a-kind destination.

Unlike a shopping mall, downtown has highly fractured ownership and challenging spaces to lease in terms of size and configuration. However, aggressive recruitment, coupled with financial or amenity incentives, may be able to land the right retail tenants. To stay competitive, the PDC and the PBA began to explore avenues to more aggressively recruit preferred retailers. For three years, the organizations had a retailer recruitment booth at the International Council of Shopping Centers (ICSC) annual conference. Attracting Brooks Brothers to downtown was a result of that effort. In addition, a downtown retail advocate position has been created, jointly funded by the city, PDC, and PBA, to ensure a year-round, pro-active recruitment effort. Retail recruitment requires a long-term commitment to landing the right tenant and a collaborative effort by downtown brokers, the PBA, the PDC and other private sector partners.

Given the retail core's potential to broaden market share and respond to the current economy, Leland Consulting Group emphasized that the retail core is undersupplied with affordable product offerings. People living in and near downtown are forced to shop elsewhere when it comes to price-sensitive purchases. Appropriately scaled and designed urban versions of big box stores, traditionally located in power centers and near freeways, can be an important part of Portland's retail core, can help attract new spending and reduce leakage to suburban locations. There are proven techniques for bringing big box stores downtown and incorporating them into the urban environment. Affordable fashion retailers such as H&M, Zara, and T.J. Maxx, or a general merchandise retailer such as Target, can and would complement the high-end fashion offerings represented by Nordstrom, Saks Fifth Avenue, Brooks Brothers, Mario's, Mercantile, and St. John. Particularly in an economy in which discount retailers are seeing the greatest sales growth, recruitment of such tenants is encouraged.

Linkages and Gateways

Other districts and landmarks surrounding the retail core support it and help channel foot and automobile traffic towards the retail core. These districts and landmarks include the waterfront, employment districts south of the core, the civic district, the cultural district, the Pearl district, and others. Without critical links between these districts, continuity in the downtown experience is lost and the retail core loses in terms of visibility and synergistic effects with the other districts. Figure 7 on the next page shows the relationship between the retail core and other downtown districts.

Retail Core in Relationship to Other Downtown Districts

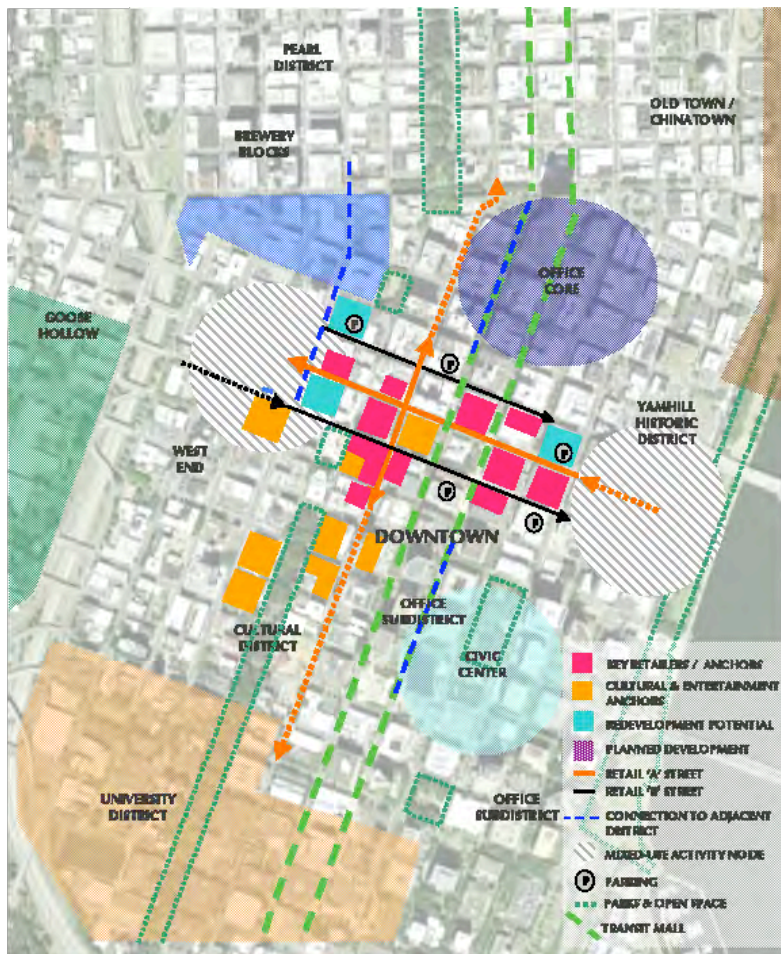


Figure 7 – Source: Leland Consulting Group

There are critical linkages between downtown districts that need strengthening. These linkages can be strengthened via street improvements, public realm improvements, or activation of ground floor building uses. Some important linkages include:

- **SW 10th Avenue from SW Alder Street to W Burnside Street.** The retail along SW 10th Avenue could be considered “retail light,” with shallow retail spaces filled with restaurants, galleries, services, and related storefronts that support livability upstairs. The retail would most likely be liner retail (20 to 30 feet deep) and would promote the activity and continuity to connect the shopper to the Pearl District.
- **SW Broadway Avenue from SW Washington Street to West Burnside Street.** This section of Broadway, although not part of the retail core, is an important connection to the Pearl district and Old Town/Chinatown.
- **SW Broadway Avenue from SW Salmon Street south to the Cultural District.** This section of Broadway is an important link to the cultural district and Portland State University.
- **SW Morrison Street from the retail core to the waterfront.** This connection could be strengthened to attract traffic from Naito Parkway, pedestrians at the waterfront, and Yamhill Historic district visitors into the retail core.

Furthermore, to signal the entry to downtown Portland’s signature retail district, physical gateways at the entries to the four signature retail streets could be established: SW Broadway Avenue at SW Washington Street, SW Broadway Avenue at SW Taylor Street, SW Morrison Street at SW 10th Avenue and SW Morrison Street at Naito Parkway. Design competitions could provide inspiring physical statements of arrival to Portland’s signature retail district. Such competitions could be international, local, or even stem from engagement with local schools. Each gateway could be different, yet still reinforce the signature district brand.

Marketing and Branding

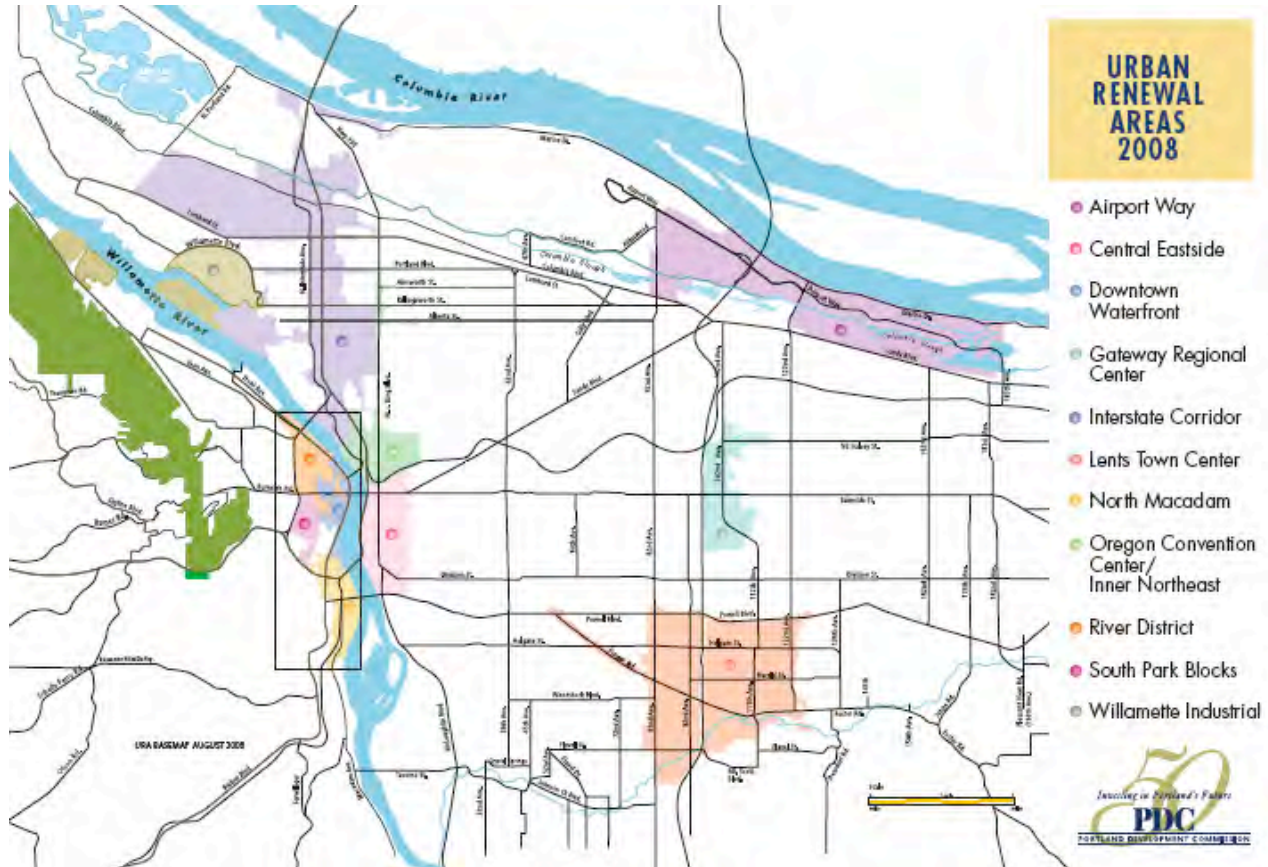
Downtowns need to be run in a business-like fashion and, as with any business, marketing is absolutely critical. As retailers across the country struggle, even more promotional opportunities and other events will be necessary to help keep the retail core healthy. Chicago has the Magnificent Mile, San Francisco has Union Square, and New York has Fifth Avenue. Numerous marketing entities such as the Downtown Marketing Initiative (DMI) and Travel Portland (formally the Portland Oregon Visitors Association) help to market downtown, but no one marketing campaign focuses exclusively on forming a brand and identity for the retail core. The city has a commitment to continue funding for the DMI through 2010 and a focused effort led by the DMI, PBA, PDC, and other organizations will work on branding the signature retail district as part of the emerging strategy.

Implementation

The ultimate success of this strategy lies in equal public and private stakeholder support, particularly in how the strategy will be implemented. An examination of more sustainable funding resources and key catalytic redevelopment sites will also be part of the emerging strategy and will require significant private sector participation. To test the ideas presented above, the task force members were assigned to one of two subcommittees: physical realm or implementation and resources. Each subcommittee presented a full set of recommendations to the task force in June that will form the basis for an implementation strategy with broad-based support. The desired result will ultimately be a more robust strategy with ownership from the public and private sectors to carry Portland’s retail core forward in the midst of a challenging economic climate.

Tax Increment Financing: Comparing Approaches in Northwest States

Read Stapleton, Senior Planner, BergerABAM – Vancouver, WA



Over the last 40 years, tax increment financing (TIF) has been a popular tool for local governments to use to implement urban redevelopment projects without tapping into local general fund coffers. The use of TIF has expanded and contracted over the years due to a number of national and local factors. Initially, TIF was a means to secure local matching funds for federal grants available for urban redevelopment projects. As federal funding to urban renewal agencies became less available and shifted to local cities in the form of block grants in the 1970s, the popularity of TIF grew as it became a larger and more critical piece of the redevelopment financing pie. Comparing the approaches that Oregon, Washington and Idaho have taken with respect to tax increment financing sheds light on major public policy issues with respect to its use.

Using TIF requires a local government, typically under the authority of a redevelopment authority or commission, to define a decaying or blighted district where redevelopment is desired. The authority then forms a district with a limited lifespan, typically 20 years, and issues debt to finance capital projects in the district that will encourage redevelopment and leverage private investment. Capital projects within a TIF district are constructed with debt that is paid off by the increased property taxes of the district after the district is formed.

Establishing the available tax increment to fund such projects first requires a determination of the existing tax base of the district. Once the existing tax base is determined, the authority

must estimate the local tax revenue growth that would occur in the district as a result of the implementation of targeted capital improvements.

Critical to this determination, both from a legal perspective (as it is a legal requirement in many states) and from a political perspective, is the 'but-for' determination, which is the authority's determination that the anticipated tax revenue growth in the district would not happen, 'but-for' the implementation of the planned capital projects funded via TIF. Satisfying this 'but-for' condition is critical because it addresses concerns that the payment of TIF project debt will come from a new source of revenue rather than revenues that would have been created without the district, which would siphon funds that otherwise would have flowed to the general fund.

Tax Allocation Financing

A common misconception with TIF is that property owners within the district get special tax breaks that allow them to pay lower taxes than those outside. Actually, every owner within the TIF district pays full property taxes based on the total fair market value assessments of each property at the same tax rates that apply throughout the jurisdiction. But the taxes based on the incremental value over the base assessment are simply allocated to the TIF district for use within the district.

Therefore, tax increment financing is really *tax allocation financing* with the increase in property taxes received as a result of the improvements used as bootstrap financing for infrastructure improvements within the district that enable new development projects to be built. When the district is dissolved at the end of its authorized life, the full tax revenues from both the base assessed value and incremental assessed values revert to the general fund and benefit other jurisdictions entitled to tax that property. These include counties and school districts.

Impacts to other taxing districts are a key issue with TIF and one that has caused significant division in the Pacific Northwest and elsewhere. In Portland, this issue was highlighted recently at the Portland City Council hearing on the proposal to fund improvements to PGE Park to accommodate a new major league soccer franchise proposed by Shortstop, LLC (Shortstop), a group headed by Merritt Paulson, owner of the Portland Timbers and Beavers. Before the City Council was a non-binding resolution setting the terms of an agreement with Shortstop to finance improvements to PGE Park for major league soccer as well as finance a new Tripe-A baseball stadium for the Portland Beavers.



At the hearing, Ted Wheeler, chair of the Multnomah County Commission, testified that early analysis of the various funding strategies considered by a citizen's task force were flawed because they did not fully consider the impacts to social services and County-administered programs that would be caused by establishing a new urban renewal district around PGE Park. This renewal district was being considered as a means to generate \$15 million of the funds necessary to improve PGE Park for professional soccer. Wheeler argued that one of the guiding principles of the task force, ensuring that the City's general fund would not be impacted, should also have included impacts to the County general fund and school funding.

At the heart of Wheeler’s concern was his contention that a new urban renewal district at PGE Park would not meet the true ‘but for’ test and that future tax revenues from the district would not be ‘new’ tax revenues. Wheeler raised concerns that the PGE area is not truly blighted and that the growth in assessed value (AV) that might occur after improvements to the stadium likely would occur without the stadium. Therefore, he argued, the creation of a TIF district at PGE Park would siphon tax revenues that should be directed to the County’s general fund. With an existing \$45-million deficit in the county budget and another \$20 million in budget cuts anticipated, Wheeler argued that a financing mechanism for the stadium must be revenue neutral to the County and schools. Public debate about Wheeler’s contentions appears to have led the City to leave the adoption of a new urban renewal area (URA) for PGE Park improvements off the table in the stadium financing resolution.

TIF in Oregon

Following California’s 1952 lead, Oregon adopted TIF enabling legislation in 1960. Oregon’s adoption of TIF provided a way to generate local revenues that could be used to match federal loans and grants for urban redevelopment as authorized by the Federal Housing Act of 1949.¹ Since Oregon’s adoption of TIF legislation, the state’s use of TIF has been widespread. In Portland, 17 major redevelopment projects have been funded through urban renewal dollars and TIF since 1958.² Included on this list are such iconic



projects as the South Auditorium renewal area, Pioneer Courthouse Square, Pioneer Place, RiverPlace, the River District (Pearl) and South Waterfront.

Oregon statutes and legal framework for TIF include various limitations and restrictions that affect the size and scope of the district. When deciding the feasibility of the urban renewal area, two critical evaluation steps must be resolved.

1. *Determine the available assessed value and land area within the city that can be placed in an urban renewal plan area;*

ORS 457.420 limits TIF districts in municipalities with a population greater than 50,000 to a maximum 15% of the total assessed value (AV) and 15% of the total land area of that municipality. Municipalities with a population of less than 50,000 may not adopt urban renewal plan areas that exceed 25% of the total AV and 25% of the land area of that municipality. These limitations are significant for cities such as Portland. As noted in Table 1,

¹ Tashman Johnson LLC, *Urban Renewal in Oregon, History, Case Studies, Policy Issues, and Latest Developments*, 2002

² Craig Wollner, John Provo, Julie Schablisky, *Brief History of Urban Renewal in Portland, Oregon*, p. 1

the City of Portland is close to the maximum area permitted within urban renewal plan areas with current plan areas that occupy 14.07% of the total land area in the city.

Table 1: Current PDC Urban Renewal Areas

Urban Renewal Area	Maximum Indebtedness	Indebtedness Issued as of 06/30/08	Indebtedness Remaining	Last Date to Issue Debt	Acres Included in Plan Area
Airport Way	\$72,638,268	\$72,638,268	\$0	May, 2011	2,726
Central East Side	\$104,979,000	\$58,929,592	\$46,049,408	August, 2018	692
Downtown Waterfront Gateway	\$165,000,000	\$165,000,000	\$0	April, 2008	279
Regional Center Interstate Corridor	\$164,240,000	\$16,460,051	\$147,779,949	June, 2022	659
Lents Town Center*	\$335,000,000	\$68,068,575	\$266,931,425	June, 2021	3,769
North Macadam Oregon Convention Center	\$75,000,000	\$45,912,251	\$29,087,749	June, 2020	2,707
South Park Blocks	\$288,562,000	\$70,583,661	\$217,978,339	June, 2020	402
Willamette Industrial	\$167,511,000	\$102,633,326	\$64,877,674	June, 2013	593
River District*	\$224,780,350	\$132,593,966	\$92,186,384	June, 2021	309
South Park Blocks	\$143,619,000	\$72,319,542	\$71,299,458	July, 2008	161
Willamette Industrial	\$200,000,000	\$440,000	\$199,560,000	December, 2024	758
Total	\$1,941,329,618	\$805,579,232	\$1,135,750,386		13,055
Total acres in the City of Portland					92,773
Percentage of acres in Urban Renewal Areas (Maximum allowed = 15%)					14.07%
Citywide Acreage Remaining					862.79
Total Assessed Value in City of Portland (less Excess Value, Used and Not Used)					\$38,454,566,429
Percentage of Frozen Value in Urban Renewal Plan Areas (Max. Allowed = 15%)					10.60%

Source: Tax Supervising and Conservation Commission (TSCC) Annual Report 2008-2009

2. Determine the maximum indebtedness of the plan area.

For a municipality to adopt a TIF district, Oregon law (ORS 457.190) requires that the municipality first determine the maximum indebtedness of the plan district. The maximum indebtedness is the maximum amount of debt principal permitted within the district and is calculated by determining anticipated future incremental increases in assessed valuation within it.

Implications of Property Tax Limitation Measures

Over the last 20 years, complications with TIF have arisen from multiple property tax limitation measures. The first, Measure 5, passed in 1990 gradually limited property tax assessment rates over a 5-year period to 1.5% of assessed valuation per year. The measure imposed a rate

limit of \$10 per \$1,000 assessed value for general governmental districts and a rate limit of \$5 per \$1,000 assessed value for school districts.

Property tax collections in Oregon were further scaled back in 1996, when voters approved Measure 47 which restricted property tax collections by resetting property taxes on personal property in 1997-1998 to 90% of the property tax assessment in 1996, and then permitted annual increases of no more than 3% in the assessed property values from that point forward, with some exceptions for new construction.

In 1997 the Oregon legislature rewrote Measure 47 as Measure 50 in an attempt to clarify that Measure 47 would be a limitation on the amount that assessed valuation could increase. Measure 50 also revised the urban renewal statutes to require local municipalities to adopt a special levy ordinance to ensure the repayment of outstanding debt obligations associated with existing urban renewal areas (ORS 457.435). This provision gave municipalities three different options for addressing anticipated urban renewal area budget shortfalls. The City of Portland complied with this state requirement and adopted an ordinance that established a special property tax levy to help repay the increment gap in existing urban renewal districts where potential revenue shortfalls were anticipated.

Measures 5 and 50 changed the rules of the game for TIF in Oregon and have forced cities to very carefully assess the revenue generation potential of a district before moving past the feasibility stage of plan development. Because new development establishes new assessed values for a property, there can be a tremendous property tax upside for urban renewal districts that are significantly underdeveloped, such as the North Macadam Urban Renewal Plan area (subsequently called the South Waterfront area) in Portland. However, using that same example, the city is taking a much more significant risk that market conditions will be able to sustain substantial development in this relatively small district (402-acres) to repay the \$288.5 million of indebtedness established for the plan area.

By way of contrast, larger urban renewal areas such as the Interstate Corridor Urban Renewal Plan Area in northeast and north Portland, carry much less inherent risk. This is due to the fact that the plan area encompasses 3,769 acres already devel-

Interstate Corridor Urban Renewal Area Major Projects 2008/09



oped, and in an area that has seen substantial real market property value appreciation since the approval of Measure 50. Because Measure 50 has suppressed assessed valuation in the Interstate corridor well below real market values for the last 12 years, there is a minimum appreciation of approximately 3% per year that can be assumed in the district before factoring in new construction. However, the fact that the district is so large makes it difficult to assert that a significant causal connection exists between the projects built within the district and the increase in property values of other properties in the district. Thus, the 'but for' case becomes more difficult to prove in a situation such as the North Interstate Urban Renewal Area.

In the case of South Waterfront, the Portland Development Commission (PDC) was savvy to the risks associated with the North Macadam Urban Renewal Area and established an extensive development agreement with private developers in the district and Oregon Health Sciences University (OHSU) to hedge its risk. The South Waterfront development agreement established obligations of all development interests in the plan area and PDC. This development agreement included binding commitments of the private development interests to commit resources and provide personal guarantees to add value to the district according to a defined schedule.³ If the assessment value appreciation schedule is not achieved, then the private development interests are responsible for paying the PDC the amount of the revenue shortfall from the district.⁴ The gap obligation schedule required \$2.6 million by fiscal year 2008-2009 and \$4.3 million for fiscal year 2009-2010. The actual tax revenue increment that has been achieved to date is \$5.1 million, so the district is currently well ahead of the increment revenue schedule.⁵ However, this gap is likely to narrow quickly when in fiscal year 2010-2011 the private development interests are required to meet a \$7.4M TIF revenue budget for the district.

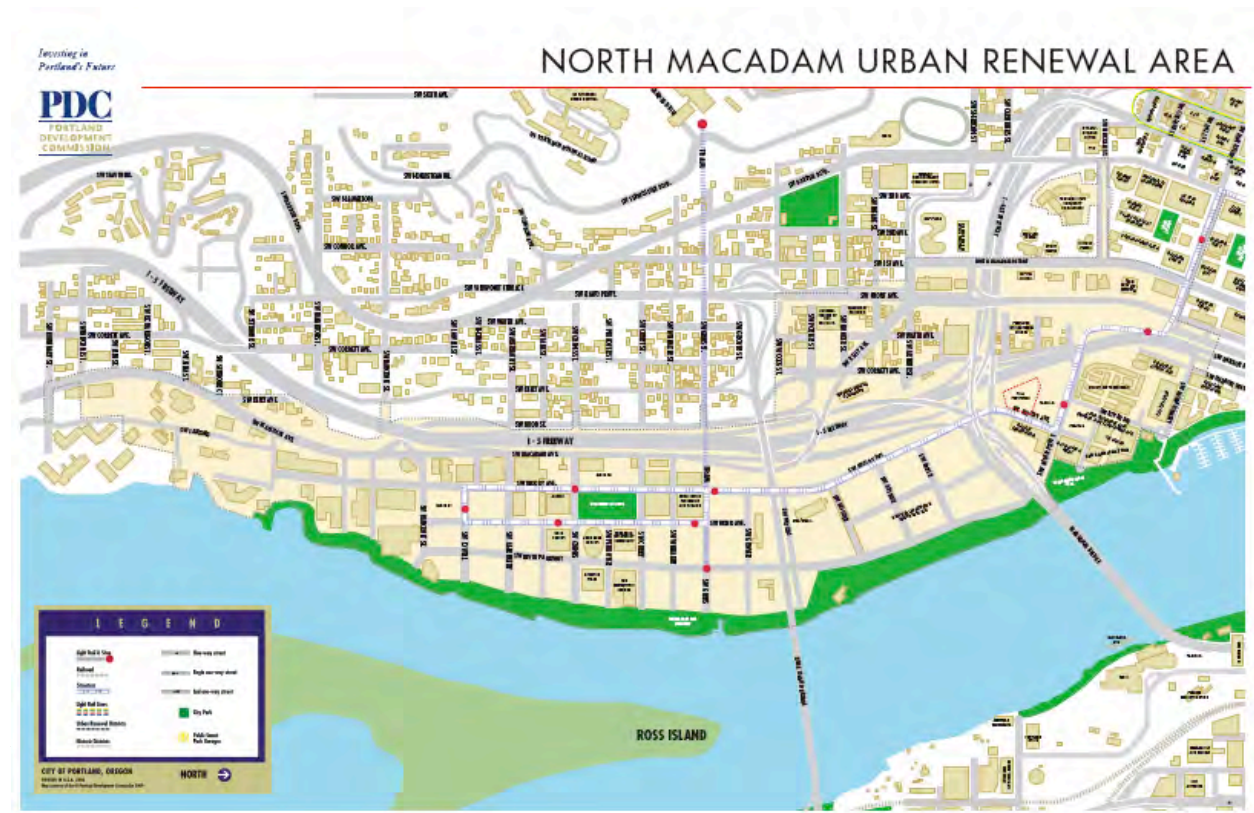


Exhibit V
Gap Obligation Calculation Schedule
DA Section 18.2

	FY05/06 Actual/ Obligation/ Baseline	FY06/07 Feas/ Obligation	FY07/08 Feas/ Obligation	FY08/09 Feas/ Obligation	FY09/10 Feas/ Obligation	FY10/11 Feas/ Obligation	FY11/12 Feas/ Obligation	FY12/13 Feas/ Obligation	FY13/14 Feas/ Obligation	FY14/15 Feas/ Obligation	FY15/16 Feas/ Obligation	FY16/17 Feas/ Obligation	FY17/18 Feas/ Obligation	FY18/19 Feas/ Obligation	FY19/20 Feas/ Obligation
North Macadam URA															
Obligation from previous agreement (Exhibit V & V-1)															
Condo Project # 1&2 (Block 30E & 30W) Gap Obligations transferred to Block 30 (R5-43808) (Metwithers)	13,356	1,432,979	1,637,055	1,877,981	1,719,931	1,762,930	1,807,002	1,862,178	1,945,945	1,996,482	1,994,593	2,044,458	2,095,569	2,147,958	
Condo Project #3 (Block 27E plus Exhibit V-1 Gap Obligations transferred to Block 35 (R562914) (John Ross))	6,678	6,932	540,992	618,758	634,227	650,083	666,335	682,993	717,570	700,068	735,509	753,896	772,744	792,063	
Apartment Project #1 (Block 27W) Gap Obligations transferred to Block 39 (R129240 & R129241)	6,458	6,704	6,872	7,044	7,220	7,400	7,585	7,775	8,168	7,969	8,373	8,582	287,021	294,186	
Total - Original Exhibit V	26,492	1,446,615	2,184,919	2,303,783	2,361,378	2,420,412	2,480,922	2,542,946	2,671,682	2,606,519	2,738,474	2,806,936	3,155,334	3,234,217	
Condo Project #3 (Block 27E plus Exhibit V-1 Gap Obligations transferred to Block 35 (R562914) (John Ross))	0	0	447,660	447,660	447,660	447,660	447,660	447,660	447,660	447,660	447,660	447,660	447,660	447,660	
Increase in Obligation for Amendment #8															
Condo Project #4 - Block 34 (R562913) Alwater Place Condo was transferred with a Gap Obligation to be determined later	17,142	18,186	18,731	1,589,816	1,637,510	1,686,635	1,737,234	1,789,352	1,898,323	1,843,032	1,955,273	2,013,931	2,074,249	2,136,579	
Condo Project #5 - Block 38 (R562915) was transferred with a Gap Obligation to be determined later	18,979	20,135	20,739	21,362	1,645,483	1,694,947	1,745,693	1,798,063	1,907,596	1,852,005	1,964,792	2,023,736	2,084,448	2,146,982	
Condo Project #6 - expected to be Block 46 (R129293 & R129344)	11,285	11,972	12,331	12,701	1,426,541	1,469,338	1,513,418	1,558,820	1,653,753	1,605,585	1,703,365	1,754,486	1,807,100	1,861,313	
Total	73,898	1,496,908	2,684,381	4,375,322	7,518,572	7,718,892	7,924,927	8,136,840	8,576,963	8,354,801	8,809,554	9,046,729	9,568,891	9,826,751	
Less: Baseline	(73,898)	(73,898)	(73,898)	(73,898)	(73,898)	(73,898)	(73,898)	(73,898)	(73,898)	(73,898)	(73,898)	(73,898)	(73,898)	(73,898)	
Target Tax Increment Revenue	1,928	1,423,010	2,610,483	4,301,423	7,444,674	7,644,994	7,851,029	8,062,942	8,505,065	8,280,903	8,735,656	8,972,831	9,494,993	9,752,853	
Completion RMV by Project (referred to in Section 18.2.8.1)															
Condo Project # 1&2 (Block 30 Gap Obligation)	125,341,619														
Condo Project #3 (Block 35 Gap Obligation)	77,656,670														
Apartment Project #1 (Block 39 Gap Obligation)	17,281,221														
Condo Project #4 (Block 34 Gap Obligation)	146,318,125														
Condo Project #5 (Block 38 Gap Obligation)	151,406,475														
Condo Project #6	131,015,400														
	649,019,510														

In June 2008, the Portland City Council approved an ordinance that would amend the boundaries, expand the indebtedness, and extend the duration of the River District URA, a



360-acre area that includes Portland's Pearl District in downtown Portland. These amendments included spending \$19 million from the River District to build an elementary school and community center 15 miles away in the David Douglas School District, located east of I-205 in outer southeast Portland. A group of former Portland Development Commission members and staff, including a former PDC chairman, organized as Friends of Urban Renewal (FOUR), filed a lawsuit challenging the decision. In January 2009, the State Board of Land Use Appeals (LUBA) ruled on the central legal question of whether establishing a satellite district violated the state's urban renewal law. LUBA found that it was "permissible under ORS chapter 457 to create an urban renewal area and then later add geographically noncontiguous areas to that urban renewal area."

LUBA agreed with the City's description of the proposed school site as blighted and disagreed with the critics' argument that the City wasn't allowed to pay for construction of a public school. But the board agreed with FOUR that the City failed to show how a new school in the David Douglas School District would benefit other properties in the River District in downtown Portland. LUBA opined that:

"While the social justice concerns that presumably underlie the city's position are entirely laudable, the record does not include substantial evidence — evidence a reasonable person would rely on — demonstrating that the proposed public school/community facility 'serves or benefits' any part of the central city portion of the urban renewal area."

As a result, LUBA remanded the proposed expansion back to City Council for further work. The LUBA ruling has put several major redevelopment projects that were included in the River District amendments on hold. Even if the Council amends the ordinance and reauthorizes the satellite expansion of the district, a letter from FOUR to the City Council outlines potential grounds for challenging it again and the group remains in a standoff with Council. FOUR's June 17, 2009 letter⁶ charges that the City's plan fails to demonstrate that the River District remains blighted, that many of the proposed projects do not address blight, and that in some instances projects are addressed only by generic categories and lack specificity (i.e. "Other Public Improvements" or "Other Affordable Housing"). The FOUR letter holds open the possibility of a further appeal of a council amendment which could take several months to resolve and could potentially result in a ruling that the River District is no longer blighted, meaning that the maximum indebtedness of the district could not be increased to permit additional debt issuance and additional projects.

⁶ <http://www.portlandtribune.com/documents/efiles/City%20Council%20letter.pdf>

"Our objections to the Amended Plan, as stated in the attached document, are summarized as follows:

1. *The report on the Amended Plan does not demonstrate that the River District as a whole is blighted. It highlights instances of blight, but the Report shows that major, important areas are no longer blighted. The notion of the River District being blighted belies the fact that the District has been substantially completed. A person on the street, who knows the Area, would be incredulous—even after reading the Report—that the Area is still blighted after 10 years of successful effort.*

2. *Many of the urban renewal projects proposed do not address conditions of blight. For example, while affordable housing is an important objective city-wide, the lack of affordable housing is not a condition of blight. The streetcar projects authorized in the Amended Plan do not respond to a condition of blight such as inadequate transit service. While job creation is a major objective for the city and the region, the major expenditure for economic development in the Area are not tied to conditions of blight in the Area.*

3. *Major projects with very high costs are described so vaguely that citizens really have no way to know what they are paying for. The projects below are given virtually no descriptions:*

- "Other Public Improvements," at a projected cost of \$12,775,702
- "Other Affordable Housing," at a projected cost of \$50,219,627,
- "Other Commercial Redevelopment/Revitalization," at a projected cost of \$37,775,702 and
- "Other Economic Development," at a projected cost of \$44,025,702"

Washington


Concern over the impacts of TIF on taxing districts and schools has also had a substantial impact on the application of TIF north of the Columbia River in Washington, where a dispute in 1993 ultimately ended in a legal battle that invalidated the state's TIF enabling legislation. The Washington State Supreme Court ruled in *Spokane v. Leonard* (1995) that the 1982 Community Redevelopment Financing Act (CRFA) violated constitutional protections of school financing.⁷

The public project behind *Spokane v. Leonard* was a plan by the City of Spokane to improve a seven square block area surrounding Bernard Street in downtown Spokane. In 1993, the City adopted ordinances to initiate street improvements including curbs, gutters, storm drainage, sidewalks, street lighting, and street trees, all totaling \$850,000. In July of that year, a property owner in the newly formed apportionment district, Margaret Leonard, objected to the City's plan and filed a declaratory action against the City. Two months later, Spokane County, a taxing district that would have seen revenues diverted, intervened in the lawsuit to argue against the constitutionality of the CRFA. After nearly 2 years of working its way through the courts, in July 1995, a trial court ruled that the CRFA violated article IX, section 2 of the Washington State constitution, which states that:

"The legislature shall provide for a general and uniform system of public schools. The public school system shall include common schools, and such high schools, normal schools, and technical schools as may hereafter be established. But the entire revenue derived from the common school fund and the state tax for common schools shall be exclusively applied to the support of common schools."

Since the *Spokane v. Leonard* decision, the Washington state legislature has delicately danced around the school finance issue with a rewrite of the CRFA in 2001, and then again with the drafting of subsequent enabling legislation for other forms of TIF programs. The most recent of these programs, the Local Infrastructure Financing Tool (LIFT) program, adopted in 2006, and the Local Revitalization Finance (LRF) program adopted this past April, are still in their

⁷ Jeffrey C. Nave, Foster Pepper & Shefelman PLLC, Tax Increment Financing Resurrected, Municipal & Public Finance News, July 2001, p. 1

infancies and the success of these programs is still being measured. However, both programs have been carefully structured to not require mandatory participation of the school district or other taxing districts to avoid conflicts similar to those expressed by Ted Wheeler at Portland City Council.

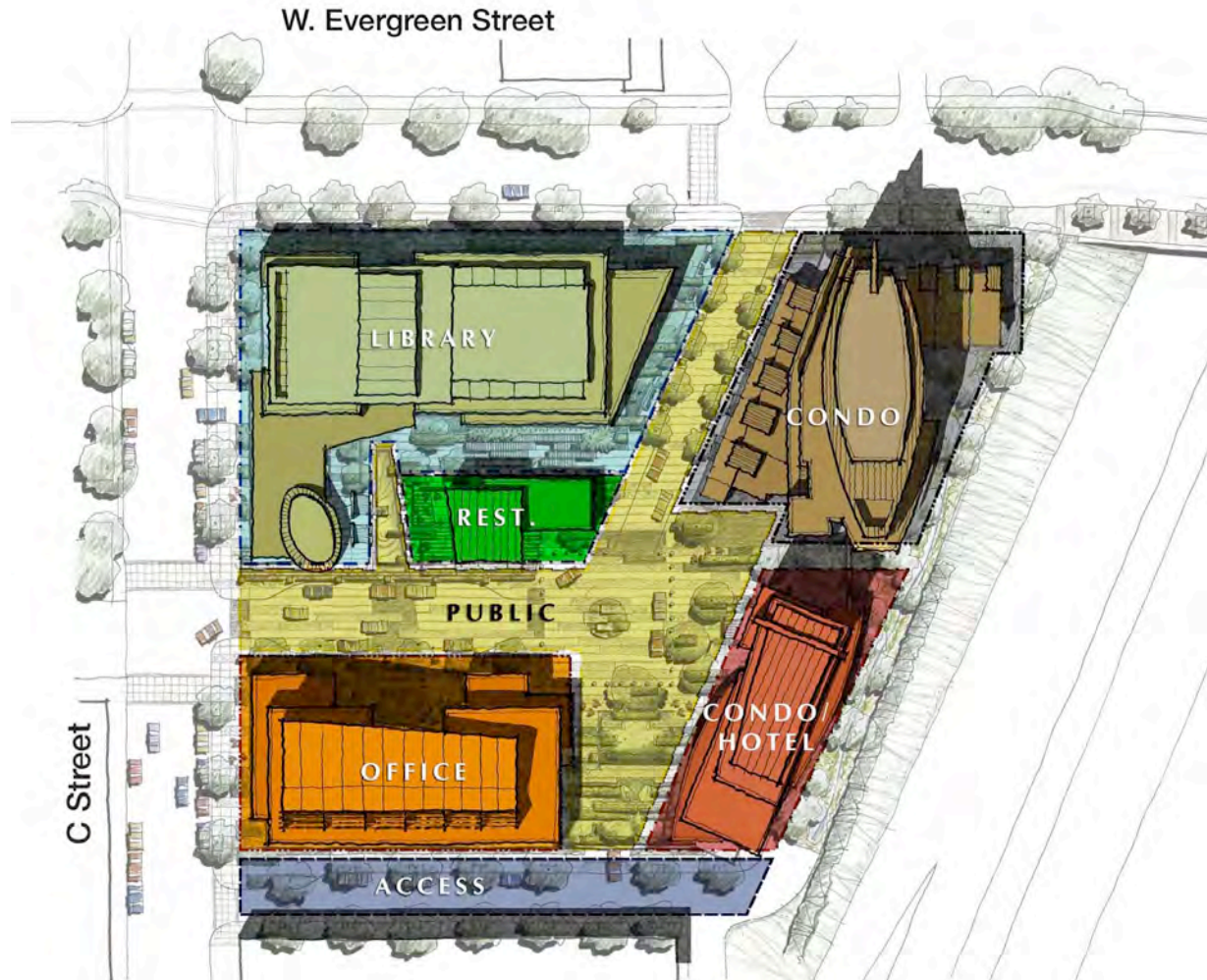
The LIFT program was designed as a pilot program that required local municipalities to apply to a state Community Economic Revitalization Board (CERB) for approval of a revenue development area proposal. The CERB board reviewed applications annually. While the LIFT program followed the same basic premise of conventional TIF programs, it was different in a number of ways.



1. The LIFT legislation was a pilot program and did not give independent authority to local jurisdictions to adopt TIF districts. Rather, an application to establish a revenue development had to be submitted to the state Community Economic Revitalization Board (CERB) that reviewed and approved a limited number of applications annually in a competitive process.
2. A component of the application to the CERB board required verification that third party taxing districts would agree to participate in the district. An agreement to participate from a third party taxing district was a commitment that the district would agree to cede 75% of its share of incremental property tax revenues generated over and above the base revenues generated at the time of the revenue development area formation. Schools were excluded from this equation, so the primary taxing district whose authorization was required was the county. Such taxing districts were allowed to set a limit on the total amount they cede to the revenue development area, as a condition of their participation. This provision placed an especially high burden of proof on the 'but-for' test requiring the sponsoring jurisdiction to make a strong case that the proposed project is critical to revitalization and that incremental tax revenues would truly be a direct result of the funded capital projects.
3. The legislation permits the local municipality to establish a sales and use tax that is taken from the state's share of the sales and use taxes generated within the revenue development area. This sales and use tax is essentially a fractional rebate, for lack of a better term, on the 6.5% state share of the sales tax (local levies generally bring the total sales tax to just over 8%). The rebate on the state sales tax is then returned to the local jurisdiction quarterly for repayment of debt issued for public improvements in the district. This sales and use tax provision includes the sales and use tax on private construction costs, which can be significant.
4. The LIFT legislation caps the amount of annual state sales tax that can be returned to the LIFT districts annually at \$5 million. This total annual sum is to be divided among all of the projects statewide granted LIFT approval by the CERB board.

One project that was approved by the CERB to receive up to \$500,000 in annual sales and use tax rebates is a redevelopment project in downtown Vancouver called Riverwest. Riverwest is mixed-use project planned on a former car dealership site by Killian Pacific, a Portland-Vancouver real estate developer, and by the Fort Vancouver Regional Library District. The project is planned to consist of a new civic plaza, 200 multi-family residential units, 100,000

square feet of office space, 17,000 square feet of retail space, a 112-room hotel, and a 700-space underground parking garage.⁸



Because the car dealership was no longer operating at the time the revenue development area ordinance was adopted by the City of Vancouver, there were no current sales and use taxes being generated from the site, thus making the new sales tax increment easy to determine. For the project, all sales and use taxes generated from the revenue development area will be subject to the 0.3% tax that is returned to the City of Vancouver from the state. Tentative private construction costs for the project are approximately \$200 million. Therefore, the sales and use tax rebate on construction costs alone would be approximately \$600,000 ($0.003 \times \$200,000,000$). While it is not anticipated that the full \$600,000 would be generated in single fiscal year, if it were, the excess \$100,000 (above the \$500,000 annual maximum increment) could be rolled forward to the following year. This represents a substantial sum to collect at the onset of a project, a time when most TIF districts struggle to generate substantial incremental tax increases.

⁸ City of Vancouver Website; Accessed on March 30, 2009 at:
<http://www.cityofvancouver.us/econdev.asp?menuid=10464&submenuID=10525&projectID=26994>

The LIFT financing for the project is intended to construct the \$15 million parking garage that is proposed with the project. The adopting ordinance for the LIFT district identifies a 25-year period for the lifespan of the district. Future incremental tax revenues from the Riverwest project will include incremental property tax revenues ceded by the Fort Vancouver Regional Library District, Clark County, and the Port of Vancouver, all of whom agreed to participate in the district.⁹



From LIFT to LRF

In April of this year, the Washington State legislature adopted Senate Bill 5045, an update to the LIFT program. With SB 5045, the legislature abandoned the LIFT moniker and labeled the new program Local Revitalization Financing (LRF). The new LRF program is very similar to the LIFT program in that it permits a local jurisdiction to issue debt repaid by incremental revenues from sales tax and property tax increments recovered within a revitalization area. However, rather than applying to the CERB board for approval through a competitive process, the LRF legislation now permits local jurisdictions to submit applications for LRF programs, to be accepted on a first-come first-serve basis up to the maximum allowable cap per year. Whereas the LIFT program required review and approval by the CERB board, the LRF program requires applicants to submit applications to the state Department of Revenue (DOR) for review and approval. SB 5045 specifically approved seven demonstration projects across the state to implement LRF areas totaling \$2.25M annually. These approved projects included the Vancouver Columbia Waterfront redevelopment project, a



⁹ Steve Burdick, Killian Pacific, March 30, 2009 Interview.

35-acre mixed use redevelopment proposed by Gramor Development and a group of local investors on the former Boise-Cascade paper manufacturing facility in downtown Vancouver.



In addition to the \$2.25 million annual funding that was allocated to the seven demonstration projects, SB 5045 authorized an additional \$2.5 million of LRF funding per year, with a maximum annual allocation per project of \$500,000. The DOR will begin accepting applications for LRF programs for non-demonstration projects beginning September 1, 2009.

Idaho

Compared to its neighbors to the west, Idaho's TIF program has faced fewer obstacles in the way of property tax limitation measures, litigation attacking constitutionality and the intervention of political interests. The state's legislation also permits private devel-

opers to participate directly in the recovery of established incremental property tax revenues if designated improvements are privately funded, a significant development enticement not found in Oregon or Washington. Some basic facets of the Idaho program and Idaho tax structure make the state's revenue allocation program a much more straightforward and arguably more market flexible program than than in either in Oregon or Washington.

First, Idaho did not experience the wave of property tax limitation measures that swept Oregon in the 1990s. Therefore, municipalities with adopted revenue allocation areas have not had to contend with anticipated budget shortfalls due to changes in the property tax collection methods. As a result, it has not been necessary for the state to develop various alternative levies and other mechanisms to ensure that urban renewal areas have the capacity to repay their debt obligations.

Second, revenue allocation areas can be adopted both within an urban renewal plan area and also within something called a 'competitively disadvantaged border community area'. Unlike an urban renewal plan area, which can only be adopted upon a finding of blight within the proposed plan area, a competitively disadvantaged border community area can be established in a county or city location that is at least 40 acres and is within 25 miles of a state or international border. In order to adopt a competitively disadvantaged border community area, the municipality must find that the proposed revenue allocation area is otherwise disadvantaged for economic development because of disparities in sales tax, income tax, property tax, population, or geography. This provision has been used to adopt plan districts in border communities such as Moscow, Post Falls and Coeur D'Alene, where these communities compete with Washington cities, primarily in the greater Spokane area.



Artist's Rendering - Tullamore Master Planned Development in the East Post Falls, ID URA

Lastly, Idaho's revenue allocation provisions allow for private development interests to be repaid directly from the increment funds generated in the district if the developer completes designated capital projects identified in the plan. This program feature provides significant benefit to the urban renewal agencies and local municipalities because it provides the option of taking the finance risk out of the hands of the local urban renewal agency if a developer is willing to finance improvements privately. It is a significant upside to developers who, knowing they can recapture particular capital expenditures towards public infrastructure with incremental property tax revenues, may be more likely to move forward with the project and more likely to secure advantageous financing than would otherwise be the case. The particulars of how the private developer is repaid, including whether or not revenue allocation reimbursements cover costs of financing, are typically handled in a development agreement or owner participation agreement between the urban renewal agency and the developer.¹⁰

While the Idaho program remains the least altered urban renewal program in the Northwest, it has not been impervious to public criticism or legal challenge. There are currently two legal challenges in the Idaho courts regarding urban renewal plans in the cities of Rexburg and Nampa where revenue allocation areas were proposed to build a \$6.3 million public swimming pool and a \$68 million police station and library, respectively. The primary contention of the appellants in these challenges is that the urban renewal agency is essentially an alter ego of the city and should not be allowed to issue long-term debt without a two-thirds vote of the city, which is otherwise required of municipalities by the Idaho constitution.¹¹ This issue had been previously settled by a 1972 Idaho Supreme Court Case titled *Boise Redevelopment Agency (BRA) v. Yick Kong Corp.* [94 Idaho 876, 499 P.2d 575 (1972)], which found that the urban renewal agency was a unique entity from the authorizing municipality and that debt issued by the urban renewal agency is not subject to two-thirds voter approval as is required of municipalities.¹² As a consequence, the cases in Rexburg and Nampa are being monitored closely by urban renewal agencies across Idaho as they could significantly hamstring the political process of implementing revenue allocation areas in the future.

¹⁰ Ryan Armbruster, Elam & Burke Attorneys at Law, Interview, March 24, 2009

¹¹ Boise Weekly, Cities in Disguise, August 27, 2008, Accessed on March 29, 2009: <http://www.boiseweekly.com/gyrobase/Content?oid=316825>

¹² Ryan Armbruster, Elam & Burke Attorneys at Law, Interview March 24, 2009

Conclusion

In spite of the numerous structural differences that exist between the TIF programs in the Northwest, current day efforts to thwart these programs have many common threads. In the Nampa and Rexberg, Idaho court cases, there is an underlying concern of the appellants that these projects are public service projects designed to benefit the greater community and are not truly economic development projects that benefit the URA. This argument draws a close parallel to one of the contested issues raised in the River District debate by the FOUR group, who argued that construction of the planned elementary school lacked a nexus to the economic development of the remainder of the district.

Additionally, TIF opponents commonly cite concerns that tax revenues grown out of a TIF district may not truly be a result of improvements planned for the district. Washington State was so keenly aware of this concern (thanks to the *Spokane v. Leonard* decision) that it even wrote an opt-out clause to its current enabling legislation to permit taxing districts to opt out of participation in the district. This is somewhat ironic, because TIF district plans by design should meet the 'but for' test as a prerequisite for formation. However, the lure of using TIF to finance various pet projects has enticed many URA authorities to pursue projects that test the boundaries of urban renewal. Examples of this include the creation of a satellite district to build a new school 15 miles away or the construction of sports stadiums with marginal economic impact. As municipalities such as Portland continue to push the envelope of urban renewal to include such projects, one can expect challenges to continue from development interests, counties, school districts, and other taxing jurisdictions with a substantial stake in the process.



Housing Market Analysis

By Scott Aster, Certificate of Real Estate Development Graduate Student & Oregon Association of Realtors [OAR] Fellow

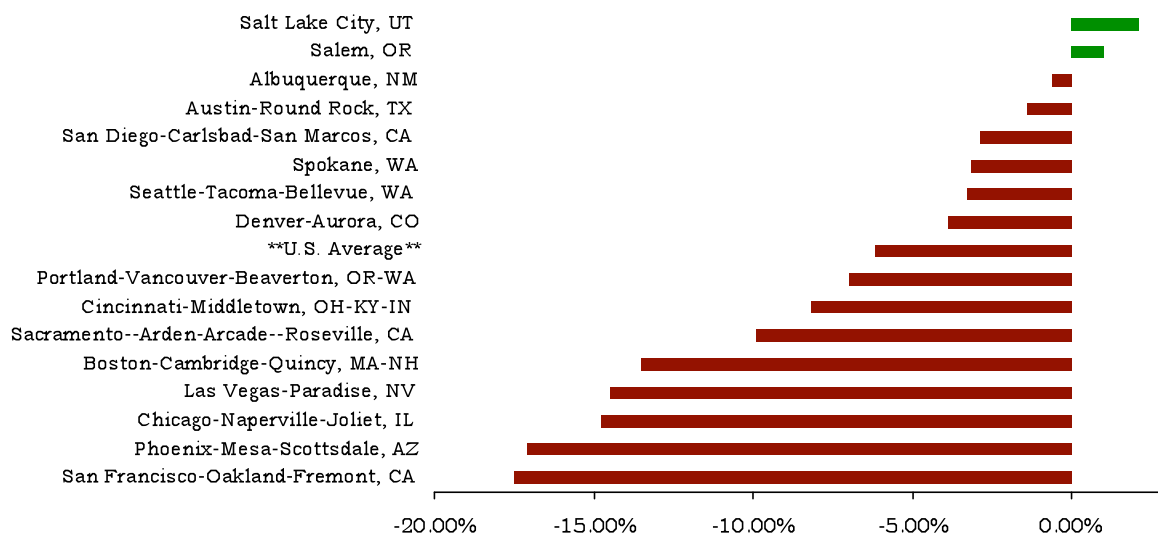
Median Home Values of Existing Detached Homes

	U.S.	West	Portland Metro Area
May 2008 Median Sales Price	\$ 206,000	\$ 290,200	\$ 297,500
May 2009 Median Sales Price	\$ 172,900	\$ 202,200	\$ 259,000
% Change in Median Sales Price	-16.1%	-30.3%	-12.9%
% Change in Number of Sales			
May[June??] 2008-2009	-3.0%	-10.6%	-27.3%

Source: National Association of Realtors (May 2009) and RMLS (May 2009)

The housing market statistics of the second quarter of 2009 reflect the continued downward trend in home prices nationwide. Median home prices were down 16.1% annually in May, and 30.3% for the western part of the nation. According to May's Standard & Poor's Case-Shiller index, the metro areas with the greatest annual depreciation rates are Phoenix (-35%), Las Vegas (-32%), San Francisco (-28%), and Miami (-27%). However, prices are still substantially higher than they were before the housing bubble. For Portland, the index based on a home valued at \$100,000 in 2000 stood at \$146,850 at the end of April 2009. RealtyTrac's May foreclosure report put Oregon at 22nd in the nation for notices of default, auctions and other forms of foreclosure action. The foreclosure activity count indicates that there are 3,067 foreclosure properties representing one in every 524 housing units within the state. The number of building permits issued was down 43% nationally, with a reduction of 45% in Oregon.

Median Sales Prices of Existing Single Family Homes By Metropolitan Area



Source: <http://www.realtor.org/Research.nsf/Pages/MetroPrice>

Building Permits Issued

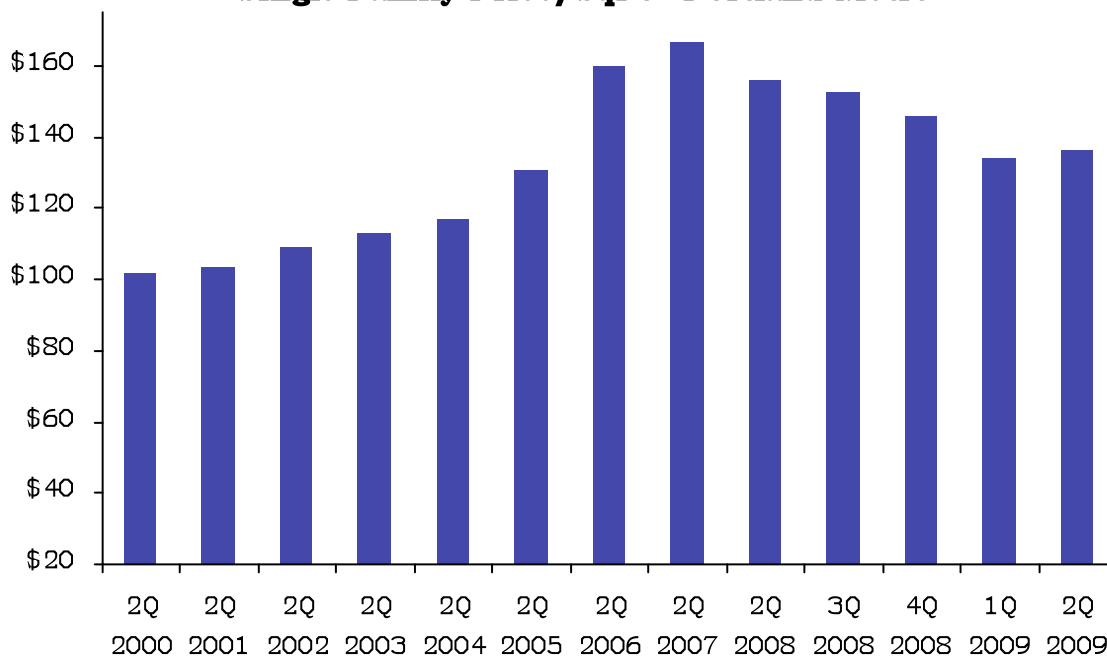
Year to Date

	SINGLE-FAMILY			MULTIFAMILY		
	May-09	May-08	PCT CHG	May-09	May-08	PCT CHG
UNITED STATES	156.9	273.8	-43%	59.2	139.0	-57%
OREGON	2.13	3.90	-45%	1.27	1.83	-31%
Bend OR	0.14	0.31	-56%	0.03	0.07	-60%
Corvallis OR	0.01	0.01	0%	-	-	-
Eugene-Springfield OR	0.16	0.32	-51%	0.05	0.09	-44%
Medford OR	0.12	0.18	-31%	0.01	0.01	80%
Portland-Vancouver-Beaverton OR-WA	1.11	2.07	-47%	0.45	1.54	-71%
Salem OR	0.11	0.27	-60%	0.09	0.10	-8%

Portland

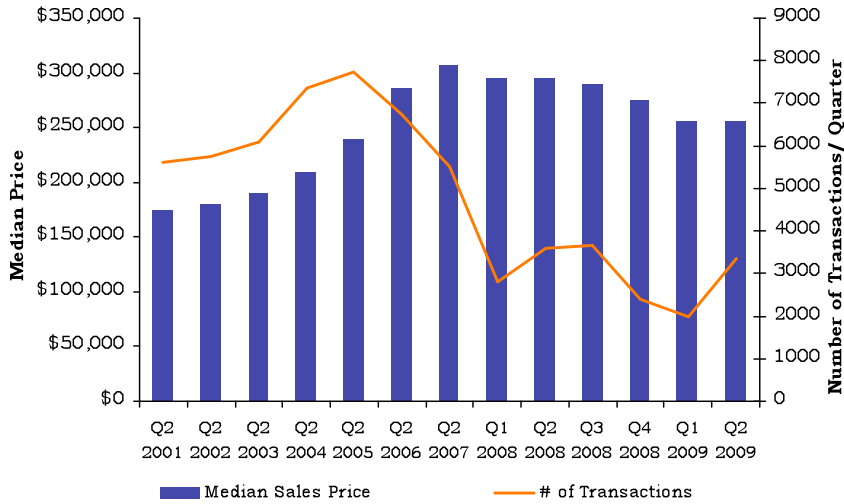
The number of Portland metropolitan area home sales increased by 67% over the first quarter, as buyers closed purchases on 3,342 existing homes. However, the results are still down 7% from the previous year. Median prices for the second quarter were at \$255,550, a slight increase over the previous quarter, but a 13% reduction annually. Though prices are still being marked down, with average sales taking place at 91.75% of the original list price, sellers saw an improvement of 0.12% annually. Sellers in the Portland area, on average, have their homes on the market for 77 days before closing, reflecting a two-week increase from 2008. Price per-square-foot values appear to have stabilized at \$136, a slight increase of 2% from the previous quarter. However, this reflects a 13% decrease annually.

Single Family Price/SqFt - Portland Metro



Median Sales Price & Number of Homes Sales Per Quarter - Existing Detached Homes

Portland Metro (Excluding Clark County)



8-Year outlook for Median Sales Price & Number of transactions

1st Quarter Median Price: \$255,550

Quarterly % Change: 0.20%

Annual % Change: -13.40%

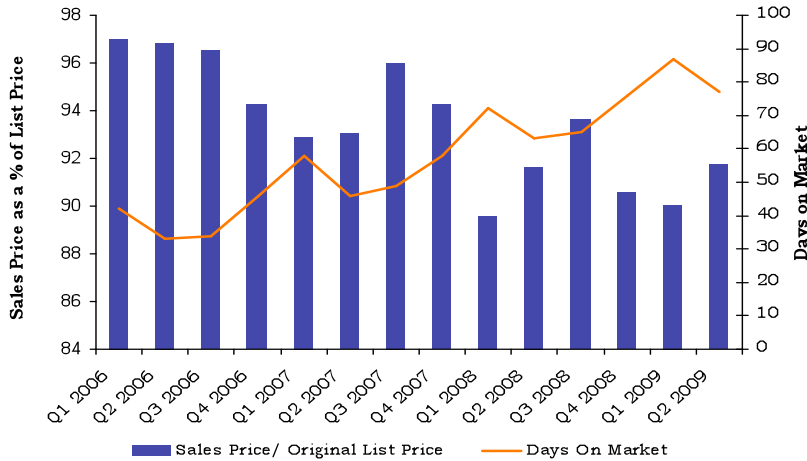
Number of Transactions: 3,342

Quarterly % Change: 67.44%

Annual % Change: -6.86%

Sale Price/Original List Price & Average Days on Market - Existing Detached Homes

Portland Metro (Excluding Clark County)



8-Year outlook for Average DOM and Sales Price/Original List Price ratio

1st Quarter Sale/Original ratio: 91.75

Quarterly % Change: 1.89%

Annual % Change: 0.00%

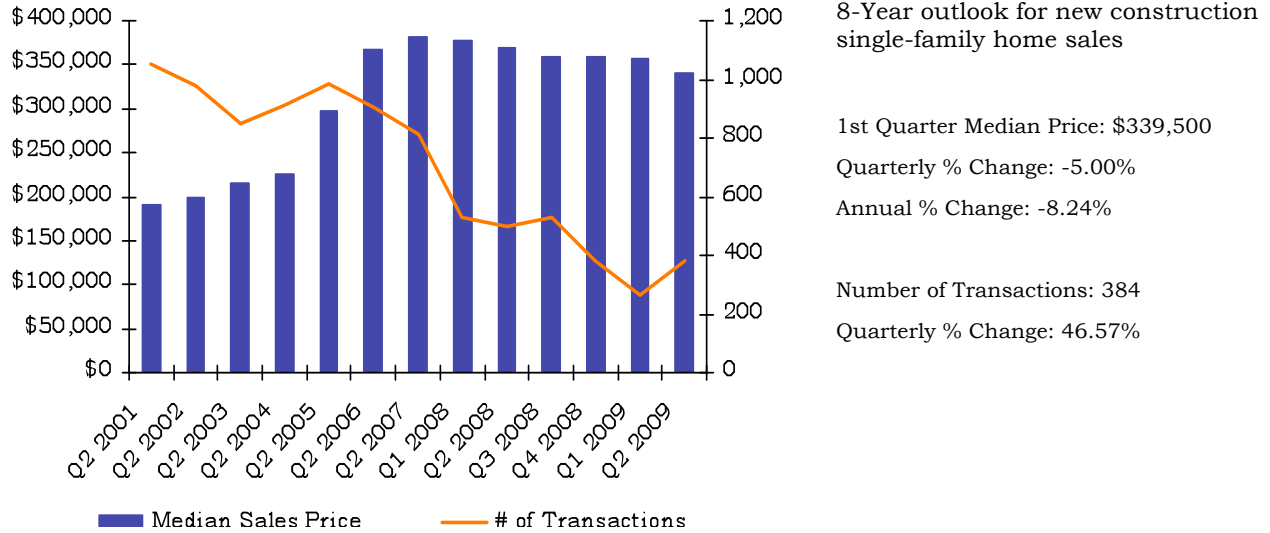
Days on Market: 77

Quarterly % Change: -11.49%

Annual % Change: 22.22%

Median Sales Price & Number of Transactions – New Detached Homes

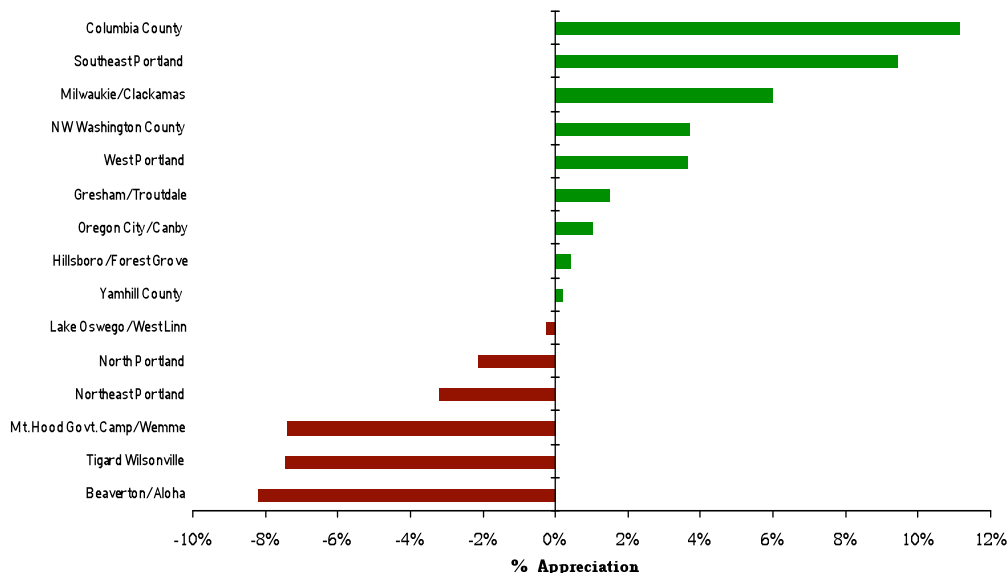
Portland Metro (Excluding Clark County)



Perhaps somewhat surprisingly, some Portland submarkets experienced quarterly price appreciation, although the mix of houses actually sold in different time periods may account for the differences. Columbia County home prices rose at 11.14% followed by Southeast Portland at 9.43%.

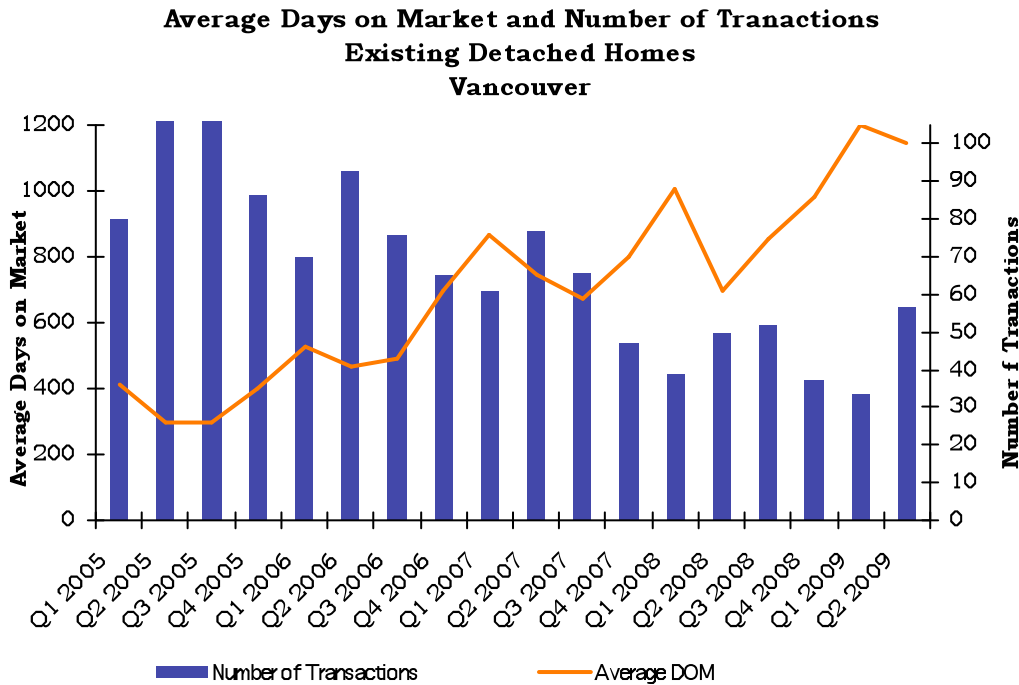
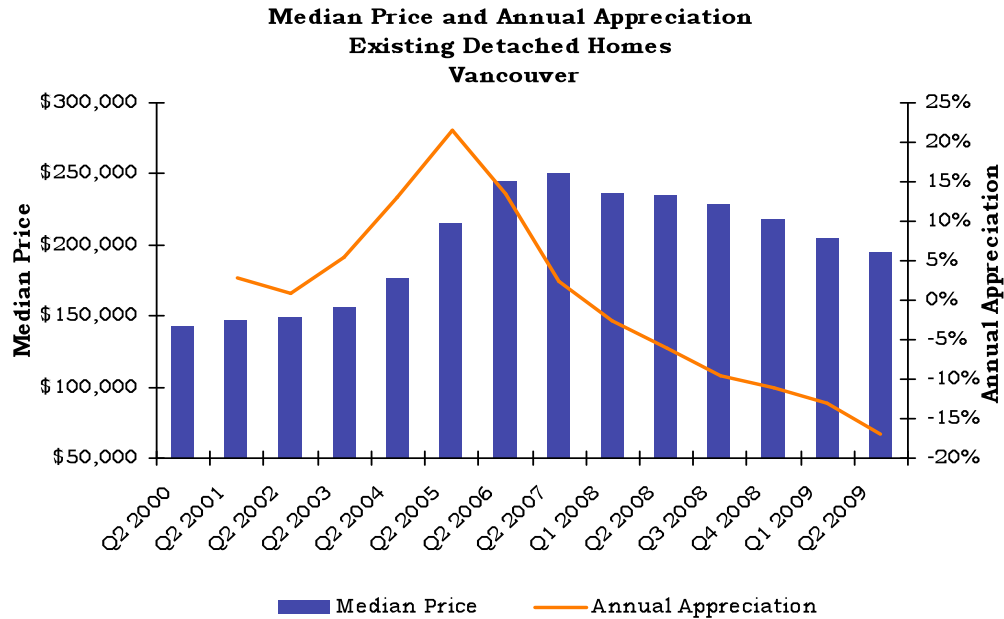
Conversely, the Beaverton/Aloha area experienced the highest depreciation rate at (-8.2%), followed by Tigard/Wilsonville at (-7.43%) and Mt. Hood (-7.39%). However, annual results are negative for all Portland submarkets. Lake Oswego (-20.2%), Oregon City/Canby (-16.5%), and Beaverton/Aloha (16.3%) home values decreased the most from the previous year. Mt Hood (-3.4%) and West Portland (-4.0%) home values depreciated the least from 2008.

Appreciation Rates of Existing Detached Homes - Portland Sub-Market
 Q1 2009- Q2 2009



Vancouver

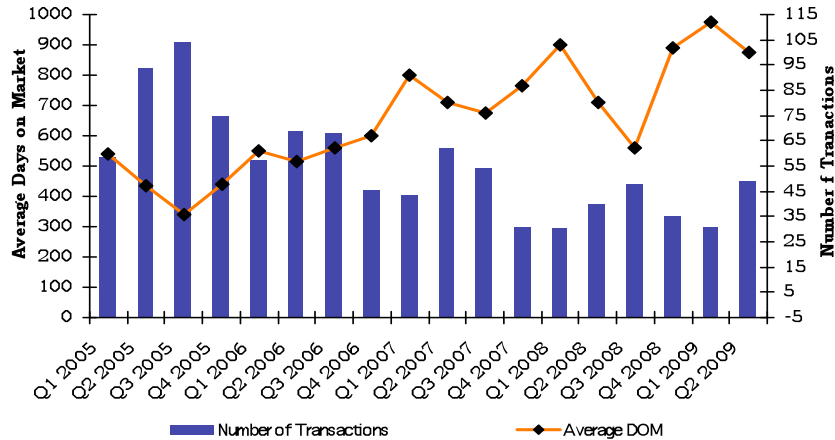
Vancouver’s second quarter statistics indicate a continuance of the city’s decreasing home values. Vancouver’s median home price was \$195,000 resulting in depreciation rates of (-5%) quarterly and (-17%) annually. On a positive note, the number of home sales increased to 650, up 71% quarterly and 14% annually. However, the number of days on the market is up to 100, a 64% increase from 2008.



In the suburbs of Clark County, home prices have stabilized at \$245,000 as they remained within a percentage point of the previous quarter’s median price. However, an annual outlook

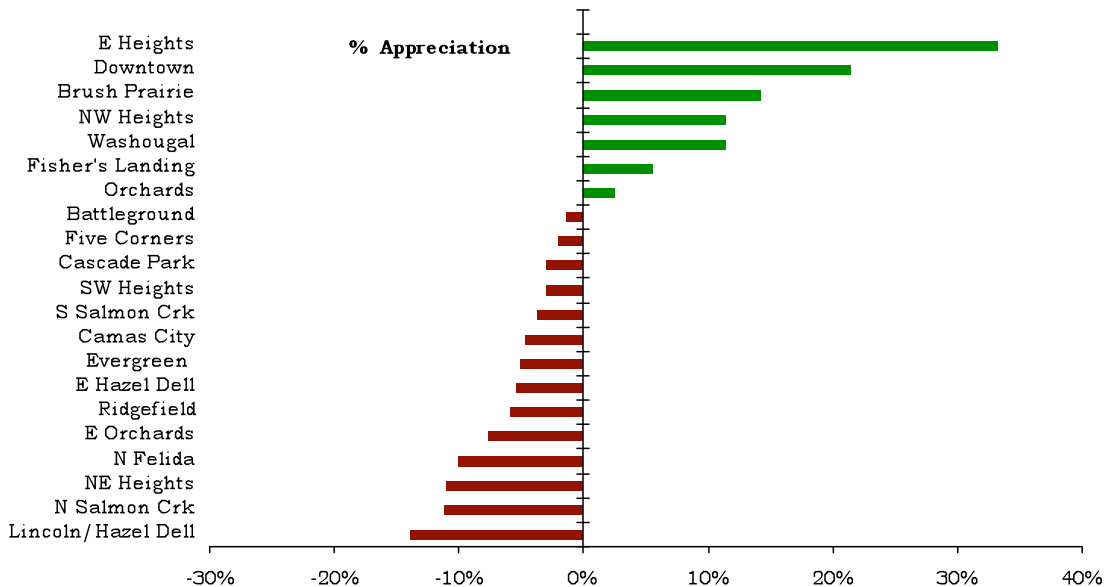
indicates that home prices are down 11% from 2008. Similar to Vancouver, the number of home transactions in the Clark County suburbs is up 48% for the quarter and 19% annually. But the number of days on the market has increased 25% annually and is up to 100.

**Average Days on Market and Number of Transactions
Existing Detached Homes
Clark County (excluding Vancouver)**



The Vancouver/Clark County submarket is primarily down for the quarter. However, the East Heights area had a stronger quarter with an appreciation rate of 33%. Downtown Vancouver and Brush Prairie also had solid quarters with appreciation rates of 21% and 14%. Conversely, the Lincoln/Hazel Dell area had the highest depreciation rate at (-19%) followed by North Salmon Creek and Northeast Heights at (-14%) and (-11%). Annual changes show that only Five Corners had an increase in home values, of 14%. The rest of the submarket depreciated led by North Felida at (-33%).

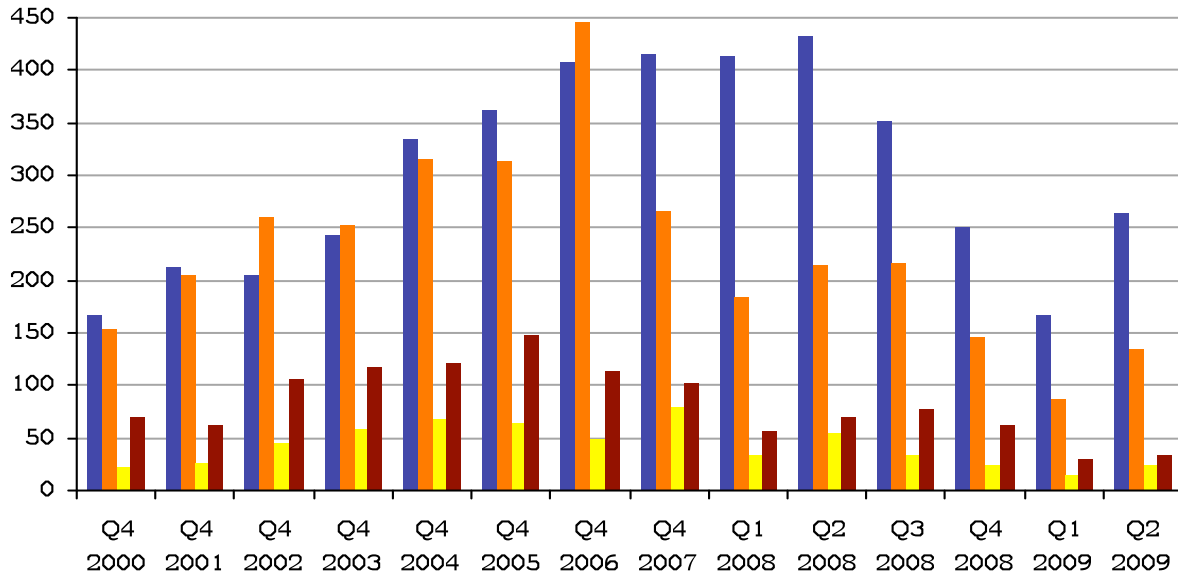
**Appreciation Rates of Existing Detached Homes
Vancouver and Clark County Sub Market - Q1 2009 - Q2 2009**



Condominium and Attached Market¹

The number of condominium sales in the Portland metropolitan market is up from the previous quarter but is still down significantly from 2008. Across the metropolitan area, the number of sales is up 55% for the quarter while the number of Vancouver sales increased 13%. The Portland metropolitan area’s price per square foot is at \$208, an 8% quarterly increase but 5% annual decrease. The median price per Portland condominium unit is \$200,000, the same as the first quarter. Vancouver, at a price per square foot of \$133, is up 15% for the quarter but down 13% for the year. Vancouver’s median price per condominium is up to \$155,450 an increase of 14% for the quarter.

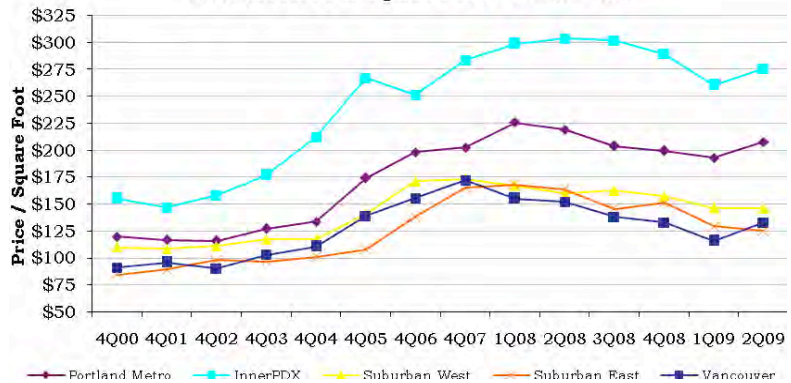
Number of Transactions - Condominium Market



Similar to the **Inner PDX** **Suburban West** **Suburban East** **All Vancouver** condominium market, results for single-family attached housing are up for the quarter but down annually.

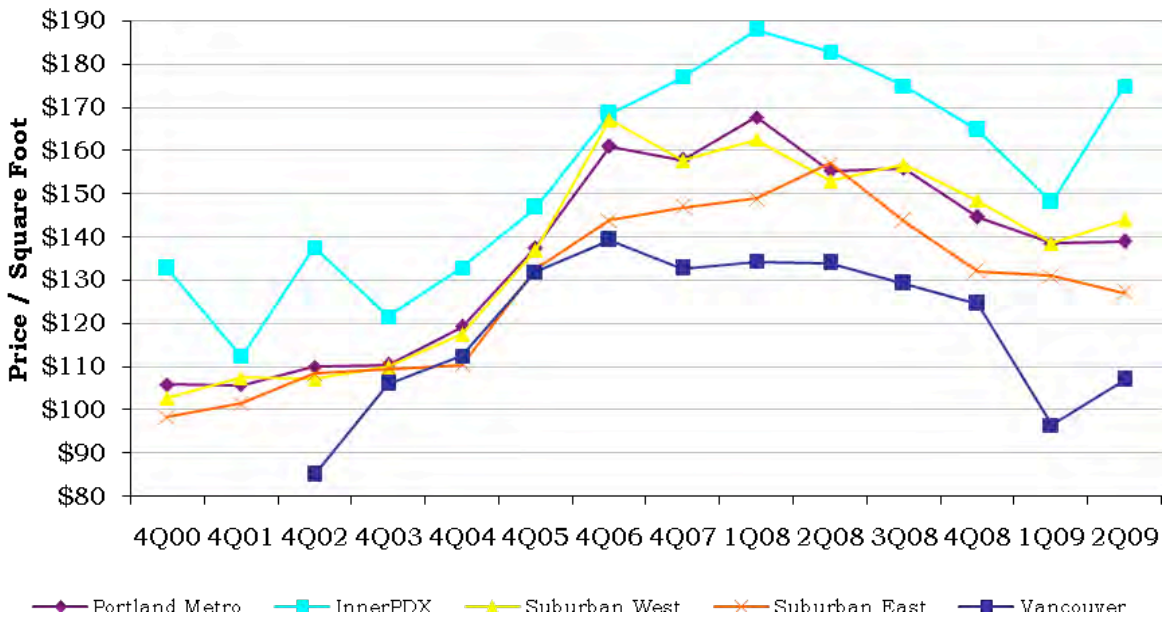
The number of attached home sales in the Portland metropolitan area increased 73% from the first quarter to 291. However, the number of sales of attached homes is down -28% annually with a median price of \$211,000. The Vancouver area saw both quarterly (+130%) and annual (+25%) increases as the number of attached homes sold increased to 76. For Portland, price-per-square-foot numbers (\$139) stayed the same from the first quarter but decreased by 11% annually. Vancouver, at \$107 per square foot, saw a quarterly increase of 11% but an annual decrease of (-20%). The median price for attached homes in Vancouver was \$169,900.

Median Price Per Square Foot - Condominium

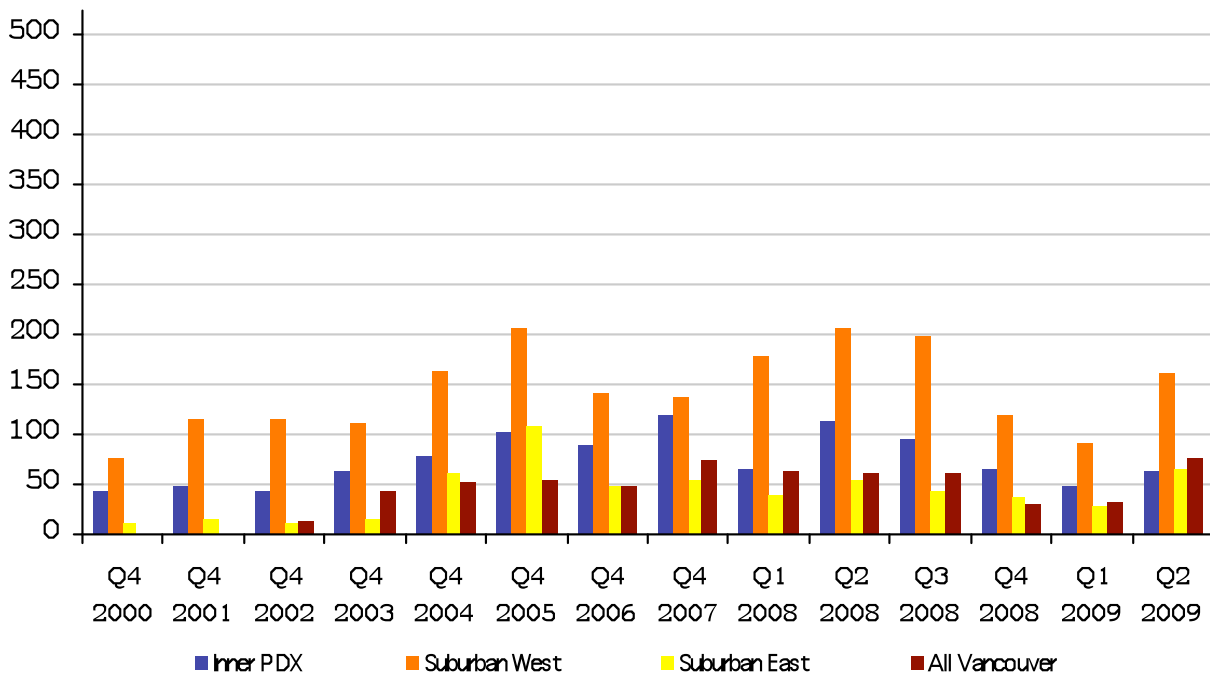


¹ RMLS defines attached as “an element of the residence construction is shared with another property. Condominiums excluded. Condominiums are defined as an attached or stand-alone residence for which the owner has title to the space inside the unit and shares common spaces with other unit owners in accordance with specific legal guidelines.

Median Price Per Square Foot - Attached

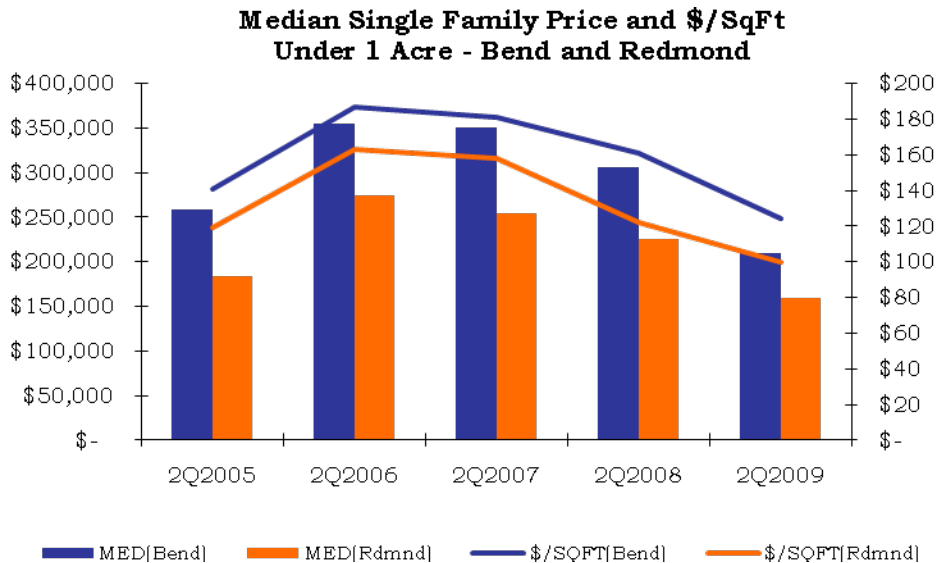
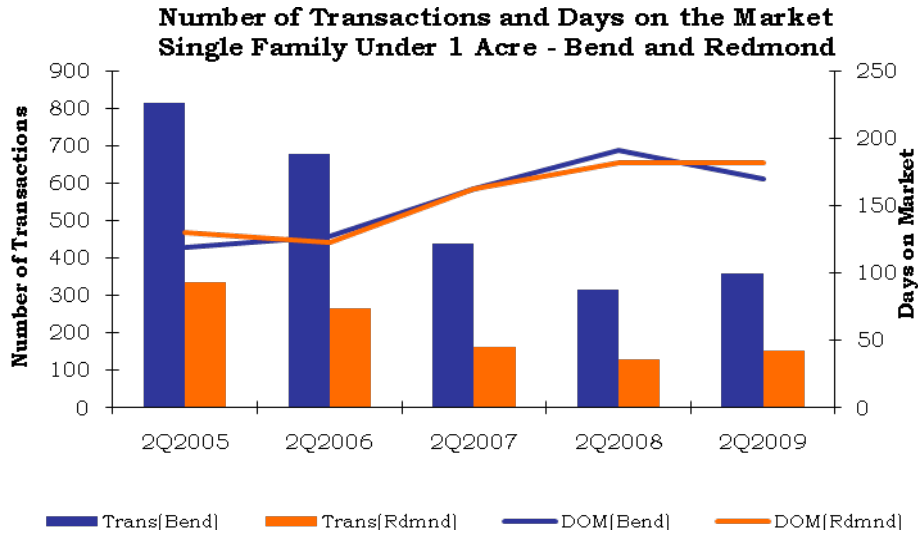


Number of Transactions - Attached Single Family



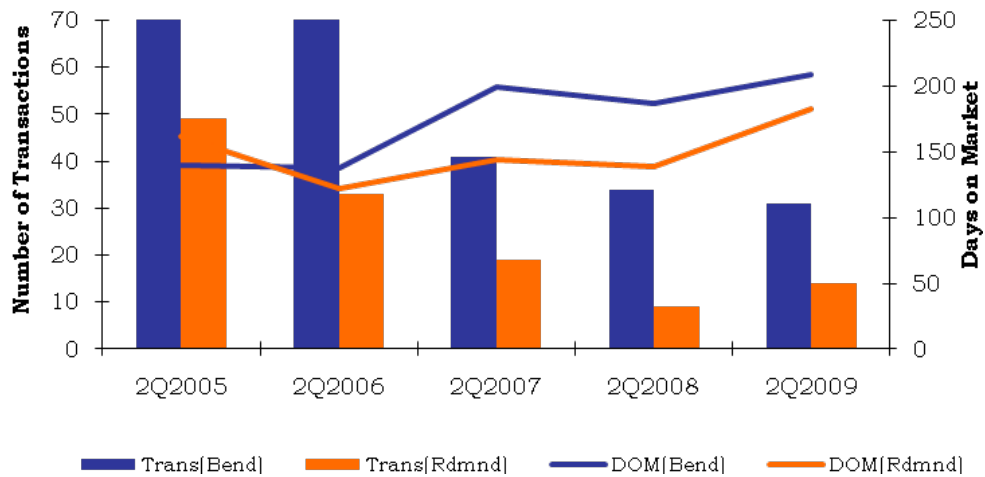
Central Oregon

Both Bend and Redmond experienced a slight increase from the previous year with respect to the number of homes sold. Bend home sales are up 14% to 358 while Redmond's increased 18% to 153. The number of days on the market declined to 170 for Bend while remaining at 182 for Redmond. However, the median home prices declined significantly for both Central Oregon submarkets. Bend home prices plummeted (-32%) to \$209,500 while Redmond prices slipped (-29% to \$160,000. Price-per-square-foot numbers also declined significantly for Bend and Redmond at \$124 and \$100.

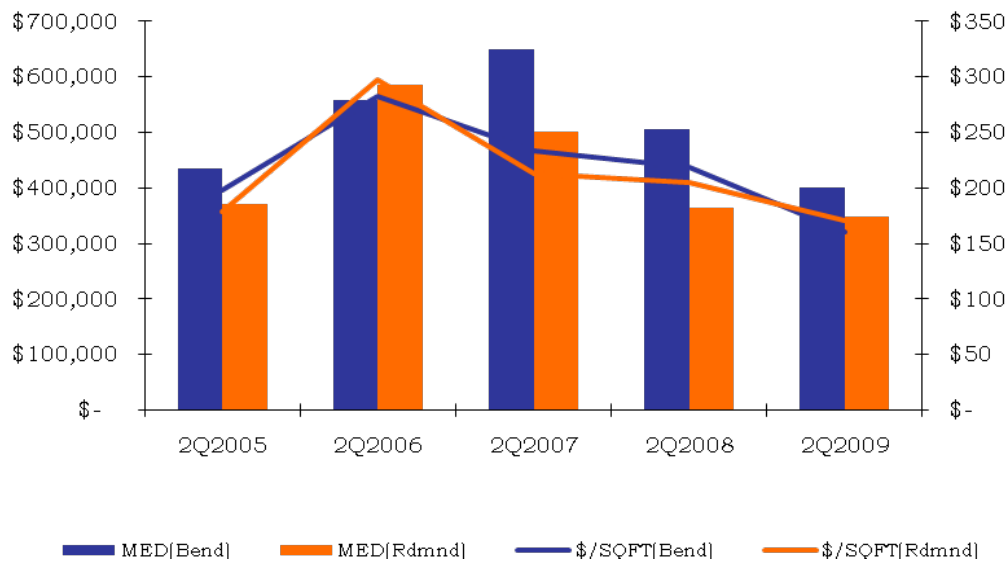


As it is commonly reported in Central Oregon’s reports, the housing stock is separated by lot size – properties under one acre and those between one and five acres. Price per square foot is provided to control for lot size between both categories. Second quarter statistics are almost entirely negative for Central Oregon homes lying on acreage. Bend transactions declined almost (-10%) from 2008 while Redmond experienced a slight increase. Meanwhile, Bend home prices plummeted (-21%) to \$399,900 while Redmond prices slipped (-5%) to \$347,500. Price per square foot is down to \$160 for Bend and \$171 for Redmond. The number of days on the market increased significantly for both areas as Bend is up to 209 and Redmond is at 183.

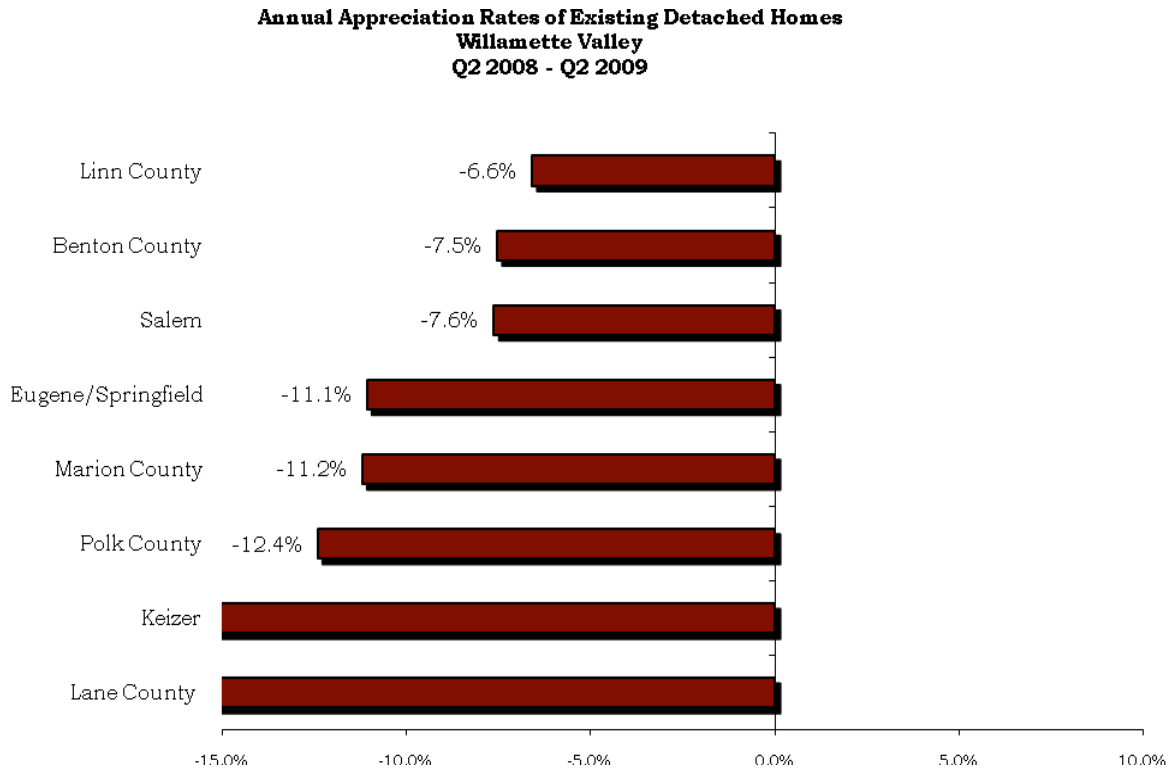
**Number of Transactions and Days on the Market
Single Family 1-5 Acres -Bend and Redmond**



**Median Single Family Price and \$/SqFt
1-5 Acres - Bend and Redmond**



Willamette Valley

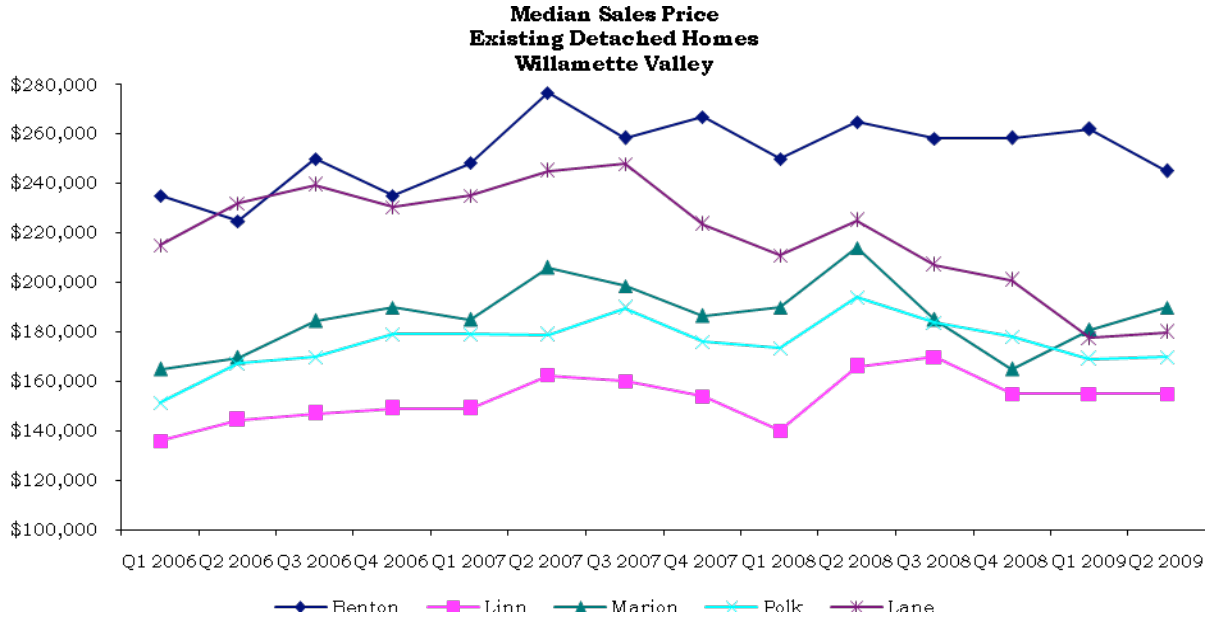


Second quarter results for the Willamette Valley are consistent with those of the northern parts of the state. All Willamette Valley submarkets experienced annual depreciation on existing home prices.

Lane County has once again suffered the worst quarter in the valley with declining prices of (-20%) annually followed closely by Keizer at (-19.8%).

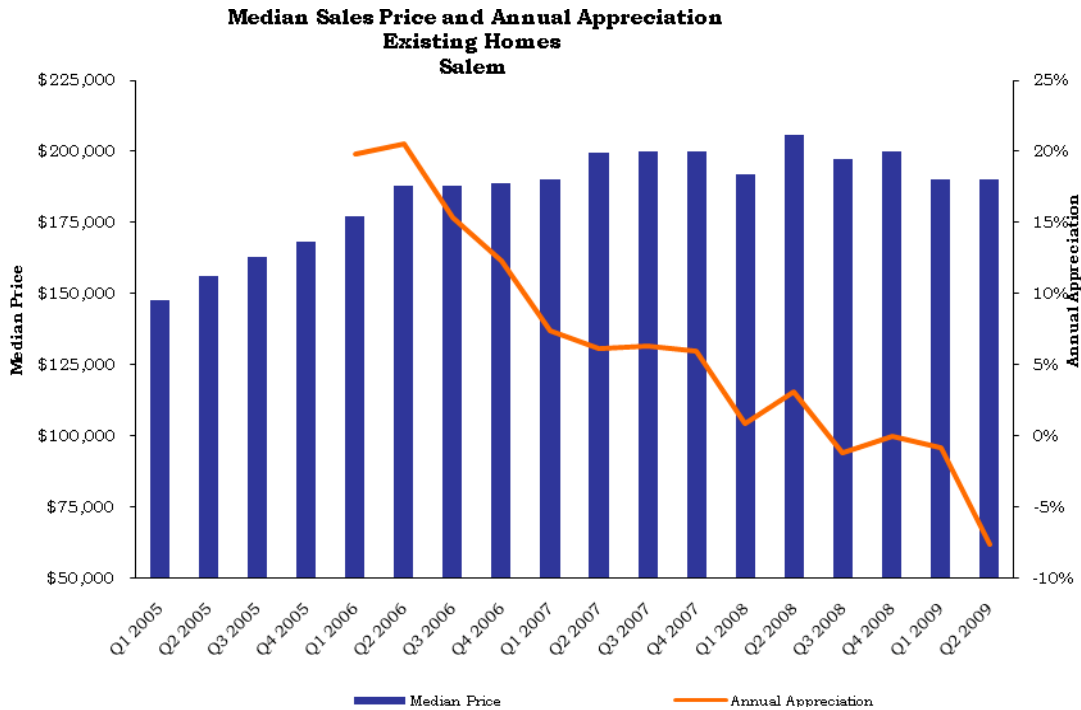
Linn County was once again the stronger submarket but still suffered a (-6.6%) depreciation rate. The number of transactions over the past year also declined for these areas at (-3%) for Lane County and (-23%) for Keizer.

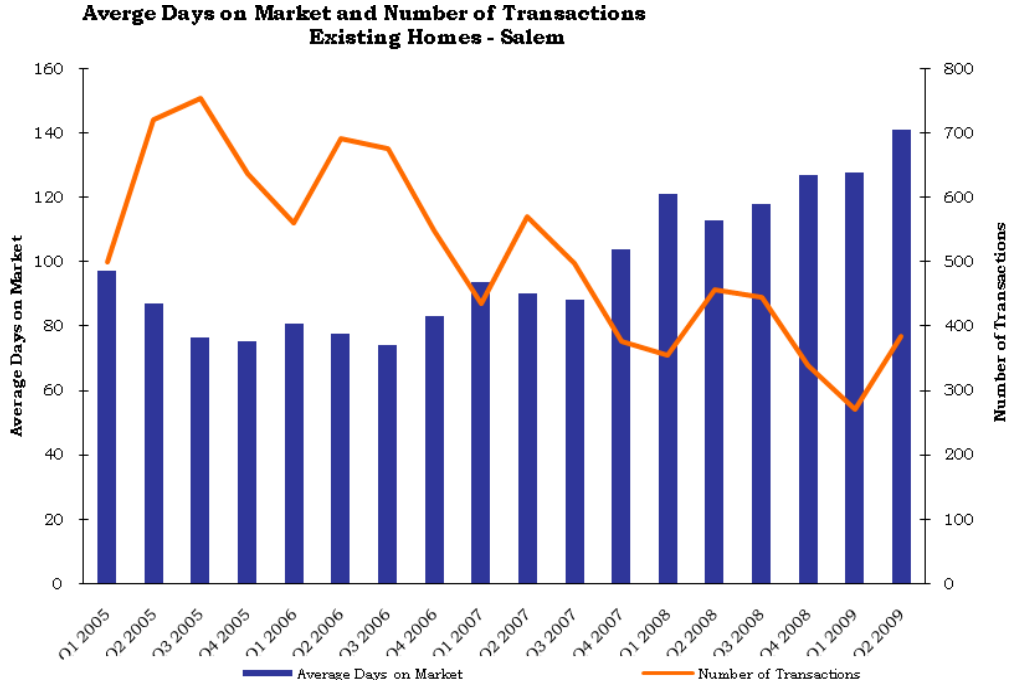
Although the rest of the valley experienced less depreciation, the number of days on the market increased while the number of transactions decreased annually in all submarkets.



Salem

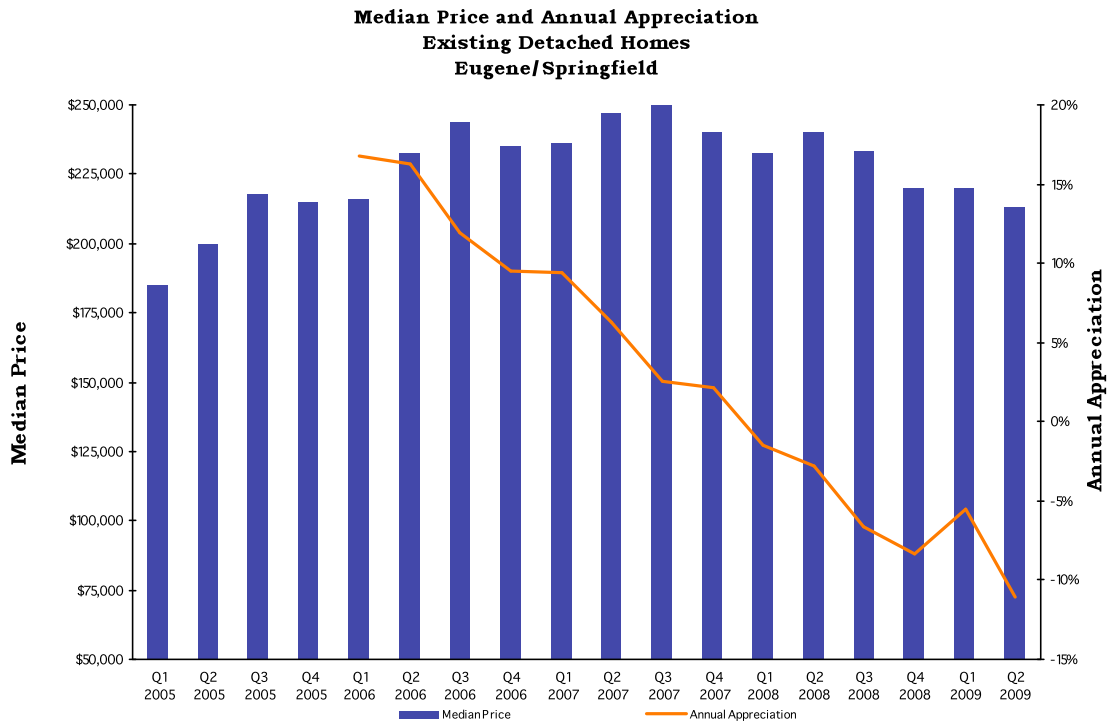
Salem’s housing market continues to suffer annual depreciation of home prices, fewer home transactions, and a greater number of days on the market. Prices declined (-8%) from the previous year to \$190,000. Meanwhile, the number of average days on the market increased to 141, over four and a half months. The number of transactions declined (-16%) from the previous year to 385.





Eugene/Springfield

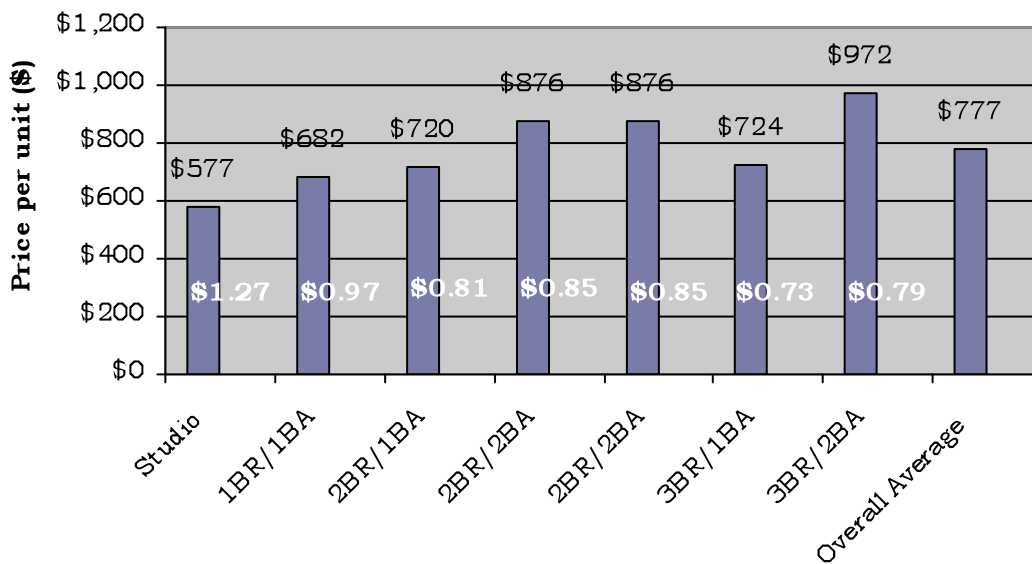
The Eugene/Springfield area experienced declining home prices as well as fewer transactions relative to the second quarter of 2008. The number of transactions fell 4% annually to 488 while the median price was down 11% at \$213,375. Sellers currently have their houses on the market for 83 days before closing and are only realizing 78% of their original listing price on the sale.



Portland Apartment Market

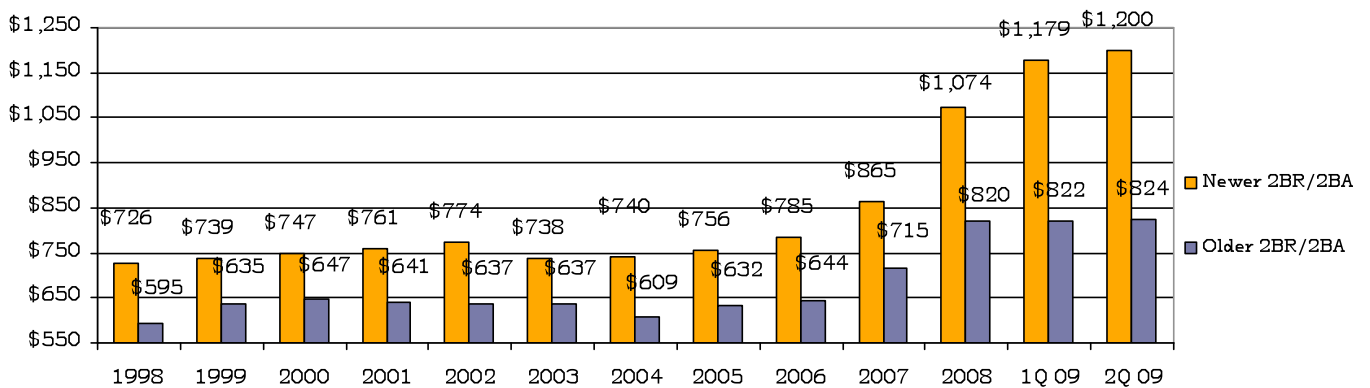
According to Norris, Beggs & Simpson's second quarter 2009 multifamily report, the overall multifamily vacancy rate has increased in the second quarter to 5.03% compared to 3.46% this time last year, which is still much lower than other markets. The average rents for the quarter are \$682 (\$0.97/SF) for a 1BR/1BA, \$720 (\$0.81/SF) for a 2BR/1BA, \$876 (\$0.85) for a 2BR/2BA and \$972 (\$0.78) for a 3 BR/2BA. These numbers are up slightly from the previous quarter. Average 2BR/2BA new units rent for \$1,200 per unit, an increase of \$21 over last quarter. Seasoned 2 BR/2BA units rent for an average \$824 per unit, which is an increase of only \$2 over last quarter.

Metro-Wide Average Rents Second Quarter 2009



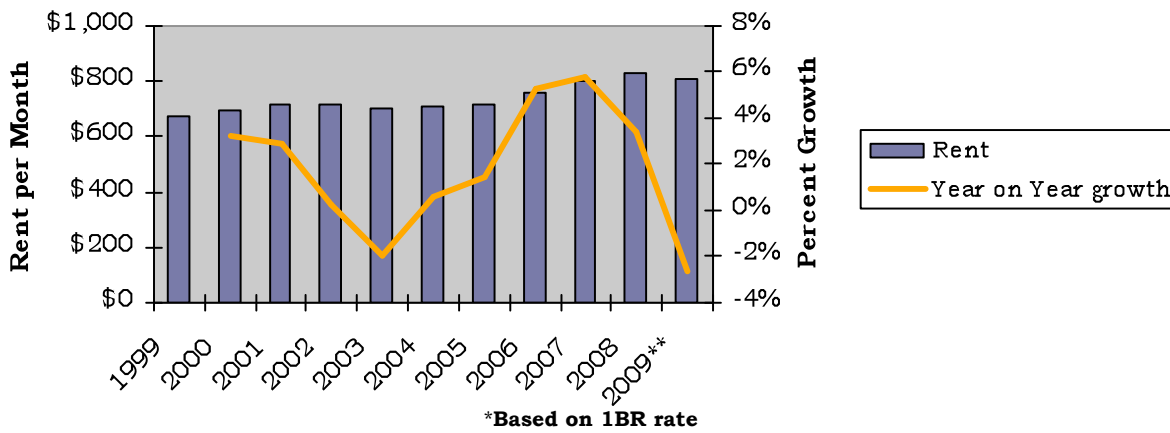
Source: Norris, Beggs & Simpson "Portland Area Multifamily Report Second Quarter, 2009, *Price per square foot shown in white

Average Portland Metro Rents



Source: Norris & Stevens "Portland Metro Area Multifamily Report, Second Quarter 2009"

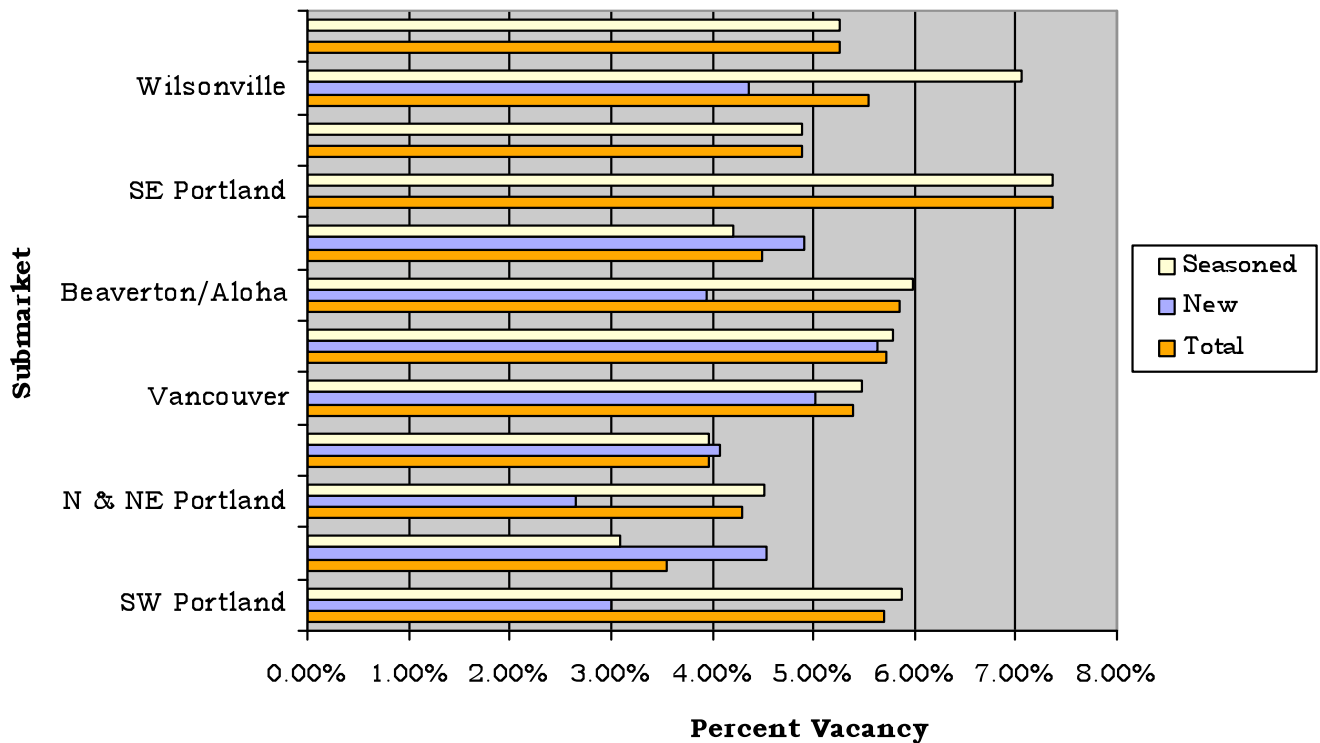
Average Historical Rents & Rent Growth



Source: Brokers, Gary Winkler, and Beth DuPont, Colliers, "Portland Multifamily Private Capital News, Year End 2008" **2009 estimated.

The SE Portland submarket shows the highest total vacancy rate at 7.37%, while Gresham/Troutdale has the lowest submarket vacancy at 3.54%.

Second Quarter 2009 Submarket Vacancy



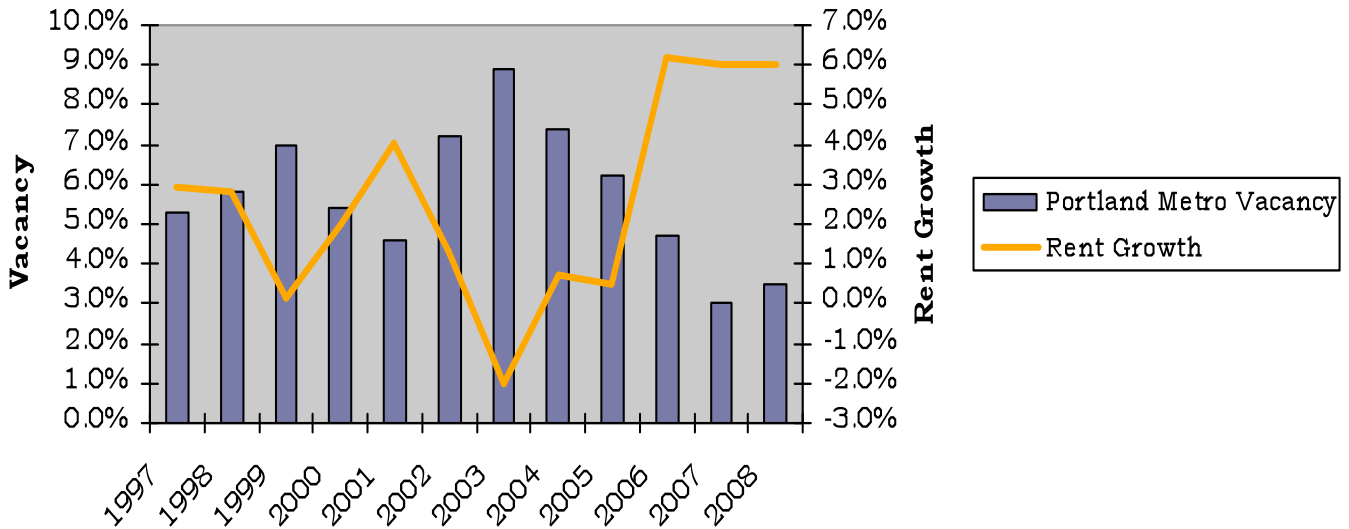
Source: Norris, Beggs & Simpson "Portland Area Multifamily Report Second Quarter, 2009"

According to Colliers International, the high local unemployment rates are having a strong negative impact on vacancies. Vacancies are up not because of residents moving away from Portland but due to tenants doubling up, moving in with family, or moving into single-family rental homes.

According to Mark Barry, condo conversions are also having an impact on vacancy rates. He estimates a current 2.5 to 3.5 years of inventory in the condominium market. He expects to see between 2,500 and 3,500 new apartment units in 2009 as some investors take advantage of lower labor and material prices and less competition for high density sites from the condo and row house developers.

The threat of fleeing tenants has caused some landlords to offer lower rents, one or two months worth of concessions as well as free parking. Colliers International states in its midyear report that, “some new buildings even guarantee that if a tenant loses his/her job, they can end their lease agreement without penalties, early termination fees or adverse impact on credit.” The total discount of the net effective rent with parking and concessions in select buildings throughout the metro area range from 5.6% to 16.8%. As the chart below shows, rents have increased significantly since 2005 while vacancy decreased. Brokers at Colliers expect this trend to change in the coming year.

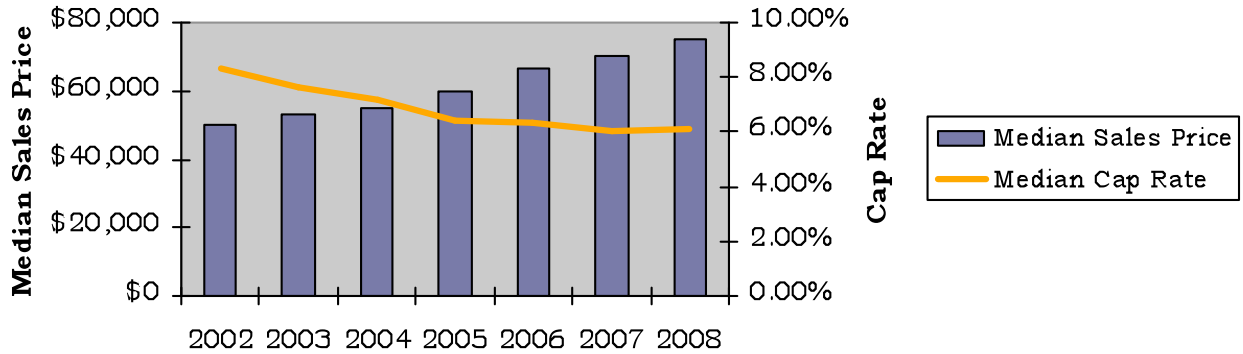
Portland Metro Vacancy and Year on Year Rent Growth



Source: Mark D Barry, the Barry Apartment Report, Winter 2009

Most experts forecast an increase in cap rates, which will decrease the market value of apartment buildings, especially those that were recently purchased. Another challenge that investors face, as noted by Mark Barry, is an increase in utility costs of 11% for water and sewer, 14% for electric and natural gas, and 10% for garbage, which will increase operating expenses.

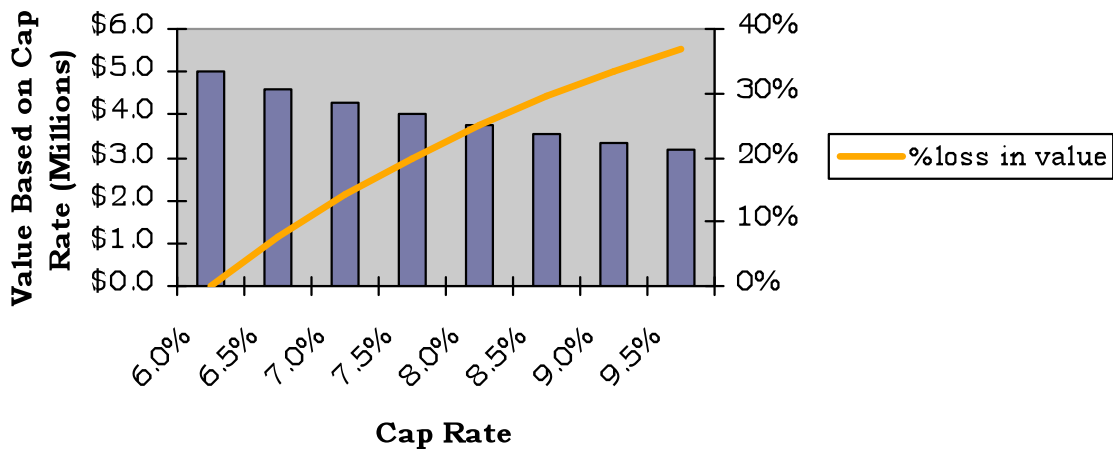
**Median Per Unit Sales Price and Median Cap Rate
Four County Metro Area 2002-2008**



Source: Mark D Barry, the Barry Apartment Report, Winter 2009

The above graph based on the figures reported by Mark Barry, shows the inverse relationship between the median sales price and the cap rate of sales from 2002 to 2008, which illustrates how big the bubble has been. The following graph, produced by Colliers, gives an example of how a rising cap rate will affect property values, and gives an indication of the expected trend reversal, until we reach the historical average 7% to 9% cap rate. With lower property values as a result of increasing cap rates owners may be reluctant to sell and buyers may wait for further declines, which will reduce the number of transactions in the coming year. Norris, Beggs & Simpson notes that “cap rates will be calculated more conservatively with much more scrutiny on underwriting, in-place income, historic performance, cost of capital and market stability.

**Impact of rising cap rates on values based on
\$300,000 net operating income**



Source: Colliers, "Portland Multifamily Private Capital News, Year End 2008"

Office Market Analysis

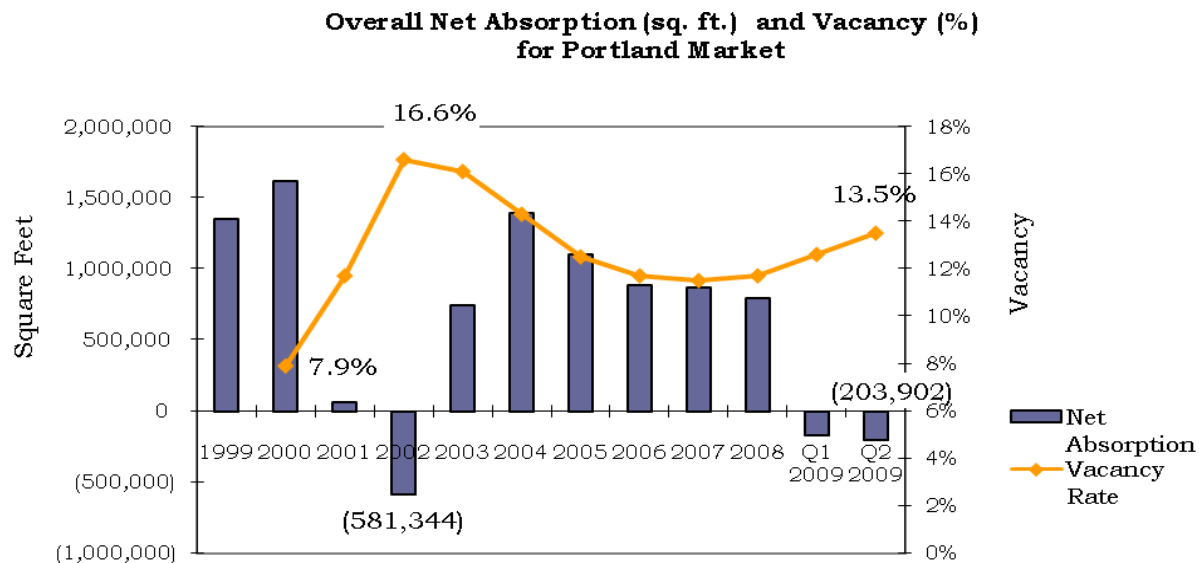
April Chastain, RMLS Fellow & Certificate of Real Estate Development Student

Portland Office Market

Most brokers agree that the office market has worsened this quarter over last, especially in the suburbs, with new projects delivering vacant space to areas that already have high vacancy rates. CB Richard Ellis reports that “Portland’s office market experienced 522,785 SF of negative net absorption, which is the worst on record, surpassing 4Q2001.”

The Portland Business Journal¹ recently reported that Daimler Trucks, formerly Freightliner LLC, wants to sublease 111,409 square feet of office space in Montgomery Park, which it plans to vacate in order to consolidate its remaining office employees at the Swan Island headquarters. The lease expires December 31, 2011. Nautilus Inc. also plans to vacate nearly 400,000 square feet at its headquarters in Vancouver. Both are large, unique spaces, making them hard to lease. However, their vacancy is not expected to decrease asking prices in the area for small office space, as these larger office spaces would attract different tenants.

Displaying some optimism, Grubb & Ellis notes a survey by Moody’s Economy.com² which forecasts that Oregon will be one of the top five states to lead the recovery with its high-tech industries and abundant, highly-educated, young creative class of available employees. Grubb & Ellis also notes the City of Portland’s goal, as spelled out in its recently released five-year economic development plan, of becoming the capital of the global green economy, adding 10,000 jobs over the next five years in specific industries; Clean Tech and Sustainable Industries, Activewear, Software and Advanced Manufacturing.



Source: Grubb & Ellis, Co., Office Quarterly Report, Second Quarter 2009 Statistics

¹ [“Big spaces flood cities”, Portland Business Journal](#)

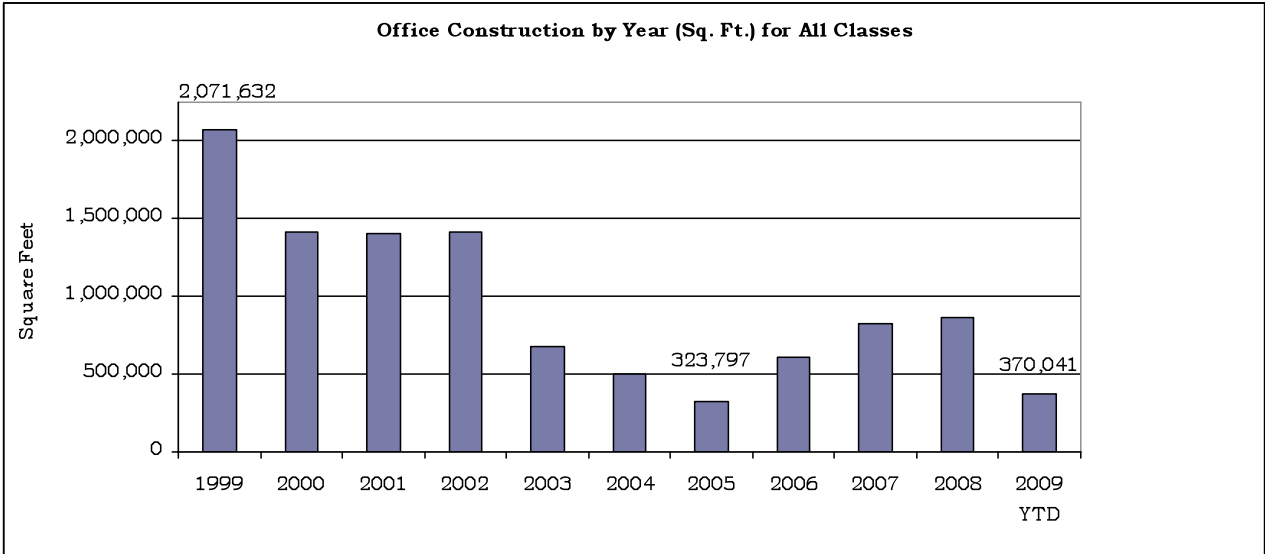
² [Oregon could lead nation out of recession, Moody's says](#)

OFFICE Q2-09³	CB Richard Ellis	Cushman & Wakefield	Grubb & Ellis	Norris, Beggs & Simpson	Median
Market-Wide Vacancy	14%	14.9%	14%	16%	14.6%
Previous Quarter	13.0%	14.0%	13.0%	15.0%	13.5%
Second Quarter 2008	10.5%	11.4%	11.3%	13.2%	11.4%
Second Quarter 2007	11.6%	11.3%	12.3%	14.1%	12.0%
CBD and Downtown Vacancy	8.9%	10.9%	8.5%	10.3%	9.6%
Previous Quarter	8.0%	10.2%	8.3%	10.5%	9.3%
Second Quarter 2008	7.8%	9.1%	7.8%	9.8%	8.5%
Second Quarter 2007	8.5%	9.5%	9.1%	12.2%	9.3%
CBD Class A Vacancy		8.6%	6.1%	6.3%	6.3%
Previous Quarter	5.5%	8.3%	6.5%	6.2%	6.4%
Second Quarter 2008	5.3%	6.2%	4.9%	6.5%	5.8%
Second Quarter 2007	4.7%	6.8%	6.8%	5.9%	6.4%
CBD Class A Asking Rents		\$26.20	\$24.68	N/A	\$25.44
Previous Quarter	\$26.89	\$27.62	\$27.02	N/A	\$27.02
Second Quarter 2008	\$27.04	\$26.49	\$25.94	N/A	\$26.49
Second Quarter 2007	\$23.42	\$24.75	\$24.75	N/A	\$24.75
Suburban Vacancy	19.3%	18.7%	18.1%	19.1%	18.9%
Previous Quarter	17.2%	16.7%	15.7%	17.1%	16.9%
Second Quarter 2008	13.0%	13.5%	13.4%	15.0%	13.5%
Second Quarter 2007	14.4%	13.2%	14.2%	16.0%	14.3%
Suburban Class A Vacancy	N/A	20.3%	19.5%	N/A	19.9%
Previous Quarter	N/A	18.3%	17.3%	17.5%	17.5%
Second Quarter 2008	N/A	14.0%	14.9%	N/A	14.5%
Second Quarter 2007	N/A	12.6%	14.1%	N/A	13.4%
Suburban Class A Asking Rents	N/A	\$23.59	\$23.65	N/A	\$23.62
Previous Quarter	N/A	\$22.95	\$23.20	N/A	\$23.08
Second Quarter 2008	N/A	\$24.47	\$24.35	N/A	\$24.41
Second Quarter 2007	N/A	\$23.38	\$23.33	N/A	\$23.36

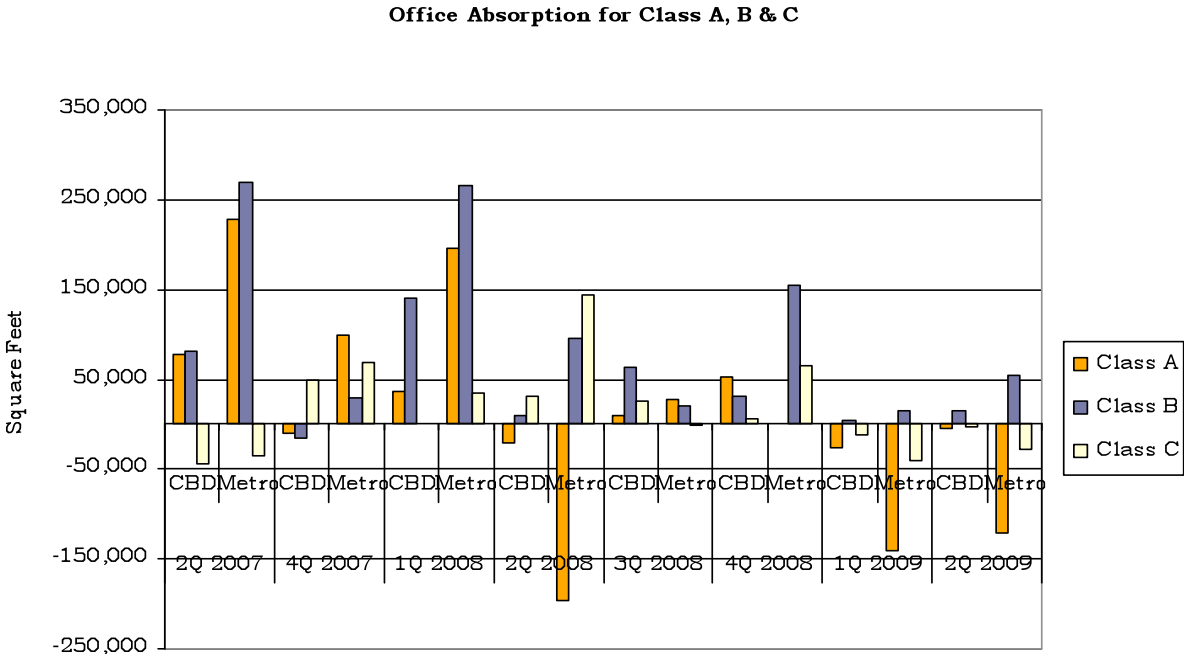
Source: CB Richard Ellis, Cushman & Wakefield, Grubb & Ellis, Norris, Beggs & Simpson Quarterly Reports and Statistical Reports, First Quarter 2009.

³ Vacancy rates above include subleases except those reported by CBRE. CBD figures include close-in neighborhoods, except Class A figures reported by CBRE. All rents are full service. All other suburban figures include Vancouver.

According to Grubb & Ellis, over 370,000 SF of newly constructed office space has been delivered to the market so far this year, falling just above the ten-year low point of 323,797 square feet seen in 2005 versus the peak of over two million square feet in 1999. Besides the 766,919 square feet currently under construction in the second quarter, Grubb & Ellis reports a little over 2.4 million square feet of planned or proposed office space.



Source: Grubb & Ellis, Co., Office Quarterly Report, Second Quarter 2009 Statistics



Source: Grubb & Ellis, Co., Office Quarterly Report, First Quarter 2009 Statistics

**CBD Direct Rental Asking Rates (sq.ft.)
Metro Wide All Classes v. CBD Class A**

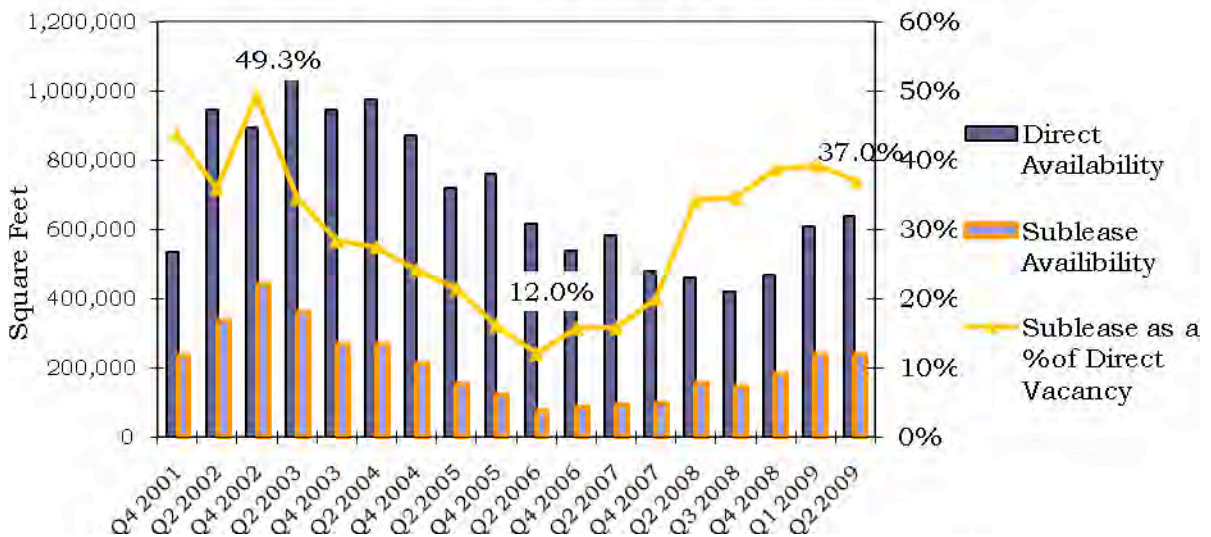


Source: Cushman & Wakefield, Portland First Quarter 2009, Overall Office Summary.

CBD Trends

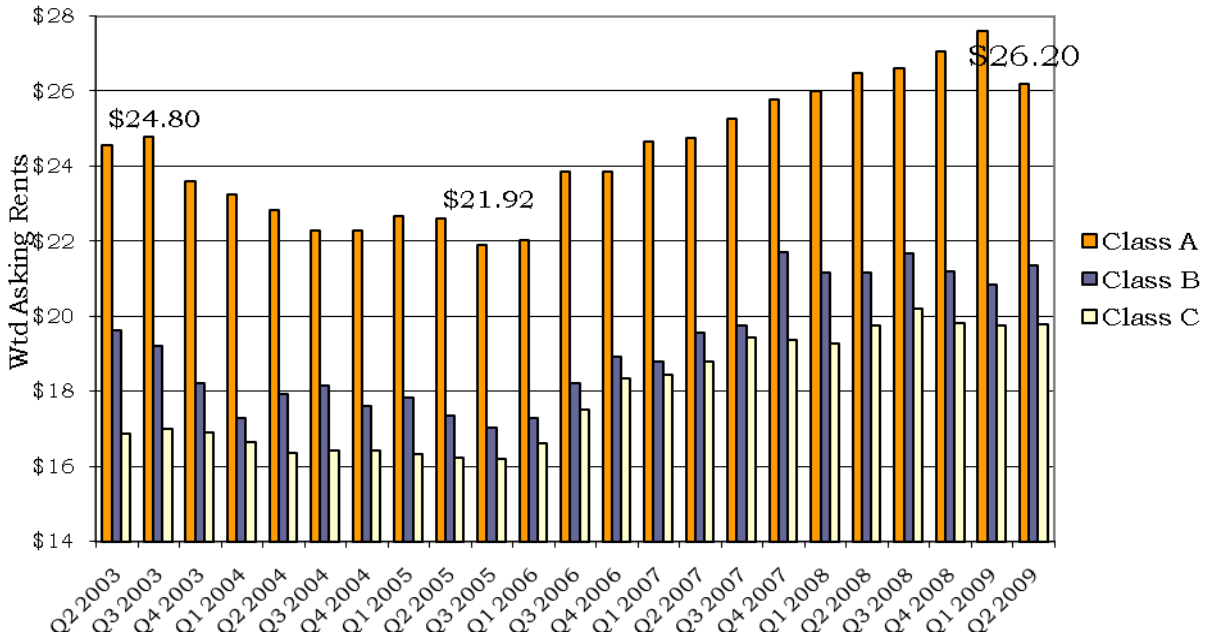
The median Class A vacancy in the CBD actually dropped 0.1 percentage points over last quarter from 6.4% to 6.3%, although asking rents dropped \$1.58 since last quarter. Stable companies are taking advantage of current conditions to take over more space in desirable areas. Sublease availability has leveled off this quarter according to Cushman and Wakefield.

Office CBD Class A Direct v. Sublease Availability



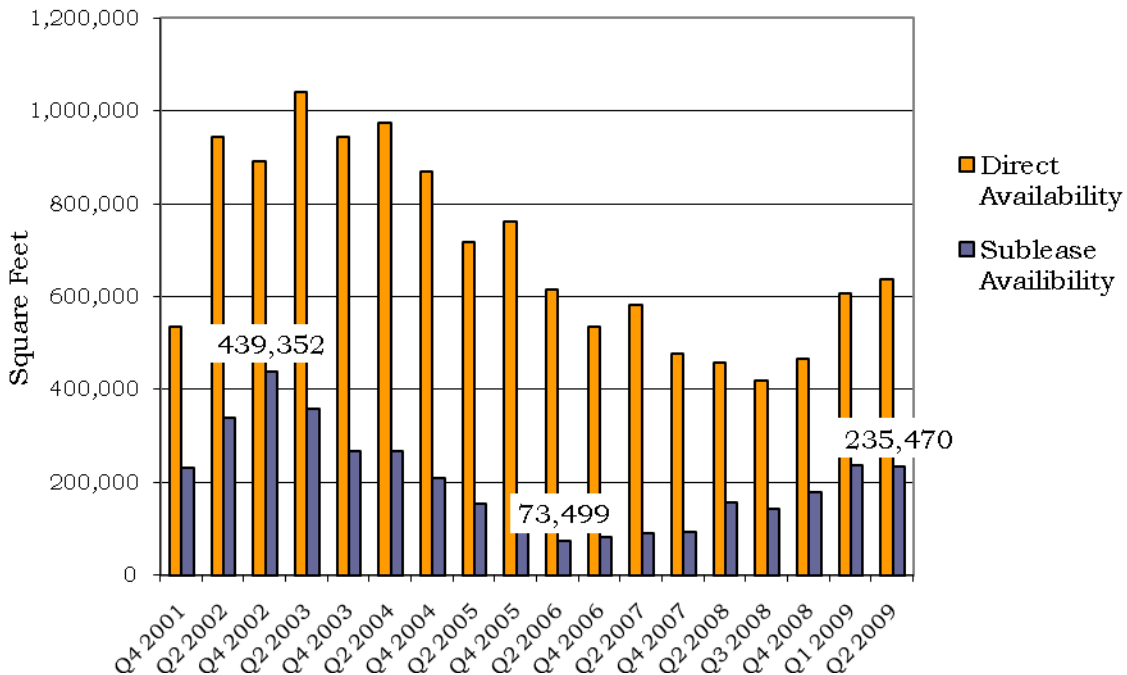
Source: Cushman & Wakefield, Portland First Quarter 2009, Overall Office Summary.

CBD Direct Rental Asking Rates/sq.ft.



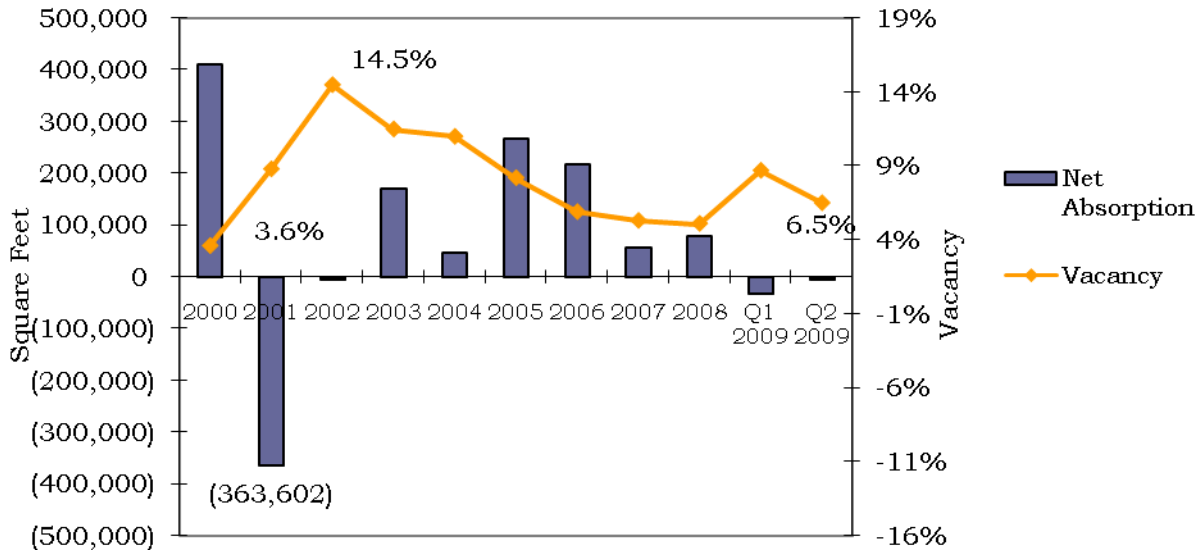
Source: Cushman & Wakefield, Portland First Quarter 2009, Overall Office Summary.

Office CBD Class A Direct v. Sublease Availability (Sq. Ft.)



Source: Cushman & Wakefield, Portland First Quarter 2009, Overall Office Summary.

CBD Net Absorption (sq. ft.) and Vacancy (%)



Source: Grubb & Ellis, Co., Office Quarterly Report, First Quarter 2009 Statistics

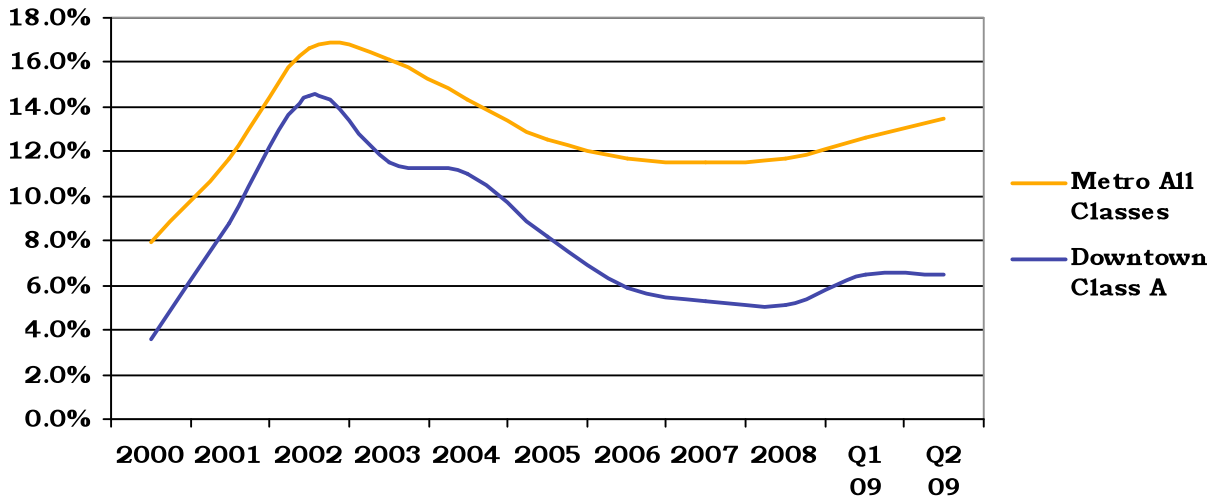
Suburbs:

Most vacancies have been felt in the suburbs, especially southwest. Kruse Way was hit hard, because of the nature of the businesses located there and the completion of Kruse Oaks III, adding a vacant 110,000 SF to the submarket. The Tualatin/Wilsonville submarket still shows the greatest vacancy rate of 26.9%, although its current vacant square footage of 430,302 SF equals only one-quarter the vacant square footage found in The Washington Square/Kruse Way submarket, which now has highest total vacant square footage with 1,653,480 SF currently vacant. According to CBRE, Airport Way also saw an increase in vacancy with the addition of 92,754 SF at Cascade Station II. There is very little new construction in the pipeline with TMT Development halting construction on the Park Avenue West tower. New designs show reduction from 32 to 26 stories (24 office, 4 more than before, and 2 retail) and no condominiums. CBRE reports over six suburban submarkets with over 20% vacancy: Airport Way, Beaverton, Hillsboro, Kruse Way, Tualatin and Washington Square.

*Source: Grubb & Ellis, Co., Office Quarterly Report, First Quarter 2009 Statistics

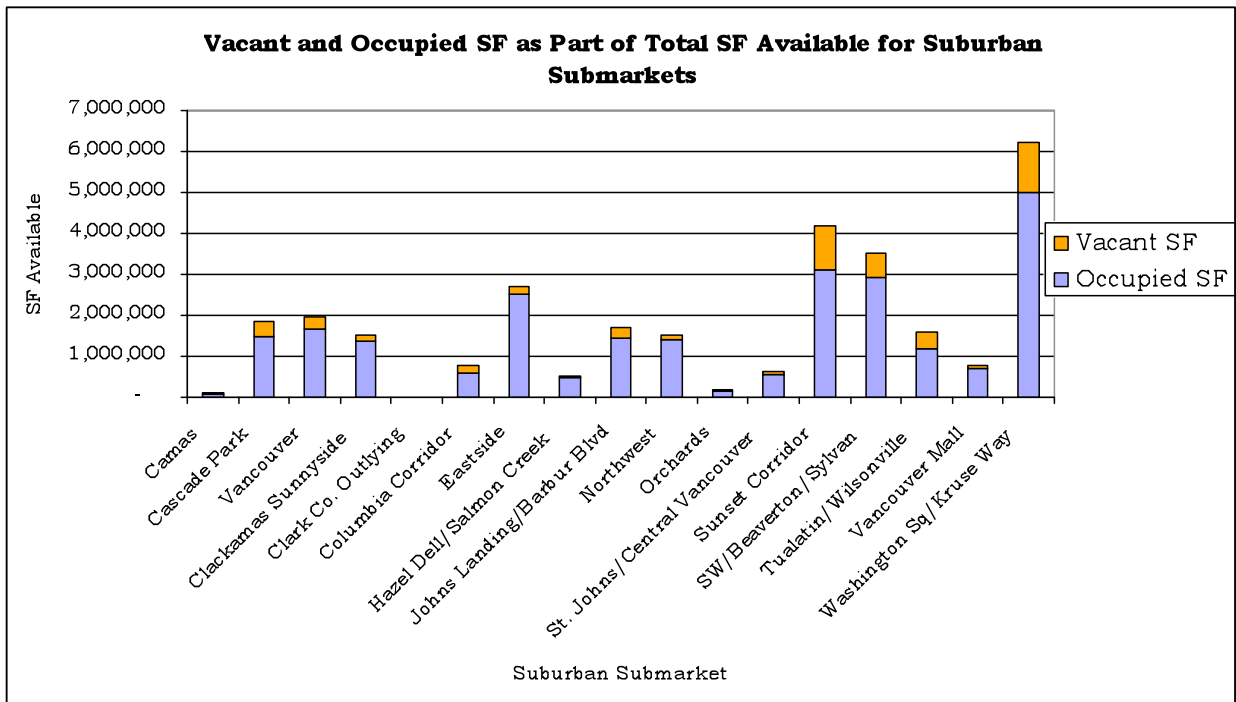
Suburban Office Submarkets Ranked by Highest Percent of Vacancy		
Submarket	Rank	Vacancy Rate
Camas	3	25.3%
Cascade Park	6	18.8%
Vancouver	9	14.7%
Clackamas Sunnyside	14	8.60%
Clark Co. Outlying	11	14.1%
Columbia Corridor	4	23.0%
Eastside	16	7.4%
Hazel Dell/Salmon Creek	17	5.5%
Johns Landing/Barbur Blvd	10	14.5%
Northwest	15	7.9%
Orchards	7	16.8%
St. Johns/Central Vancouver	12	10.7%
Sunset Corridor	2	25.6%
SW/Beaverton/Sylvan	7	16.8%
Tualatin/Wilsonville	1	26.9%
Vancouver Mall	13	9.00%
Washington Sq/Kruse Way	5	19.6%

**Office Vacancy:
Metro Wide All Classes v. CBD Class A**



*Source: Grubb & Ellis, Co., Office Quarterly Report, First Quarter 2009 Statistics

Vacant and Occupied SF as Part of Total SF Available for Suburban Submarkets



*Source: Grubb & Ellis, Co., Office Quarterly Report, First Quarter 2009 Statistics

Major Lease Transactions Q2 2009

Lessee	Property	Submarket	Size (SF)
Ashmead Education (renewal)	Plaza West Building	Tigard	20,646
ADP, Inc (renewal)	ADP Plaza	CBD	115,180
Corvel	ODS Tower	Southeast	21,664
Genesis Financial Solutions (renewal)	Creekside Corporate Park	Beaverton	27,862
Health Net Health Plan of OR (renewal)	Triangle Corp Park III	Tigard	54,579
Kaiser Permanente	Murray Scholls Town Center	Beaverton	17,795
Northwest Area Indian Health Board	Broadway Plaza	CBD	16,792
Papa Murphy's International	Clark Center Building	Vancouver	24,267
SAIF	1500 SW First Ave	CBD	32,726
West Coast Bank	5000 Meadows	Kruse Way	16,044

Source: CB Richard Ellis, MarketView Second Quarter 2009 Office Report, Norris, Beggs and Simpson, "Market Summaries 2Q09", Cushman and Wakefield, "MarketBeat 2Q09", Grubb & Ellis, "Office Trends Report 2Q09"

Portland Industrial Market Analysis

CB Richard Ellis notes that a recent report by the Pew Charitable Trusts remarks that Oregon leads the nation in green energy related jobs and that several companies have chosen Portland for their American headquarters, including Vestas, REPower, and Iberdrola Renewables. According to Moody's Economy.com, Oregon is one of five states expected to lead the recovery with its high tech industry.¹

That being said, the median vacancy as reported by the four largest commercial brokerage firms increased to 8.3%, up 0.5 of a percentage point from last quarter and over three percentage points from the second quarter of 2007. CB Richard Ellis expects it to reach double digits before the market begins to recover.

The industrial market experienced negative absorption again this quarter as a result of the return of a little over 1.5 million square feet of vacated industrial space to the market, nearly one third of which was due to the liquidation of Joe's and the closure of GM Service Parks Center in Beaverton, as reported by CBRE. Norris, Beggs & Simpson report that several tenants have left the Columbia Business Center.

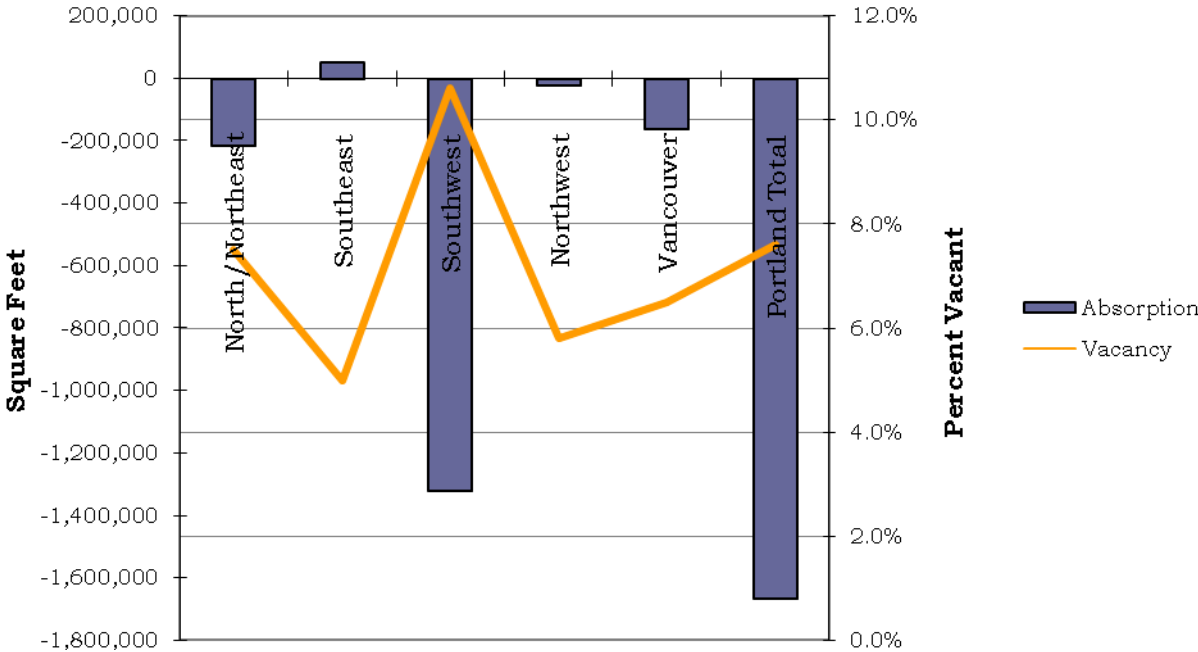
Leverage 2 Productions absorbed a little over 60,000 square feet in Clackamas. Monthly shell asking rates have held steady at a median of \$0.41/SF, while flex rates dropped slightly to \$0.80. There are currently 442,500 square feet under construction; 415,000 square feet are being built for FedEx, which is expected to create 650 new jobs. Due to credit restrictions and other impediments, landlords are offering few tenant improvements.

INDUSTRIAL Q2-09	CB Richard Ellis	Cushman & Wakefield	Grubb & Ellis	Norris, Beggs & Simpson	Median
Market-wide Vacancy	8.1%	8.0%	8.5%	13.9%	8.3%
Previous Quarter	7.3%	7.6%	8.0%	13.0%	7.8%
Second Quarter 2008	5.8%	6.3%	6.7%	N/A	6.3%
Second Quarter 2007	5.2%	4.9%	5.6%	N/A	5.2%
Warehouse/Distribution	N/A	7.7%	8.6%	N/A	8.2%
Previous Quarter	8.0%	7.3%	8.1%	N/A	8.0%
Second Quarter 2008	N/A	5.8%	6.8%	N/A	6.3%
Second Quarter 2007	N/A	3.8%	5.1%	N/A	4.5%
R&D/Flex Vacancy	N/A	9.6%	7.9%	15.1%	9.6%
Previous Quarter	10.1%	9.5%	7.2%	13.6%	9.8%
Second Quarter 2008	N/A	9.2%	6.5%	N/A	7.9%
Second Quarter 2007	N/A	9.5%	7.3%	N/A	8.4%
Asking Monthly Shell Rates	\$0.40	N/A	\$0.41	N/A	\$0.41
Previous Quarter	\$0.40	N/A	\$0.42	N/A	\$0.41
Second Quarter 2008	\$0.39	N/A	\$0.42	N/A	\$0.41
Second Quarter 2007	\$0.36	N/A	\$0.39	N/A	\$0.38
Asking Monthly Flex Rates	\$0.85-\$1.05	N/A	\$0.80	N/A	\$0.80
Previous Quarter	\$0.85-\$1.05	N/A	\$0.81	N/A	\$0.81
Second Quarter 2008	\$0.85-\$1.05	N/A	\$0.82	N/A	\$0.82
Second Quarter 2007	\$0.75-\$0.85	N/A	\$0.81	N/A	\$0.81

Source: Grubb & Ellis, Cushman and Wakefield, Norris, Beggs & Simpson, Quarterly Reports

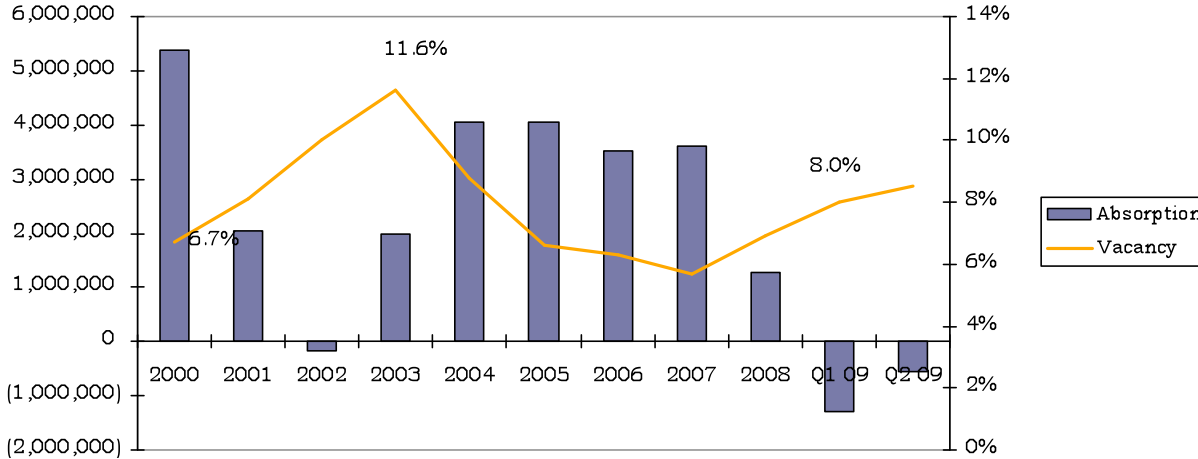
¹ [Oregon could lead nation out of recession, Moody's says](#)

Submarket Vacancy and Absorption First Quarter 2009



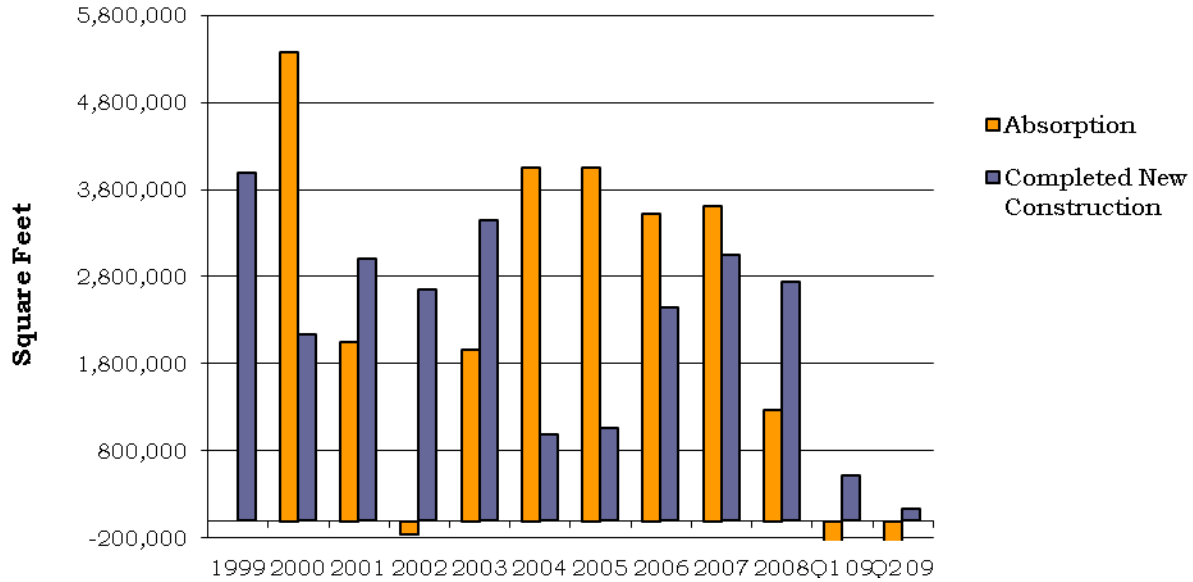
Source: Cushman & Wakefield Industrial Quarterly Summary, 2Q09

Overall Industrial Net Absorption (sq. ft.) and Vacancy (%) for Portland Market



Source: Grubb & Ellis Co., Industrial Quarterly Report, Second Quarter 2009

Industrial Absorption and New Construction (Sq. Ft.)



*Source: Grubb & Ellis Co., Industrial Quarterly Report, First Quarter 2009

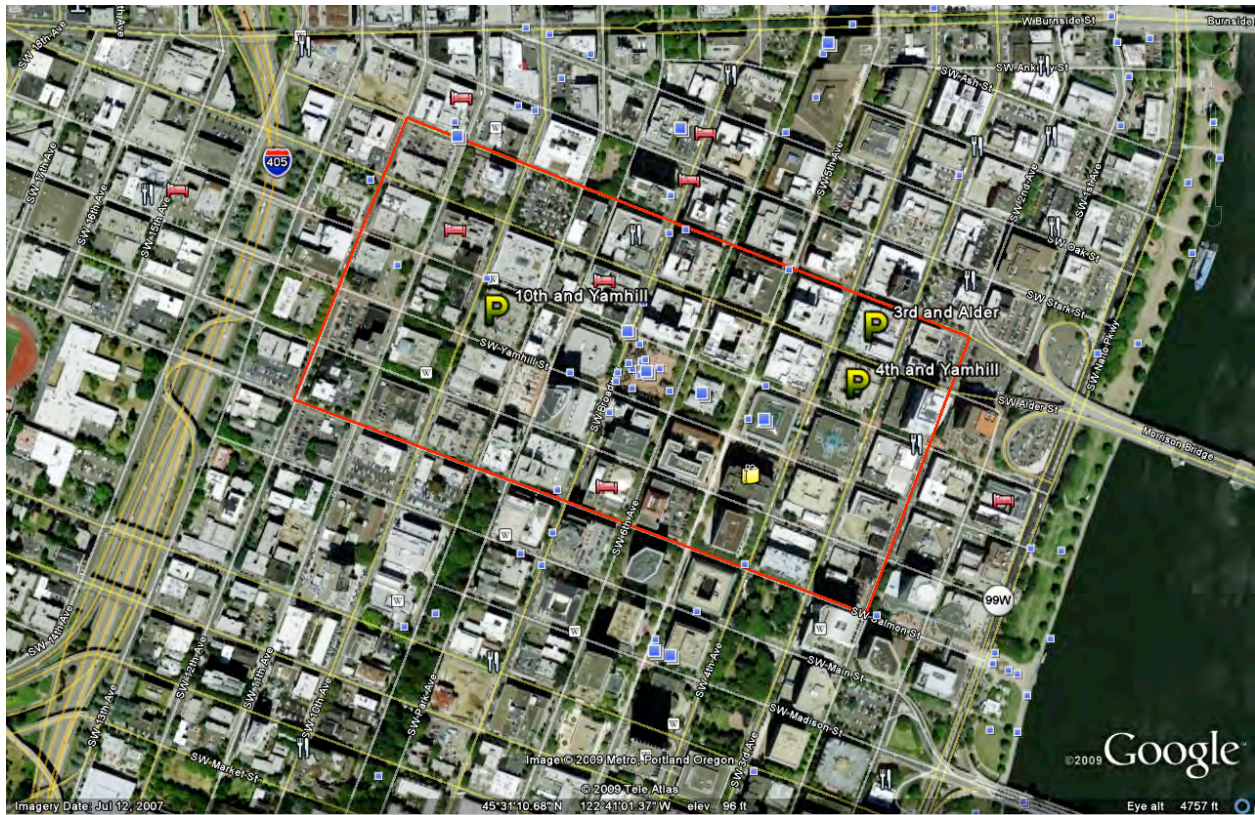
Major Lease Transactions Q2 09

Industrial

Tenant	Address	(Sq. Ft.)	Submarket
Daimler AG	6650,6720 N. Basin	82,500	North/Northeast
GE Security (renewal)	Leveton Corp. Campus	138,000	Tualatin
Leverage 2 Productions	Clackamas Commons	60,807	Clackamas
LG Electronics	Rivergate Corp. Center I	80,000	North/Northeast
Mackay-Mitchell Envelope Co.	2515 Mailwell Dr.	64,500	Southeast
PFX Pet (renewal)	PDX East	51,078	North/Northeast
Turner Engineering	Port of Vancouver	58,451	Vancouver
Total		314,836	

*Source: NAI Norris Beggs & Simpson, CB Richard Ellis, and Cushman & Wakefield, Industrial Quarterly Reports, Third Quarter 2008, and the Portland Business Journal

Downtown Retail Core Parking Market Analysis



Parking occupancy rates in a downtown area change dynamically and are a reasonable measure for economic activity transacted there. Office vacancies change more slowly, as does retail store vacancy while retail sales and hotel occupancies are more closely aligned with parking occupancies.

There are over 9,600 parking spaces in the retail core, defined by PDC to mean the area located between SW Washington to SW Salmon and SW 2nd to SW 12th Streets, but only one quarter of those spaces (2,467 spaces) are in SmartPark structures, owned by the City, and most attractive to shoppers because of their uniform consistent pricing and lower rates.

There are three public parking garages run by SmartPark, within the downtown retail core. Parking occupancy in these three garages can be used as a proxy for retail activity in the area, as these serve Pioneer Place and other shops in the area.

A Central City Parking Analysis conducted by Kittelson and Associates in November of 2008 for the Portland Office of Transportation, found that parking garages typically experience peak occupancy during the midday, from 1:00 - 2:00 p.m., and that most were operating near capacity. Kittelson reports that “[t]he data collection for this study was conducted in May and June 2008 and was scheduled to avoid the Portland Rose Festival and other major events.”

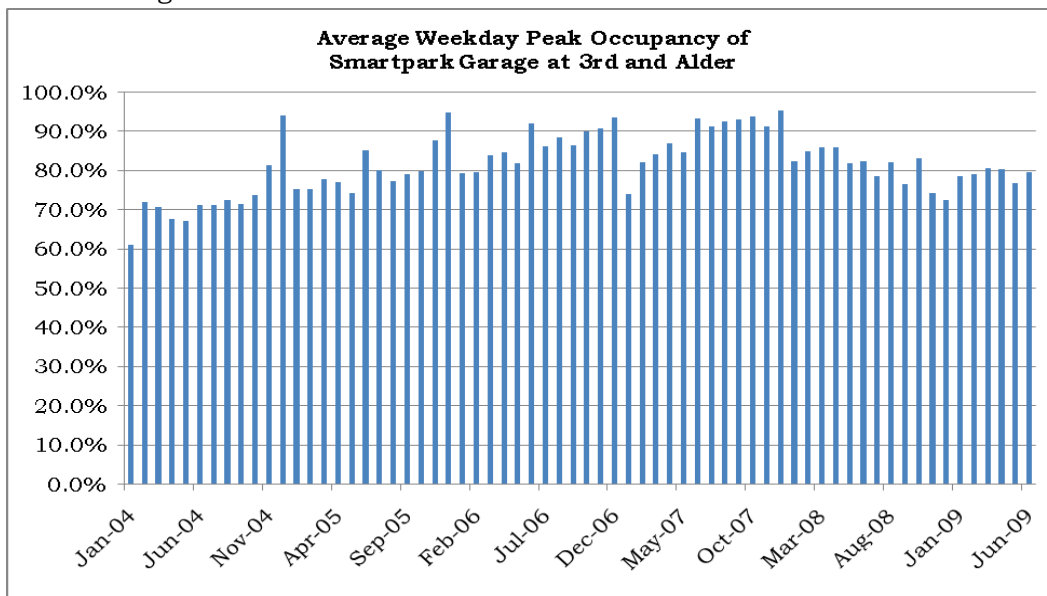
On-street parking experiences peak occupancy during the midday but its largest peak is in the evening, probably due to the fact that on street parking is free after 7:00 p.m.



The following graphs show the monthly average weekday peak occupancy levels in the three SmartPark downtown retail core garages since January of 2004.

S.W. 3rd and Alder

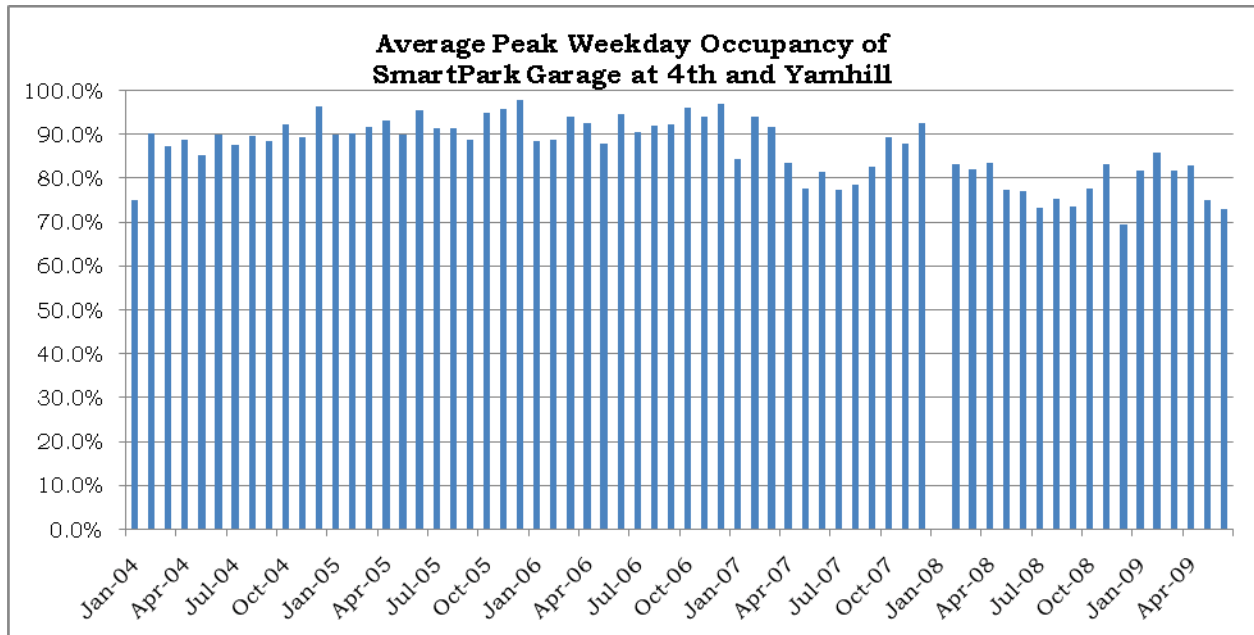
The garage at S.W. 3rd and Alder has 839 available spaces at a rate of \$1.50/weekday hour, \$4 weekday evening maximum, and \$5 weekend evening maximum (effective July 13, 2009). The peak in December, 2007 reached 95.2% average weekday occupancy, compared to December, 2008 which saw an average peak occupancy of only 72.4%. The five-year average of peak occupancies from January 2004 to June 2009 is 81.4%. The average from January 2004 to December 2007 was 81.9%, while the average from January 2008 to June 2009 remained close to the overall average at 80.2%.



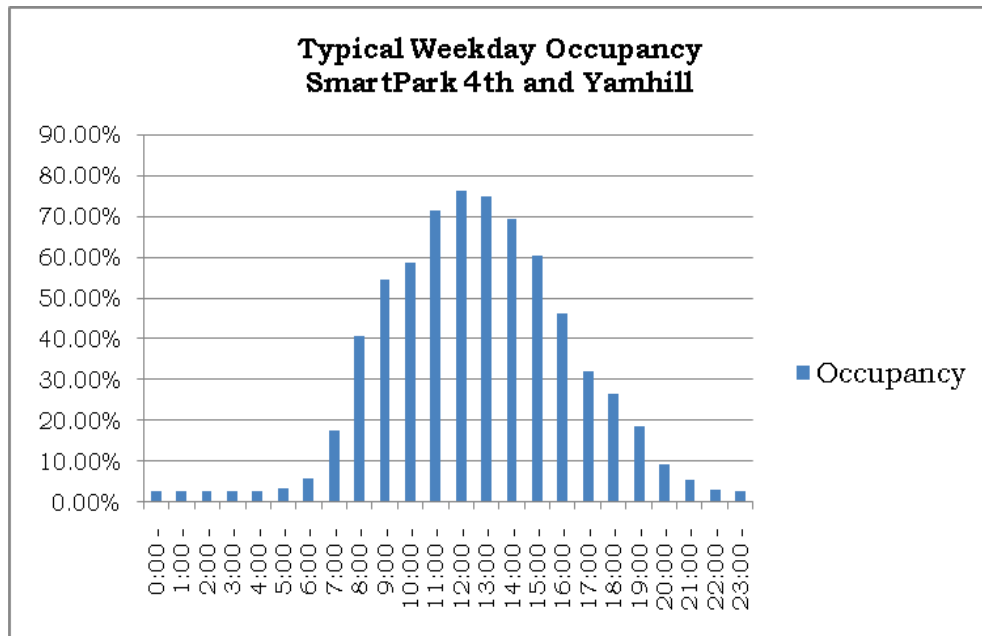
Source: SmartPark monthly occupancy reports

S.W. 4th and Yamhill

The garage at S.W. 4th and Yamhill shows higher average peak weekday occupancy. It has 650 available spaces. It achieved a 97.1% peak occupancy level in December of 2006. The overall five-year average from January of 2004 to June, 2009 was 86.8%. The average from January 2004 to December of 2007 was 89.7%. The average from January 2008 to June 2009 has dropped to 78.7%. The parking fee is \$1.50/hour, \$4/weekday hour (after the first four hours), \$4 weekday hourly maximum, and a weekend hourly maximum of \$5/hour).



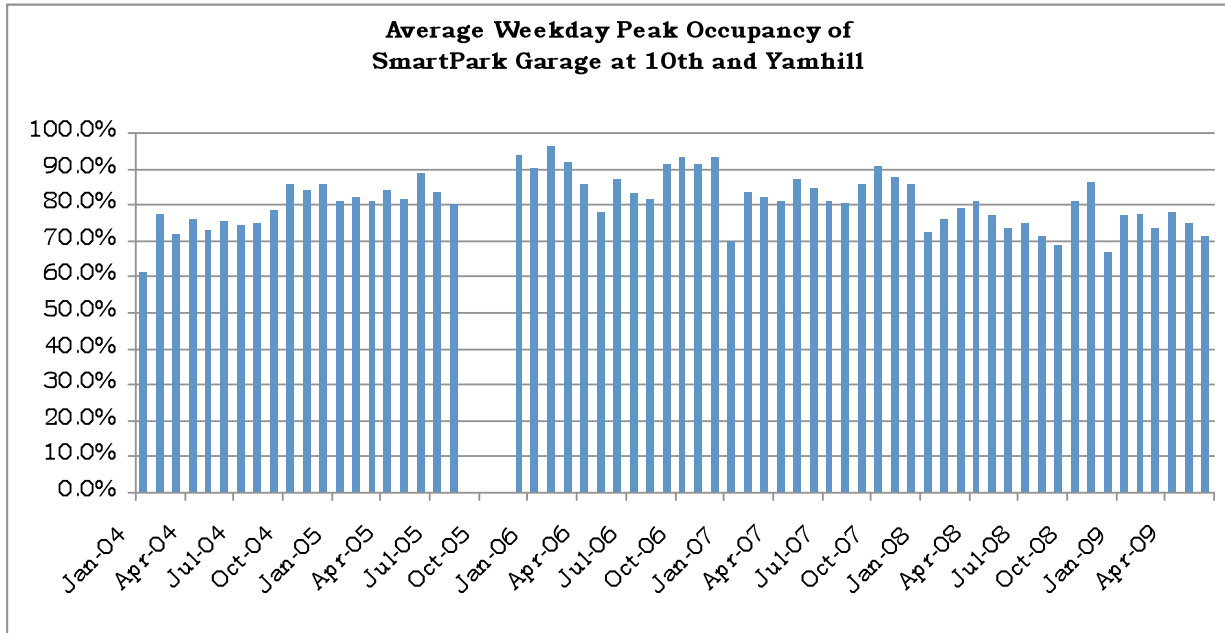
Source: SmartPark monthly occupancy reports
 **Data unavailable January 2008.



Source: SmartPark, Entry/Exit Report, Thursday, June 25, 2009.

S.W. 10th and Yamhill

The SmartPark parking structure at S.W. 10th and Yamhill has 794 available spaces. The average peak occupancy from January 2004 to December 2007 was 83.1%. The five-year average from January 2004 to June 2009 was 81.0%. The average from January 2008 to June 2009 was 75.7%, showing a drop in activity since the beginning of 2008. Parking fees are \$1.50 per weekday hour and a \$4 weekday evening maximum.



**Data unavailable September through December 2005.
Source: SmartPark monthly occupancy report