



**J O H N S O N**  
**G A R D N E R**

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DATE: August 31, 2004

TO: Mary Weber  
Sherry Oeser  
METRO

FROM: Jerry Johnson  
JOHNSON GARDNER, LLC

RE: Replicable Scope for Evaluating Regional Centers

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**MEMORANDUM**

Our work on the Beaverton Downtown Regional Center Development Strategy has reaffirmed previous findings that successful development of the 2040 Centers at targeted densities will require public intervention to be realized. As noted in previous studies commissioned by Metro, the economics of development under current market conditions in most centers are not supportive of the targeted development types.<sup>1</sup> This is primarily attributable to achievable lease rates or sales prices that are insufficient to offset the higher construction costs associated with urban development forms, most notably structured parking.

Jurisdictions seeking to encourage more urban density patterns within designated Centers will likely need to substantively intervene in the development market. The intent of intervention should be to create the catalyst in early projects that alter the development environment, primarily through a shift in achievable lease rates, to reduce the need over time for public participation. Early “catalyst” projects and other directed investments in the Regional Center have the potential to create a virtuous cycle, in which a substantial premium is achieved over time within the centers.

The Beaverton Downtown Regional Center Strategy represented a fairly comprehensive evaluation of the economics of development/redevelopment in that regional center, as well as available tools and a specific development strategy for achieving desired development forms. There are a number of conclusions related to this study that we would consider to be common to all of the metropolitan area’s Centers, with the exception of the Portland CBD. These include the basic relationship between achievable lease rates and/or sales prices and underlying land values. In general, higher achievable lease rates translate into higher supportable land values, and subsequently more intensive use of land in development.

This memorandum will summarize findings from our study that can serve as a baseline approach for jurisdictions seeking to intensify the development of their regional centers.

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<sup>1</sup> ECONorthwest and Johnson Gardner for Metro, “Metro Urban Centers: An Evaluation of the Density of Development”, July 2001.



## **BASELINE APPROACH**

### **A. General Approach**

A number of steps were completed as part of the Beaverton analysis that can be replicated in other centers. These involve the following general areas of action:

- *Increase understanding of physical characteristics of the center, ownership and improvement patterns, local market conditions, challenges and opportunities;*
- *Discern and/or generate a consensus on community values and vision;*
- *Identify key opportunity sites for further evaluation;*
- *Assess and package tools available to encourage targeted development; and*
- *Set up ongoing programs to proactively market the centers and encourage targeted development.*

The first step in preparing a strategy for guiding development in the centers is to better understand the physical, ownership and market characteristics relevant to each center. The key factors to understand are ownership and improvement patterns, the level of parcelization and transportation patterns. Much of this work can be done by the jurisdiction, with assistance from Metro. Local market condition assessments typically benefit from outside assistance from real estate professionals.

A strongly expressed community statement of vision and value for the area is key component of generating a strategy with broad public as well as political support. Uncertainty regarding community desires, and more importantly political intent and will, was cited by members of the development community as representing a perceived risk. From a development perspective, additional risk is equivalent to additional cost, increasing the viability gap.

The strategy developed for the Beaverton Regional Center included identification and evaluation of key “Opportunity Sites”. A similar evaluation can be done in other centers, identifying site-specific development programs that can serve a catalytic role within the center. This process helps to reconcile the planning concepts and goals outlined in the 2040 Plan for regional centers with development realities, identifying existing barriers to achieving desired development forms. The output from this type of analysis is typically identification of a viability “gap”, or quantification of the degree to which the desired development program is likely to be viewed by the development community as unviable.

A number of tools are available within the region and through local jurisdictions, many of which are identified in the Beaverton work. If the requirement to realize targeted development forms is to substantively intervene in the market, the tools available need to be identified, as well as their marginal impact on development.

While the preceding approach can serve to outline the issues and potential solutions, the relevant jurisdiction needs to act on this information as well as to effectively convey opportunities within the centers to local property owners as well as the development community. Ongoing programs should be established to proactively encourage development within the centers, as well as to monitor factors affecting the viability of development over time.



## B. Center-Specific Variations

There are a number of areas in which the regional center will vary substantively, and these areas should be the focus of future Center-specific analysis. The following is a brief summary of several key areas for analysis.

### Achievable Rent Levels/Sales Prices

The general viability problem found in the Beaverton Regional Center reflects achievable market rents inadequate to support the desired development forms. Rent levels in specific areas within the metropolitan area reflect a number of variables, and will vary by land use. For retail, lease rates are a function of achievable sales volumes, which in turn are a function of factors such as: current and future local demographics; drive-by traffic; the competitive environment; and the availability of alternative locations. Office rent levels are a function of the competitive position of the regional center vis-à-vis alternative locations, general and local market conditions. Residential rent levels and sales prices are subject to similar influences on achievable rental levels or sales prices.

### Geographic and Parcel Specific Data

There are number of variables that will necessarily be specific to individual regional centers, as have a significant impact on development/redevelopment expectations. These include:

- *Parcelization*
- *Ownership Patterns*
- *Current Level of Improvement*
- *Infrastructure Capacity*

The current conditions or physical characteristics component of the aforementioned approach can identify and clarify these issues.

### Community Views

The views of the local community are a key variable in determining an appropriate development strategy for an individual center. A number of relatively cost-effective methods to gauge community views are available, including web-based surveys, focus groups, personal interviews and outreach efforts to existing citizen and business groups.

### Tools Available and/or Appropriate

While the tool identified in the Beaverton Regional Center work are fairly comprehensive, there may be some additional tools available in specific areas, most notably an urban renewal district. In addition, tools available are likely to vary over time, and this list should be updated as necessary.

## C. General Scope Guideline

Each designated Center will present a somewhat different set of challenges and opportunities. In addition, the dynamics of the development environment will change over time, potentially changing the development equations substantively.

The following are the components of scope of work that we feel would provide an appropriate basis for individual analysis for other centers. While the scope is somewhat reduced from that undertaken



in Beaverton, it addresses the key variables impacting development potential that may be unique to individual centers.

## **I. INVENTORY OF EXISTING CONDITIONS**

1. Prepare a comprehensive profile of the Center based on the data that may be available from Metro and the relevant jurisdiction, including:
  - *Ratio of buildings to land value, market values, range of businesses and their locations, site constraints, range of housing*
  - *Identify opportunity sites for further review, including assembly of parcels. These can be selected based on their potential for catalyzing further development, or because they represent specific challenges for the center.*
  - *Inventory of parking*
  - *Ownership patterns*
  - *Analysis of the organization of civic uses and spaces*
  - *Infrastructure capacity and condition*
2. Conduct a web-based survey to solicit views on the assets of the Center.
3. Conduct focus groups of local residents, business owners, property owners and developers.

## **II. MARKET RESEARCH**

1. Undertake a market analysis to determine viable development forms, as well as key parameters such as achievable rent levels and market characteristics.
2. Using the data collected the Consultant will identify:
  - *Sub market areas for development opportunities*
  - *Criteria for selecting the opportunity sites*
  - *Opportunity sites within the Center*
  - *Strategic sites within the Center where redevelopment will spur broader core area revitalization*
  - *Housing, office, retail, recreational, institutional development opportunities*
3. Prepare schematic development programs for identified opportunity sites within the Center, including program and cost estimated.
4. Test the financial viability of these concepts.
5. Develop a strategy for the Center

## **III. ANALYSIS OF ASSETS, BARRIERS, AND OPPORTUNITIES**

1. Identify the assets, barriers, and opportunities (including physical, financial, market, regulatory, political, and other) that exist within Center and affect development of the Center.
  - *Identify the missing elements in the Regional Center based on Metro's "Assessment of Centers Needs" document.*
  - *Undertake an audit of the code and comprehensive plan.*
  - *The local jurisdiction will host two focus groups on developing in the Center, for the development community as well as property and business owners in the area.*
2. Analyze the assets and barriers
3. Identify potential strategies for overcoming the barriers



#### **IV. DEVELOPMENT OF INITIATIVES, INVESTMENTS AND INCENTIVES**

1. Update the initiative, investment and incentives work previously completed.

#### **V. DEVELOP AND IMPLEMENT AN ACTION PLAN**

The development of an action plan needs to be the key output from this type of effort, coalescing the information gathered and analysis completed into a clear course of future action. Having defined assets, barriers and opportunities in Tasks I through III, and assessed available tools in Task IV, the key role of Task V is address to the extent possible barriers to achieving the targeted development forms. There are a number of strategic concepts that were developed in the Beaverton Regional Center study that can be more widely utilized, but this section will likely represent a highly specific plan reflecting local physical and market realities, as well as community vision.

The key outcome of this scope of work is a better understanding of the functional dynamics of the local development market, which is useful in the evaluation of either centers or corridors. While the preceding scope of work would provide useful information for *all* center and corridor classifications, it also represents a substantial level of effort and cost. A reduced scope of work may be more appropriate for Town Centers or Corridors. The estimated cost of this scope of work would range between \$50,000 and \$60,000 per Center, with savings primarily attributable to a reduced scope for documenting tools available. The existing conditions work could be completed by the local jurisdiction, reducing the proportion of this budget that would need to be contracted out. Key cost variables include: the number of opportunity sites evaluated; the consultant effort required on documenting existing conditions; and the degree to which the consultant is involved in the community outreach efforts.

For Centers where this work has already been completed, the information should be revisited on a periodic basis. The primary aspects to this that would need to be updated would be current market parameters, as well as tools available. Additional opportunity sites be added, or the work on the current sites updated based on updated market data. The cost of this effort should be relatively modest, with staff able to do much of the work, particularly on opportunity sites and tools available. Any collateral support materials would also need to be kept current, and can be designed to allow for ongoing modification of market data. Updating costs would likely be between \$10,000 and \$20,000, depending upon the final scope of services.