

Southwest Hills LLC Final and Best Offer to Resolve Strohecker Appeal

September 4, 2018

Summary Background

The BDS planning staff and the Hearings Officer recommended removing the grocery only and related conditions on the Strohecker's site finding that on balance the request to remove the conditions was equally or more consistent with the City's updated Comprehensive Plan than the restrictive conditions.

The BDS staff and the Hearings Officer applied 199 policies. The staff and Hearings Officer found that the proposal was equally or more supportive of 198 of those policies. Even if you gave some policies greater weight, the overwhelming conclusion is that the proposal to remove the conditions meets and exceeds the approval standard.

However, the Council charged the applicant and SWRHL to further discuss whether any minimum commercial square footage could be agreed to between the parties. Specifically, Council directed the parties to try to negotiate two issues: (1) a minimum square footage; and (2) the commercial use category of that square footage, i.e., office, retail or general commercial.

The applicant took that direction from Council and composed a team of 4 experts, including 3 mixed use residential and retail/office developers with extensive experience in Portland and Jerry Johnson of Johnson Economics. The expert opinions of each are attached here for your review.

The directions were simple: Is there any level of minimum retail allotment that would be viable on this site given its location and the trade area? And if not, are there any special circumstances in this case that may make some retail allotment viable?

These questions and the related research were designed to avoid the kind of steady vacancy the site suffers from now and to evaluate whether we could collectively establish a minimum retail allotment that would be viable for the owner and the neighborhood.

The Conclusions

All four experts agreed that under the typical retail trade evaluation there is no reason to conclude that any level of retail on this site would be viable with any level of certainty. Thus, setting a required minimum would more than likely lead to continued vacancy and the total inability to develop the site.

However, the experts did agree that given the strong demographics in the area, it is possible that a small destination retailer like a wine shop or small café could attract enough of a local draw that with some rent concessions, such a use could be viable.

A good and present example of this kind of use seems to be the Vista Springs Café. It is also located in the CM1 zone and is less than a mile from the site. The Café is approximately 2,700 square feet.

Thus, the applicant has confirmed that the initial offer of 1,500 square feet is a highly reasonable minimum retail allotment that is less likely to endure sustained vacancy.

SWRHL also asked our team to evaluate whether we could increase our offer to 3,000 square feet and whether that increase would create more critical mass and therefore create more viability.

We went back to the experts. In summary, the experts concluded that: (1) any REQUIRED retail is risky and that the risk profile does not substantially change between 1,500 and 3,000 square feet; and (2) to create critical mass you need a much more extensive retail allotment that cannot be supported in this location. In other words, a far more dramatic increase in the tens of thousands would be needed to draw users from a larger geographic area.

In an effort to reach an agreement, the applicant conceded that it could take the risk to increase the minimum required general retail square footage to 3,000 square feet.

This offer was rejected.

Final and Best Offer

Therefore, our best and final offer is an agreement to the following condition of approval:

Development of the site will include space of at least 3,000 square feet to accommodate a retail sales and service use. Any portion or all the 3,000 square foot retail sales and service space can be converted to another allowed use in the CM1 zone if the owner of the site demonstrates that the site was marketed for the allowed retail sales and service use for a period of 6 months from the substantial completion of the retail shell construction and no retail sales and service tenant has entered into a lease or sale agreement for the space.

If SWRHL is correct that more retail is not only viable but preferable because of critical mass, THE APPLICANT'S OFFER WOULD ALLOW SWRHL'S PREFERRED USE. We are only proposing a minimum; a minimum that would allow a neighborhood serving retailer if one is later identified and more retail if the market can support it. SWRHL wins.

If SWRHL is wrong, the site WILL BE VACANT. Everybody loses.

This is not a situation where one can just pick a number between two offers or pick a specific type of retail use. Instead, the final and best number and use must have some chance of serving the intended purpose, which here is a viable and successful retail use in what will likely be a mixed-use development. If you choose too high, the site will be vacant and un-useable. If you choose a lower, more viable minimum, you have a guarantee that at least the retail space will be built to accommodate the use if the market delivers that use. If the market does not deliver, then you either have a dark storefront or a space that can be converted to another use.

Design Review

We understand that SWRHL may also request that Council impose a new design review requirement on the site. The Council *did not* direct the parties to discuss a new requirement to add a Design Overlay to the site. We cannot accept such a condition for many reasons:

1. There is presently no Design Overlay zone mapped on the site. Under PCC 33.855.060, amendments to the overlay zone are subject to a Type III approval process with specific approval criteria. None of those criteria have been addressed here, none of those criteria were identified in the notices of the proceedings at any level of the review and there are no findings under those

criteria. Thus, as a procedural and legal matter, this proceeding cannot impose the Design Overlay zone and subject the property to design review.

2. To our knowledge, the City has never applied the Design Overlay zone in a “spot overlay” in a quasi-judicial application.
3. And in this case, the property is already subject to development standards that relate to building design that are specifically and intentionally tailored to a site just like this one. All CM1 zoned properties are identified as:

“Sites in dispersed mixed-use nodes within lower density residential areas...This zone allows a mix of commercial and residential uses. The size of commercial uses is limited to minimize the impacts on surrounding residential areas...Development is intended to be pedestrian oriented and compatible with the scale and characteristics of adjacent residentially zoned area or low rise commercial areas.”

The recently adopted CM1 zone then contains specific development and design related standards to respond to these objectives. All similarly zoned CM1 sites are subject to these same standards. The standards include building length and façade articulation, landscaped areas, mandatory ground floor windows, pedestrian standards, and the like. These standards were drafted and adopted by the City to provide assurance to neighborhoods with a dispersed commercial node that the site would be developed in a manner that is consistent and compatible with their neighborhood. The City found that these standards were good enough for every other neighborhood with CM1 zoning and they should be good enough here as well.

4. The new CM1 zoning also provides an early neighborhood outreach requirement to notify the neighborhood of a proposal and hold a meeting to discuss the proposal.

For these reasons, we cannot accept a condition to impose Design Review on this site.

Recreational Trail

The Parks Bureau requested a trail easement across this property for access to Portland Heights Park. The Hearings Officer correctly rejected that request finding that there is no mapped trail on the property and no redevelopment is proposed at this time that would legally justify the trail condition. Further, the park is adjacent to and accessed from a public right of way immediately adjacent to the site with a full public sidewalk. Therefore, full public access is already provided to the park immediately adjacent to this site and nothing about this application precludes, prohibits or restricts that access. For these reasons, there is neither an essential nexus to justify the dedication of a public trail on the site, nor any indication that a public trail would be roughly proportional to the effect of any future development on the site.

We cannot therefore accept a condition to add a trail easement to this site.

JOHNSON ECONOMICS REPORT



MEMORANDUM

DATE: August 22, 2018

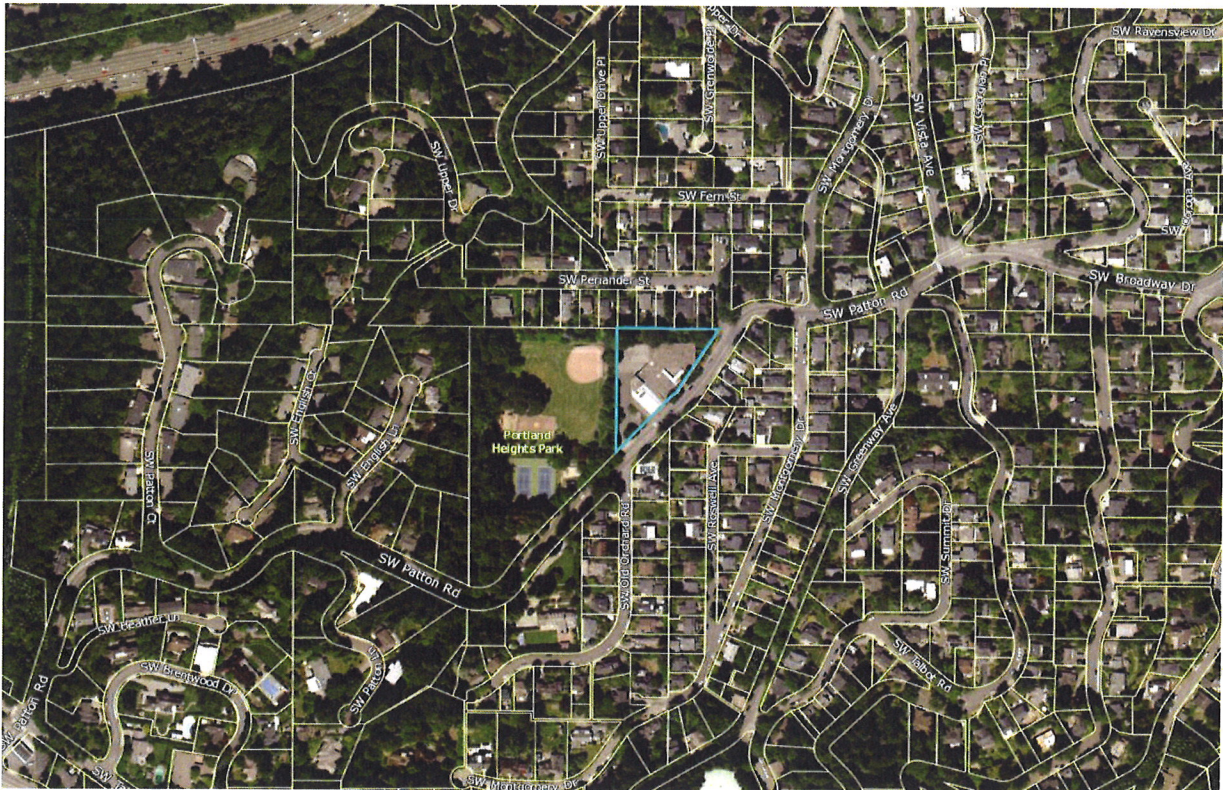
TO: Christe White
RADLER WHITE PARKS & ALEXANDER, LLP
111 SW COLUMBIA STREET, SUITE 700
PORTLAND, OR 97201

FROM: Jerry Johnson
JOHNSON ECONOMICS, LLC

SUBJECT: Evaluation of the Viability of a Retail Development Opportunities on the Strohecker's Site in Southwest Portland

Johnson Economics was asked to prepare an assessment of retail opportunities at the Strohecker's site in Southwest Portland. The site has served as a specialty grocer for decades, but that operation closed several years ago. The property is located immediately east of Portland Heights Park, with frontage along SW Patton Road. The site is 1.14 acres in size, with an approximately 20,000 square foot structure built in 1986.

SUBJECT SITE LOCATION



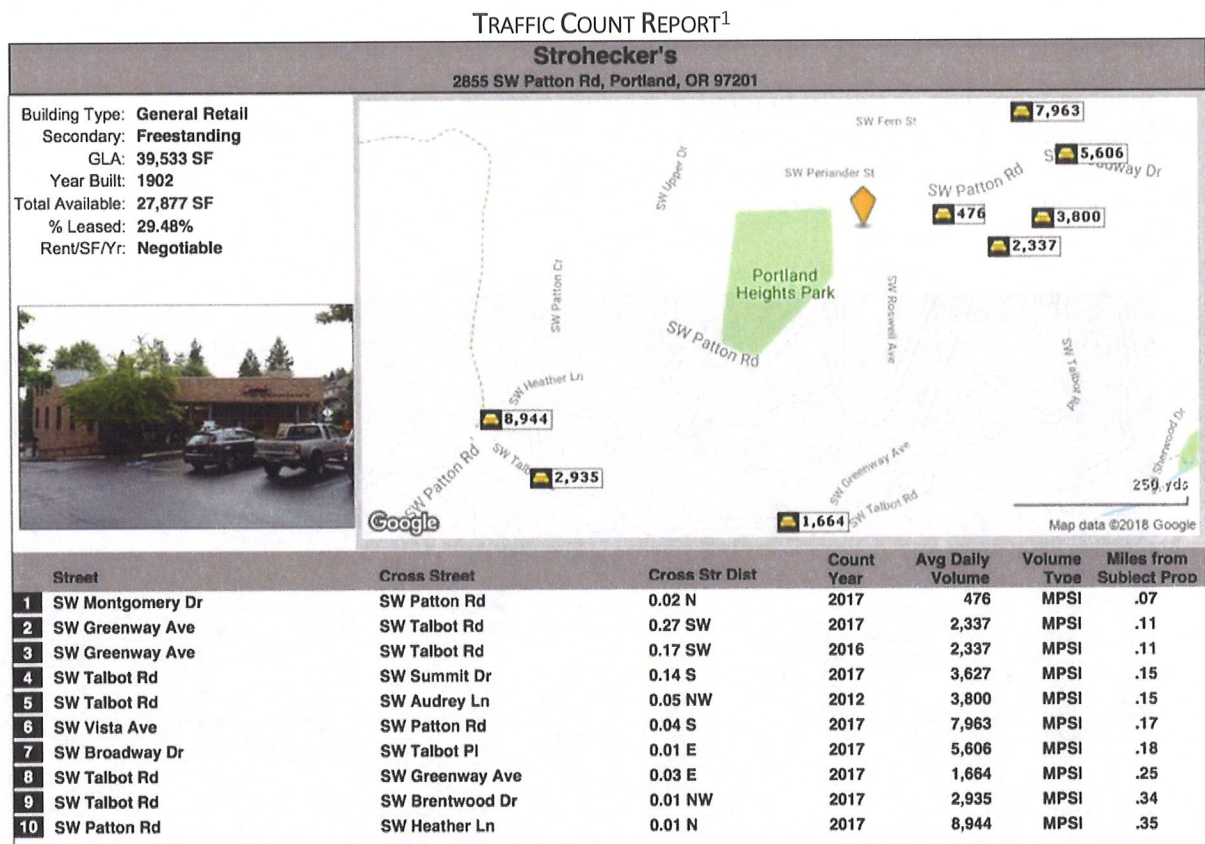


To assess retail commercial potential on the site, we evaluated key indicators of retail success: traffic patterns; demographics; the retail context; and retail expenditures by category. This memorandum summarizes that evaluation as well as our key findings.

I. SITE OVERVIEW

TRAFFIC COUNTS AND DEMOGRAPHICS

The surrounding neighborhood has one of the highest household income profiles in the region, but the predominant development form is single family homes and the density is low. While SW Patton Road serves as an arterial through the Portland Heights neighborhood, traffic levels are well below what would be needed for most retailers. Average daily traffic counts to the east of the site are 5,606, increasing to 8,900 trips west of the site.



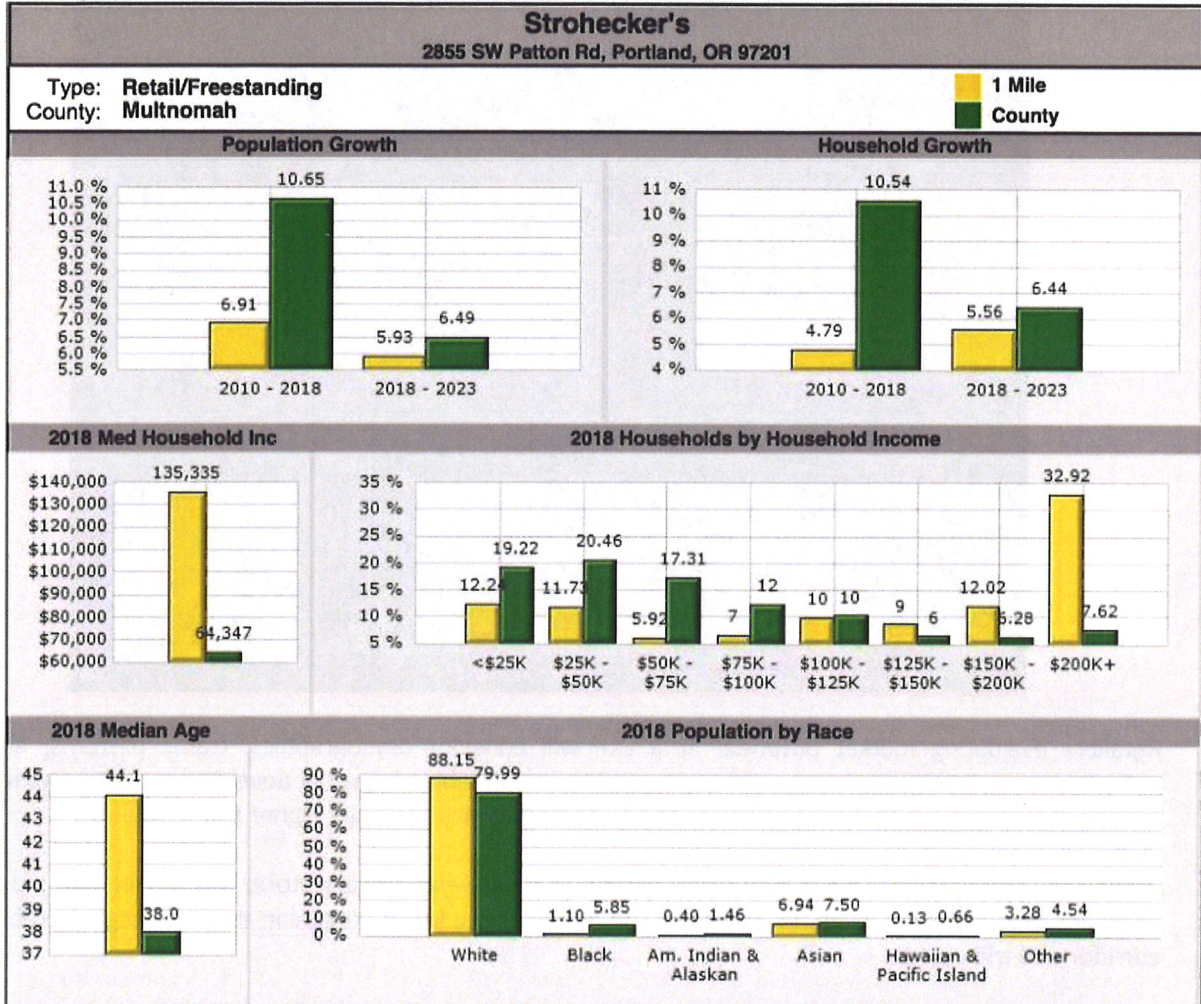
A demographic profile within a mile radius of the site is reflective of a highly affluent and stable neighborhood. Median household income is over \$135,000, more than double the median level for Multnomah County as a whole. Average household income is estimated at \$161,248 in 2018. Roughly a

¹ CoStar Realty Information



third of households within a one-mile radius have incomes over \$200,000 per year, with 45% having incomes over \$150,000 and over 60% having incomes over \$100,000.

DEMOGRAPHIC MARKET COMPARISON REPORT, ONE-MILE RADIUS²



Source: CoStar

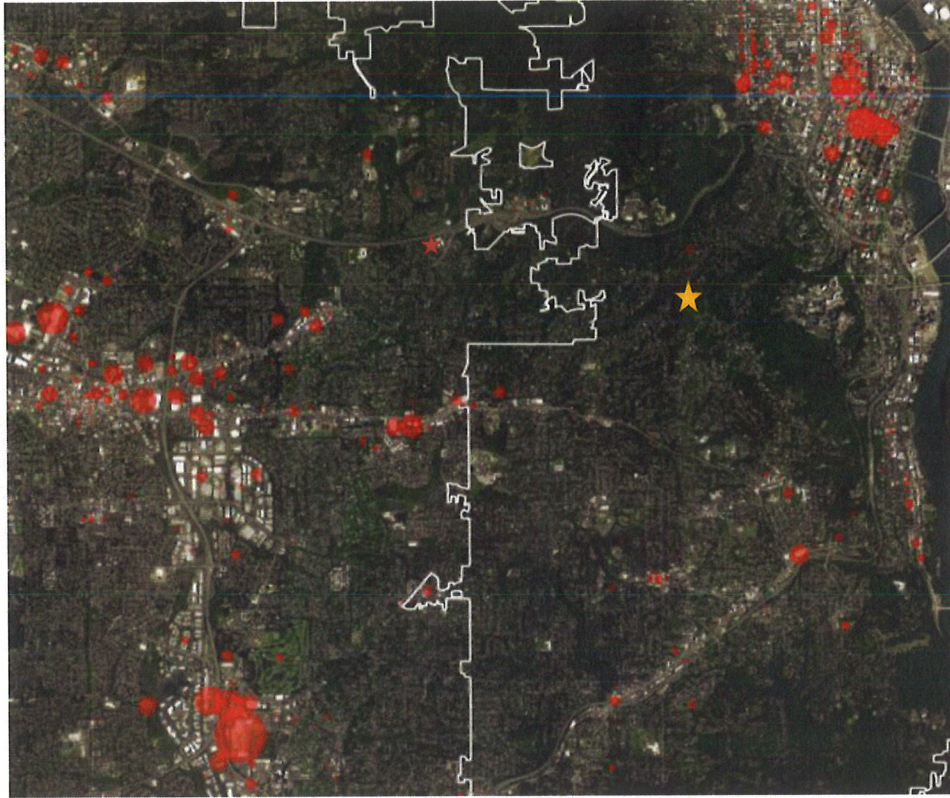
RETAIL CONTEXT

The Portland Heights area is served by retail concentrations along West Burnside (via Vista), in Hillsdale (SW Capital Highway), Barbur Boulevard, and along SW Beaverton/Hillsdale Highway (Highway 10). Regional-serving retail is in the Portland CBD as well as the Washington Square area. These retail areas are regional arterials and have significantly higher traffic volumes than SW Patton Road. Retail trade areas function similar to watersheds, and expenditures originating from the local area are captured by these retail concentrations.

² CoStar Realty Information



LOCATION OF RETAIL EMPLOYMENT PROXIMATE TO SUBJECT SITE



Retailers evaluating market potential at a site will consider demographics, traffic patterns, and the competitive environment. Access and exposure are key variables for retail development, and retailers will tend to favor locations that are proximate to key demographics and have higher traffic volumes.

While the Strohecker’s site has historically served as a high-end grocery store, this tenant type no longer considers these types of locations as viable. The following is a list of grocers in the area, organized by retail corridor and trip count:

Grocers	Corridor	Average Daily Trips
Albertson’s Fred Meyer Safeway New Seasons	Beaverton/Hillsdale	23,510
Fred Meyer Safeway Market of Choice (Terwilliger)	Barbur Boulevard	29,600
Food Front	SW Capital Highway	10,460
Zupan’s	West Burnside	24,115
Zupan’s	SW Macadam	22,400

The high-end demographics of the immediate area are consistent with specialty grocer demand, but this demand is met by existing retailers in the area such as New Seasons, Zupan’s, and Market of Choice.



The market in the area for other retail categories is also limited. Retailers prefer to congregate with other commercial and retail services, which increases the attractiveness and market pull of the aggregated tenant base. Retail analysis often uses a “gravity model”, which recognizes that retail concentrations with a greater level of retail space pull from a broader trade area. The significant concentration of retail activity along the existing corridors could not be replicated along Patton Road. In addition, traffic counts in these corridors are significantly higher. The local area is at a competitive disadvantage vis-à-vis these alternative locations when marketing to retail tenants.

II. RETAIL MARKET ANALYSIS

RETAIL GAP ANALYSIS

A common analytical tool used in evaluating retail potential is referred to as a retail gap analysis. This analysis projects demand by retail category within a defined trade area and compares it to estimated retail sales by category in the same area. The resulting measure indicates the estimated amount of sales for retail goods and categories that are served outside of the area (gap) or the excess demand for certain types of goods that is served within the area (surplus). As an example, major comparison shopping goods such as motor vehicles will show large gaps in areas with no dealerships, while significant surplus in areas with dealer concentrations.

The measure is most useful for convenience goods that consumers will only drive a limited time for. As shown in the following table, the area within a three-mile radius of the subject site generates an estimated annual demand for \$374.2 million in grocery store goods, while the current supply serves \$509.7 million, indicating a \$135.5 million dollar surplus in local grocer goods.

ESTIMATED 2018 RETAIL DEMAND AND SUPPLY IN 1- AND 3-MILE MARKET AREAS

	2855 SW Patton Road - 1 mi Radius			2855 SW Patton Road - 3 mi Radius		
	2018 Demand (\$)	2018 Supply (\$)	Opportunity Gap/Surplus (\$)	2018 Demand (\$)	2018 Supply (\$)	Opportunity Gap/Surplus (\$)
Motor Vehicle and Parts Dealers				634,839,350	550,979,150	83,860,199
Furniture and Home Furnishings Stores				76,729,991	180,991,446	(104,261,454)
Electronics and Appliance Stores				71,533,221	120,529,950	(48,996,729)
Building Material and Garden Equipment and Supplies Dealers	23,455,293	470,863	22,984,430	216,408,787	254,953,200	(38,544,413)
Food and Beverage Stores				425,273,684	549,324,539	(124,050,856)
Grocery stores (NAICS 4451)				374,195,286	509,732,651	(135,537,365)
Specialty food stores (NAICS 4452)	957,103	167,466	789,637	11,164,486	16,853,328	(5,688,842)
Beer, wine, and liquor stores (NAICS 4453)	3,275,936	220,666	3,055,270	39,913,912	22,738,561	17,175,351
Health and Personal Care Stores	15,910,032	1,539,493	14,370,539	180,696,737	154,022,885	26,673,852
Pharmacies and drug stores (NAICS 44611)				151,654,447	129,699,718	21,954,728
Cosmetics, beauty supplies, and perfume stores (NAICS 44612)	937,633	97,904	839,729	10,008,445	11,249,059	(1,240,614)
Optical goods stores (NAICS 44613)	687,341	55,895	631,446	7,550,840	6,133,652	1,417,188
Other health and personal care stores (NAICS 44619)	1,051,280	63,667	987,613	11,483,006	6,940,456	4,542,550
Sporting Goods, Hobby, Musical Instrument, and Book Stores	5,691,482	252,118	5,439,363	61,426,206	112,784,685	(51,358,479)
Sporting goods, hobby, and musical instrument stores (NAICS 4511)	4,618,148	203,943	4,414,205	49,702,364	91,350,515	(41,648,151)
Book stores and news dealers (NAICS 4512)	1,073,334	48,175	1,025,159	11,723,842	21,434,170	(9,710,328)
Miscellaneous Store Retailers	6,604,843	468,418	6,136,425	73,070,967	236,731,717	(163,660,750)
Florists (NAICS 4531)	400,303	12,370	387,933	3,681,979	6,151,839	(2,469,860)
Office supplies, stationery, and gift stores (NAICS 4532)	1,781,438	121,389	1,660,049	19,443,179	61,378,753	(41,935,574)
Used merchandise stores (NAICS 4533)	1,404,127	73,620	1,330,506	15,136,971	37,823,354	(22,686,383)
Other miscellaneous store retailers (NAICS 4539)	3,018,976	261,039	2,757,936	34,808,838	131,377,771	(96,568,933)
Food Services and Drinking Places	43,091,416	5,068,798	38,022,618	506,973,657	1,019,878,626	(512,904,969)
Special food services (NAICS 7223)	3,690,055	348,541	3,341,514	39,744,736	70,308,231	(30,563,495)
Drinking places (alcoholic beverages) (NAICS 7224)	1,381,303	548,967	832,336	17,960,032	109,185,682	(91,225,650)
Restaurants and other eating places (NAICS 7225)	38,020,058	4,171,289	33,848,768	449,268,889	840,384,713	(391,115,824)

SOURCE: Johnson Economics, Nielsen Claritas (larger format retailers were not evaluated at a one-mile radius)

Due to the general lack of retail in the immediate area, all major retail categories show an opportunity gap in a one-mile radius, but only a few such as pharmacies and department stores show a gap within a three mile radius. The indicated gap in pharmacy stores reflects a shift in retail dynamics, as grocery stores have increased their inventory of traditional drug store products and serve a significant portion of that market.



If a larger five-mile radius is evaluated, indicated opportunities are limited to comparison goods such as motor vehicle and parts deals as well as building materials.

ESTIMATED 2018 RETAIL DEMAND AND SUPPLY IN A 5-MILE MARKET AREA

	2855 SW Patton Road - 5 mi Radius		
	2018 Demand (\$)	2018 Supply (\$)	Opportunity Gap/Surplus (\$)
Motor Vehicle and Parts Dealers	1,657,518,087	1,566,129,148	91,388,938
Furniture and Home Furnishings Stores	197,869,226	294,610,997	(96,741,771)
Electronics and Appliance Stores	181,103,969	230,412,478	(49,308,509)
Building Material and Garden Equipment and Supplies Dealers	588,246,857	545,440,758	42,806,099
Food and Beverage Stores	1,123,158,534	1,407,857,870	(284,699,335)
Grocery stores (NAICS 4451)	993,404,125	1,306,734,660	(313,330,535)
Specialty food stores (NAICS 4452)	29,632,450	42,974,597	(13,342,147)
Beer, wine, and liquor stores (NAICS 4453)	100,121,960	58,148,613	41,973,347
Health and Personal Care Stores	474,133,669	314,253,629	159,880,040
Pharmacies and drug stores (NAICS 44611)	398,321,155	260,467,694	137,853,461
Cosmetics, beauty supplies, and perfume stores (NAICS 44612)	26,040,789	25,307,515	733,274
Optical goods stores (NAICS 44613)	19,770,016	13,392,494	6,377,522
Other health and personal care stores (NAICS 44619)	30,001,708	15,085,925	14,915,783
Sporting Goods, Hobby, Musical Instrument, and Book Stores	158,081,565	218,986,065	(60,904,500)
Sporting goods, hobby, and musical instrument stores (NAICS 4511)	128,896,337	179,418,185	(50,521,848)
Book stores and news dealers (NAICS 4512)	29,185,229	39,567,880	(10,382,652)
Miscellaneous Store Retailers	190,287,583	371,596,899	(181,309,317)
Florists (NAICS 4531)	9,805,921	9,436,609	369,312
Office supplies, stationery, and gift stores (NAICS 4532)	50,388,845	95,845,834	(45,456,990)
Used merchandise stores (NAICS 4533)	38,959,250	61,537,360	(22,578,110)
Other miscellaneous store retailers (NAICS 4539)	91,133,567	204,777,096	(113,643,529)
Food Services and Drinking Places	1,295,938,977	1,856,989,528	(561,050,551)
Special food services (NAICS 7223)	104,032,511	129,164,318	(25,131,806)
Drinking places (alcoholic beverages) (NAICS 7224)	44,413,393	189,443,894	(145,030,500)
Restaurants and other eating places (NAICS 7225)	1,147,493,072	1,538,381,317	(390,888,244)

Over the next five years, households in the three-mile radius are projected to grow by 7.6%, while growing 7.0% in a five-mile radius. This growth is expected to be concentrated in areas with residential capacity, which are disproportionately located in peripheral locations proximate to the competitive retail concentrations.

In general, the site is poorly situated for retailers, with alternative locations with greater visibility and accessible to broader trade areas able to serve the local population base. The most likely supportable retail would be limited convenience type retail goods that can capitalize on the local demographics and likely provide only a limited range of retail goods.

Our analysis does not support a conclusion that any level of retail is market feasible on the site. The site does not represent a competitive retail location. While tenants may be found, they are unlikely to pay lease rates commensurate with costs and will have a higher than average likelihood of failure.



III. SUMMARY

Our market analysis does not support the inclusion of **any** retail uses as part of a development program on the site. While located in a highly affluent area, the site will be at a competitive disadvantage relative to nearby alternative retail locations in more developed commercial concentrations. The area is surrounded by much more marketable commercial corridors with existing retail bases and offering better exposure and access. Retail development opportunities are likely limited to small, convenience-based goods and services.

We have worked on a large number of mixed-use projects with similar characteristics, and the retail component of these projects consistently struggle to lease up and retain tenants. The tenants will likely perform poorly, and will not be able to support lease rates that provide an adequate return. Failing and/or vacant retail space would be damaging to a mixed-use development program and would burden the development with additional costs to be borne by other program elements. If the space remains vacant for extended periods of time it can negatively impact the marketability of the broader project. Sustained ground floor vacancies indicate a blighted condition to tenants.

Two prominent local developers have submitted opinion letters regarding retail potential on the site, which are largely consistent with our findings. As noted by Jeff Sackett at Capstone Partners, this is not really an appropriate site for retail. Tim O'Brien at Urban Asset Advisors also expresses the opinion that retail at the site would be limited in scale. A grocery store is no longer feasible on the site and future development should use retail as a complementary use as opposed to the primary use. The site has been actively marketed for a number of years without success, supporting the conclusion of the experts providing feedback as well as our own analysis.

The highest and best use for the site is likely a mixed-use development, with residential the primary use and with no ground floor commercial. While a buyer may opt to include a retail component in its development, the scale of this use is likely to be quite small and negligible to the overall performance of the project. Any future development of the site would be expected to rely upon other components of the development program to provide a return, with any retail space viewed as breaking even at best.

SUPPLEMENTAL JOHNSON ECONOMICS REPORT



MEMORANDUM

DATE: August 27, 2018

TO: Christe White
RADLER WHITE PARKS & ALEXANDER, LLP
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PORTLAND, OR 97201

FROM: Jerry Johnson
JOHNSON ECONOMICS, LLC

SUBJECT: Additional Questions Pertaining to Retail Opportunities at Strohecker's Site

It is our understanding that several issues were raised during discussions with the neighborhood group regarding retail opportunities on the Strohecker's site. Our office produced an analysis of the retail potential of the site dated August 22nd. The primary finding of that report was that the site did not represent a strong retail opportunity and a retail component in a redevelopment program would not be expected to generate a return commensurate with the risk.

This memorandum addresses two primary questions:

1. Does increasing the amount of retail provide the "critical mass" necessary to improve the viability of the retail on the site?
2. What would the impact of providing increased levels of retail be on the overall viability of redevelopment of the site?

These will be covered in order.

DOES INCREASE IN RETAIL PROVIDE "CRITICAL MASS"?

One of the questions asked was the expected impact that an increase in on-site retail would provide on overall retail viability. As noted in our August 22nd market analysis, retail analysis often uses a "gravity model" which recognizes that retail concentrations with a greater level of retail space pull from a broader trade area. The issue for this site is that the scale of retail development on the site will be quite limited, and the resulting agglomeration of retail will not have a substantively larger retail pull.

The International Council of Shopping Centers (ICSC) is a major industry group that researches retail patterns and trends. ICSC categorizes retail centers with less than 30,000 square feet as "strip/convenience", with an estimated trade area of less than one mile. Tenants in these types of centers tend to offer a narrow mix of goods and personal services to a very limited trade area. Any plausible level of retail programming at the subject site is expected to remain in the "strip/convenience" category and have a very limited trade area.



When our market analysis addresses the advantages of competitive retail concentrations serving this area, these areas have retail bases that offer hundreds of thousands of square feet of space. A move from 1,500 to 3,000 square feet of space will not be enough to “move the needle” and increase viability as a result of increased scale.

IMPACT OF RETAIL REQUIREMENTS ON PROJECT VIABILITY

While all developers are different, our expectation is that requiring retail at the subject site will reduce the viability of the overall program.

As an inferior location, new retail development is unlikely to command rent levels commensurate with costs, requiring higher pricing of the remainder of the program to offset the negative impact of the retail component. Construction costs for ground floor retail space in a mixed-use configuration are significantly higher due to separation of use building code requirements. This is often deal with using a concrete podium, which costs significantly more per square foot than wood frame construction.

Tenancing and re-tenancing the site is likely to represent an ongoing burden to the project owner and may lead to sustained periods of vacant storefront. While there are tenants that may find the site attractive, likely a small café or convenience retailers, there is little indication that locating these tenants at the site will result in a measurable increase in the marketability of the project. We do know that vacant storefront has a negative impact though.

Retail development at the site will require significant and readily available parking. While the area has some limited on-street parking capacity, we would expect retail space to require on-site parking of between 2 to 4 spaces per thousand square feet. At an average of about 400 square feet per space, every 1,000 square feet of retail space would require an additional 800 to 1,600 square feet of site dedicated to surface parking. This property would need to have access to Patton. Structured parking solutions are not viable to meet retail needs due to both high costs as well as a lack of market acceptance for this type of parking for retail in a more suburban location. In addition, if the level of retail was larger there would potentially be the need for truck access, further reducing developable site area. The loss in developable site area would significantly reduce the development yield for the property, both through loss of developable area as well as a likely loss of efficiency in design.

As shown in the following simplified analysis, retail rents required to support a 9.0% cash on cash return for this type of space would be in the \$36 to \$40 range, depending upon the parking ratio assumed.

Land Value (Assessor)	\$46.32	\$46.32
Parking Ratio/Thousand	2.00	4.00
Cost of Land Required with Parking	\$83.37	\$120.42
Construction Costs/PSF	\$240.00	\$240.00
Tenant Improvements	\$40.00	\$40.00
Total Development Cost/PSF	\$363.37	\$400.42
Threshold Yield (Annual Cash on Cash)	9.00%	9.00%
Assumed Vacancy Rate	10.00%	10.00%
Minimum Rent Requirement	\$36.34	\$40.04



Current rents in the area are in the \$18 to \$24 range, and these are found in larger retail concentrations located in areas with significantly higher traffic counts.

The net impact on project viability is expected to be a lower development yield, coupled with a higher level of assumed risk. The impact of this would be a lower likelihood that the project is successfully redeveloped, with pricing pressure placed on the remaining program elements. The higher risk associated with retail development, particularly in this location, will be reflected in a higher rate of required return. This can have a pronounced impact on viability.

SUMMARY

The amount of retail that will be plausible to include in any development program on the site will be too small to significantly change the retail “pull” of the site. As noted in available research, retail concentrations below 30,000 square feet are categorized as strip/convenience, with a market area of less than one mile.

While we would argue that setting a minimum required amount of retail is expected to negatively impact the site, a developer under the current zoning would have the ability to include whatever level of retail space he felt was beneficial to his program. In other words, if an attractive retail tenant was found that worked well with the development program, a developer would be fully capable of including the associated retail component. There are only a limited number of these types of tenants though and requiring inclusion of retail will increase the degree of difficulty in developing the site as well as lowering the likelihood of any development occurring.

U.S. Shopping-Center Classification and Characteristics

Type of Shopping Center	Concept	Center Count	Aggregate GLA (Sq. Ft.)	% Share of Industry GLA	Average Size (Sq. Ft.)	Typical GLA Range (Sq. Ft.)	Acres	# of Anchors	% Anchor GLA	Typical Number of Tenants	Typical Type of Anchors	Trade Area Size
General-Purpose Centers												
112,520												
Super-Regional Mall	Similar in concept to regional malls, but offering more variety and assortment.	620	778,336,548	10.2%	1,255,382	800,000+	60-120	3+	50-70%	NA	Full-line or junior department store, mass merchant, discount department store and/or fashion apparel store.	5-25 miles
Regional Mall	General merchandise or fashion-oriented offerings. Typically, enclosed with inward-facing stores connected by a common walkway. Parking surrounds the outside perimeter.	600	353,795,548	4.7%	589,659	400,000-800,000	40-100	2+	50-70%	40-80 stores	Full-line or junior department store, mass merchant, discount department store and/or fashion apparel store.	5-15 miles
Community Center ("Large Neighborhood Center")	General merchandise or convenience-oriented offerings. Wider range of apparel and other soft goods offerings than neighborhood centers. The center is usually configured in a straight line as a strip, or may be laid out in an L or U shape, depending on the site and design.	9,776	1,930,849,736	25.4%	197,509	125,000-400,000	10-40	2+	40-60%	15-40 stores	Discount store, supermarket, drug, large-specialty discount (toys, books, electronics, home improvement/furnishings or sporting goods, etc.)	3-6 miles
Neighborhood Center	Convenience oriented.	32,588	2,340,711,371	30.8%	71,827	30,000-125,000	3-5	1+	30-50%	5-20 stores	Supermarket	3 miles
Strip/Convenience	Attached row of stores or service outlets managed as a coherent retail entity, with on-site parking usually located in front of the stores. Open canopies may connect the store fronts, but a strip center does not have enclosed walkways linking the stores. A strip center may be configured in a straight line, or have an "L" or "U" shape. A convenience center is among the smallest of the centers, whose tenants provide a narrow mix of goods and personal services to a very limited trade area.	68,936	911,202,922	12.0%	13,218	< 30,000	<3	Anchor-less or a small convenience-store anchor.	NA	NA	Convenience store, such as a mini-mart.	<1 mile
Specialized-Purpose Centers												
3,275												
Power Center	Category-dominant anchors, including discount department stores, off-price stores, wholesale clubs, with only a few small tenants.	2,258	990,416,667	13.0%	438,626	250,000-600,000	25-80	3+	70-90%	NA	Category killers, such as home improvement, discount department, warehouse club and off-price stores	5-10 miles
Lifestyle	Upscale national-chain specialty stores with dining and entertainment in an outdoor setting.	491	164,903,247	2.2%	335,852	150,000-500,000	10-40	0-2	0-50%	NA	Large format upscale specialty	8-12 miles
Factory Outlet	Manufacturers' and retailers' outlet stores selling brand-name goods at a discount.	367	87,368,113	1.2%	238,060	50,000-400,000	10-50	NA	NA	NA	Manufacturers' and retailers' outlets	25-75 miles
Theme/Festival	Leisure, tourist, retail and service-oriented offerings with entertainment as a unifying theme. Often located in urban areas, they may be adapted from older--sometimes historic--buildings and can be part of a mixed-use project.	159	23,498,769	0.3%	147,791	80,000-250,000	5-20	Unspecified	NA	NA	Restaurants, entertainment	25-75 miles
Limited-Purpose Property												
62												
Airport Retail	Consolidation of retail stores located within a commercial airport	62	15,452,860	0.2%	249,240	75,000-300,000	NA	NA	NA	NA	No anchors; retail includes specialty retail and restaurants	NA
Total Industry												
115,857												
Total Industry												
115,857												
Traditional + Specialty + Special Purpose												
65,568												

LETTER FROM URBAN ASSET ADVISORS

Michael Kapnick
Marcus and Millichap

Hello Michael,

I thought I would share my thoughts around the Strohecker site from two perspectives; one as a neighbor who lives about 5 blocks from the site and the other as a developer of mixed use housing that would include a retail component.

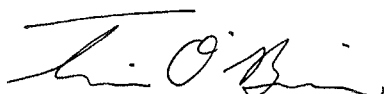
As a neighbor, I am looking forward to seeing some energy and a new development at the site. I would hope that there could be some density at the site to complement our overall low-density neighborhood. We are one of the few neighborhoods that has very little in the way of apartments or higher density condos and it would be nice to see this kind of use take place at the site. There are very few neighbors directly adjacent and with the park and plentiful parking if it were to be put underground/tuck under like some of it is currently that would be optimal. Yes, I would like to see some retail on the site as a neighbor as well; like a coffee/sandwich shop and maybe a wine/spirits tasting room/retailer.

As a developer, the site is a great opportunity given the demographics of the neighborhood to do something that is high quality and feasible. It is not a great retail location and as a developer I would want to keep the retail to a minimum to maintain feasibility. A service such as a coffee shop and/or a wine/spirits tasting room distiller could be very popular and there may be sufficient enough demographics in close proximity to support this kind of a use. Much like I did on my Multnomah Village project I would think doing 2-3 smaller spaces that are in the 500 – 1,000 SF would be the best approach making sure to keep at least two of them contiguous in case a mid-size retailer/restaurant wanted to do a little bigger space as well. I think some of the street side could also include some brownstone/townhome style units that open directly onto the sidewalk with parking in a garage either below or in the back.

With regards to the current conditions requiring a grocery, this is just not feasible any longer. Clearly the original Strohecker family finally had to hang up their hat from the business up here and then Lambs Thriftway also struggled and ultimately had to close. I think it is possible to work somewhere between 1,500 and 2,000 SF of retail into a project as long as there wasn't a specific type of retail type required.

If you would please share my comments at the hearing and with whomever you see fit, including City Council, it would be greatly appreciated.

Best Regards,

A handwritten signature in black ink, appearing to read "Tim O'Brien". The signature is fluid and cursive, with a horizontal line above the first few letters.

Tim O'Brien - President

Urban Asset Advisors

1137 SW Yamhill St Suite 200A

Portland, OR 97205

503-445-7557

tim@uaapdx.com

LETTER FROM CAPSTONE PARTNERS



August 13, 2018

Mr. Michael Kapnick
Marcus & Millichap
111 SW First Ave. #1550
Portland OR 97204

Re: Re-development of the Strohecker Site, SW Patton Rd.

Dear Michael:

This letter is in response to your inquiry about the former Strohecker's site in Portland Heights. As you know, you exposed this site to us early in your marketing process and we passed.

First, this is a nearly 100% residential neighborhood and is well suited for redevelopment as residential, whether for-rent or for-sale product.

Second, this is really not an appropriate site for retail in general. Strohecker's did fairly well here for many years because it was a unique, high-end grocery store in a high income area in which residents really didn't have any options for many years. It was a classic "destination" retailer with little if any competition. As Zupan's, Whole Foods, Market of Choice, and New Seasons Markets came to town, they provided a comparable product and service mix that made Strohecker's less unique. The income demographics of this area are still very good, but in spite of this fact no other grocer in Portland was interested in this site when it became available. This tells the story that whatever made Strohecker's a success in the past on this site is not viable today.

Retailers in general like the "company" of other retailers and do not thrive on their own absent being a unique "destination" that's clearly unavailable elsewhere. Think of the successful retail streets in Portland – NW 23rd, SE Hawthorne and Division, N. Mississippi, and NE Alberta among others. What these streets share that makes them successful is slow moving two way auto traffic on level streets, on-street parking, sidewalks each side (even if some are narrow), and long strings of blocks of linear and appropriately zoned retail frontage to allow a variety of small shops and eating/drinking, all surrounded by relatively dense and desirable residential neighborhoods. These conditions can realistically never be replicated on or around the former Strohecker's site.

If any retail were to be planned as part of a larger mixed use residential/retail project on this site, the retail should be very limited to insure retailers' success. And the more residential units on site, the more likely it is that these small retailers will succeed. It's a big mistake to build retail space where it won't work as it just leads to empty storefronts and failed businesses, both of which are even worse for a neighborhood than no retail at all. Retailers or other office/service businesses that could work here would be few and small as they'll rely on neighborhood customers almost exclusively. I'd suggest no more than two retail/service suites here, at no more than 800 – 1,500 SF each. The space should be on the ground floor, obviously, with very well exposed storefronts and signage to attract both auto and pedestrian traffic, ideally on building corners, and with at least a few visible and easily accessible off street parking stalls for customers.

Hope this helps and we wish you success with this challenging project.

Sincerely,

A handwritten signature in black ink, appearing to read 'Jeff Sackett', with a stylized flourish at the end.

Jeff Sackett
Principal

LETTER FROM WILSON DEVELOPMENT GROUP

WILSON
DEVELOPMENT
GROUP, LLC

Wednesday, August 22, 2018

Michael Kapnick
Marcus & Millichap
111 SW 5th Avenue Ste 1550
Portland, OR 97204

Dear Michael:

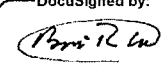
Thank you for your inquiry regarding the Strohecker site on SW Patton Road. As a resident of the neighborhood for nearly 25 years, I'm intimately familiar with the property and have spent a considerable amount of time assessing its potential, especially since the store closed several years back. Losing the store was a sad day for the neighborhood, but hardly a surprising outcome given the rapid changes in the grocery business.

In addition to my history in the neighborhood, I have nearly 30 years of experience in commercial real estate development, management and investment in Portland. Directly or indirectly, I have participated in development, leasing and managing real estate in all asset classes, including retail. I have learned a few things over this period of time, including the importance of location in retail success. Fundamental market characteristics include: strong corner, lots of foot traffic, pass-by trips, excellent parking and proximity to other, similar retail. None of these conditions exist on the Strohecker site today, nor is this likely to change, making the site generally unsuitable for just about all retail uses. An exception to this might be a small, boutique, destination retailer, like a fine wines store, that can rely on bulk sales online or other location-independent distribution channels to generate the volume necessary to be profitable.

I'm well-aware of the neighbors' desire to keep a retail component on this site. The economics being what they are however, any planned commercial space on this site should be small in scale, and most importantly, convertible to household use in the event a tenant cannot be sourced within a reasonable period of time. Based on the proposed maximum density for the site and likely parking requirements, I would say no more 1500 square feet of retail is feasible and should be divisible. In response to similar requests from other neighborhoods, I have programmed space that could convert to retail if at such time there was sufficient demand for it. This softens the financial impact on the front end, while allowing more active ground floor uses if and when the time is right to pursue such uses.

I hope you find this helpful. As a neighbor, I'm anxious to see a development on this site both complementary to the neighborhood and in keeping with Portland's CM1 goals.

Best regards,

DocuSigned by:

Brian R. Wilson

*Commercial Real Estate Developers, Investors and Consultants
Formerly Mainland Northwest, LLC*

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(503) 807-3521