



Bureau of Planning and Sustainability
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MEMO

DATE: April 19, 2016

TO: Mayor Hales and City Council

FROM: Tyler Bump, Senior Economic Planner
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CC: Susan Anderson, Director

SUBJECT: Portland and Pattern Area Retail Demand and Sales Analysis

BPS staff does not think there is a need to amend the Economic Opportunities Analysis (EOA) to address retail capacity issues raised in the April 14, 2016 testimony from Mark Whitlow and Eric Hovee on behalf of the Retail Task Force and the International Council of Shopping Centers. BPS does support amending or adding policies to the Comprehensive Plan to further support retail development, especially grocery stores, in neighborhood business districts as part of the complete neighborhoods strategy.

Retail Leakage

BPS staff conducted further analysis to evaluate the land use implications for retail leakage as identified in Eric Hovee's "Retail Performance by Pattern Area Draft 1-14-16". BPS staff found some discrepancies in the scale of leakage by pattern area between the Nielsen data source used by Hovee and ESRI Business Analyst data, which was also used in the EOA. This difference may be attributed to modelling methodology differences between these two third-party data sources. It should also be noted, that this type of analysis is based on the number of stores located within a given geography, but because there is no sales tax there is a lack of complete and accurate data for retail activity by sector and geography.

One of the key claims in the Hovee memo is that Portland as a whole is "under retailled" with a 9% leakage of retail sales - that is that Portlanders spend 9% of their disposal income outside the city on retail goods. The implication in testimony provided to City Council is that this leakage is due to the lack of retail land available, especially for larger, big box formats.

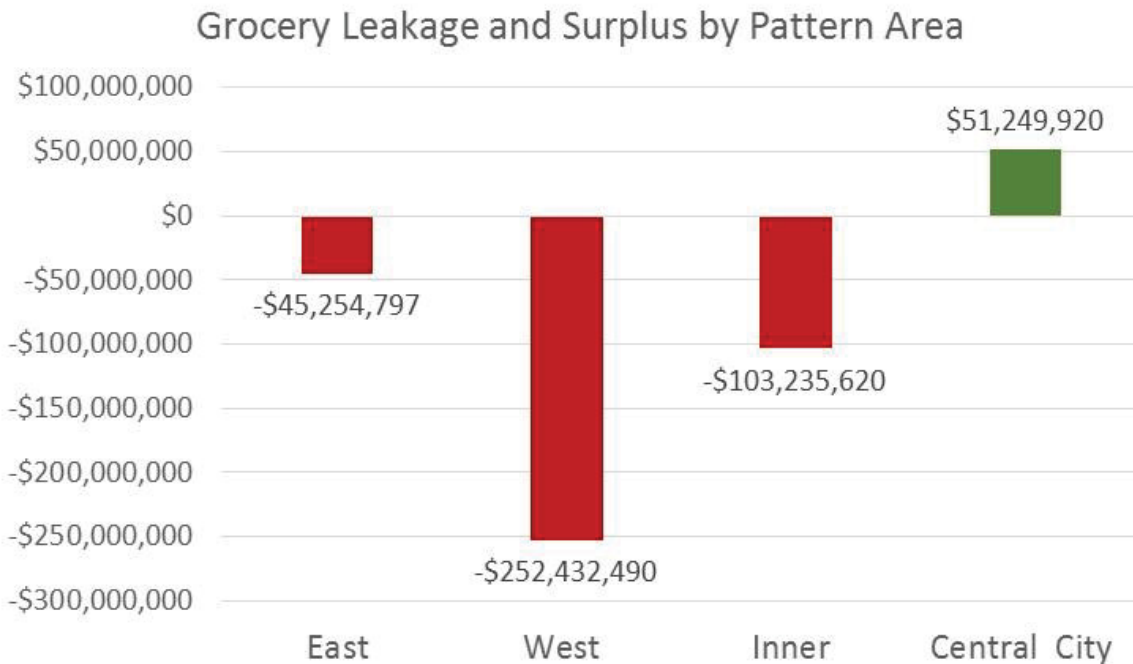


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Specifically, the testimony indicates that there is a shortage of grocery stores, especially in East Portland.

Additional analysis of ESRI data conducted by BPS staff suggests that citywide there is actually a 10% surplus of retail sales beyond estimated demand for Portland households. BPS staff agrees that there is citywide grocery leakage, which is also identified in the EOA, though analysis using ESRI Business Analyst suggest that citywide grocery leakage is 18% compared to 24% grocery leakage identified in the Hovee memo. Variation in findings of grocery leakage also exist for pattern area geographies. The majority of grocery leakage in the City of Portland, 89 percent of total grocery leakage, can be attributed to the Western Neighborhood pattern area where there are both land use constraints and topography constraints that significantly impact land supply. As noted in the Hovee “Retail Performance by Pattern Area” memo, the majority of daily needs purchases for this pattern area are made in cities adjacent to Portland such as Beaverton, Tigard and Lake Oswego or at grocers located in Northwest Portland and the Central City.



Source: BPS analysis of ESRI Business Analyst Data- March 2016



Table 1. Comparison of Grocery Store Leakage

	Hovee (Nielsen data)	BPS (ESRI Business Analyst data)
Citywide	24% gap	18% gap
East	39% gap	16% gap
West	66% gap	77% gap
Inner	15% gap	12% gap
Central City	19% surplus	44% surplus

ESRI Business Analyst data indicates that the Eastern pattern area had much less leakage occurring than is identified in the Nielsen data provided by Hovee, which estimated total retail sales leakage of 48% and grocery leakage of 39%. The ESRI data identified a much smaller leakage estimate for both total retail sales (18%) and grocery sales (16%). Additionally, a closer analysis found there are two key sub-areas where grocery leakage is occurring in the Eastern pattern area, the Sumner-Parkrose area and the outer Lents-Pleasant Valley Area. In addition to the Grocery Outlet store that is currently under construction at NE 107th/Sandy Boulevard (which is not accounted for in the retail sales data), BPS staff has been working with community organizations in the Parkrose area to refine zoning proposals in the Mixed Use Zones Project to encourage more daily needs retail users on the north side of Sandy Boulevard through the wider designation of CE zoning. The 122nd Avenue Rezone Project (2012) also applied a variety of commercial zones along 122nd Avenue near Foster Road to encourage retail activity that will help nearby residents meet their daily needs. It should also be noted that a large number of residents in the Eastern pattern area meet their grocery shopping needs at culturally specific markets and stores throughout East Portland. These small culturally specific markets are vibrant businesses of which are often undervalued in traditional economic modelling but are crucial to supporting immigrant and refugee communities in East Portland.

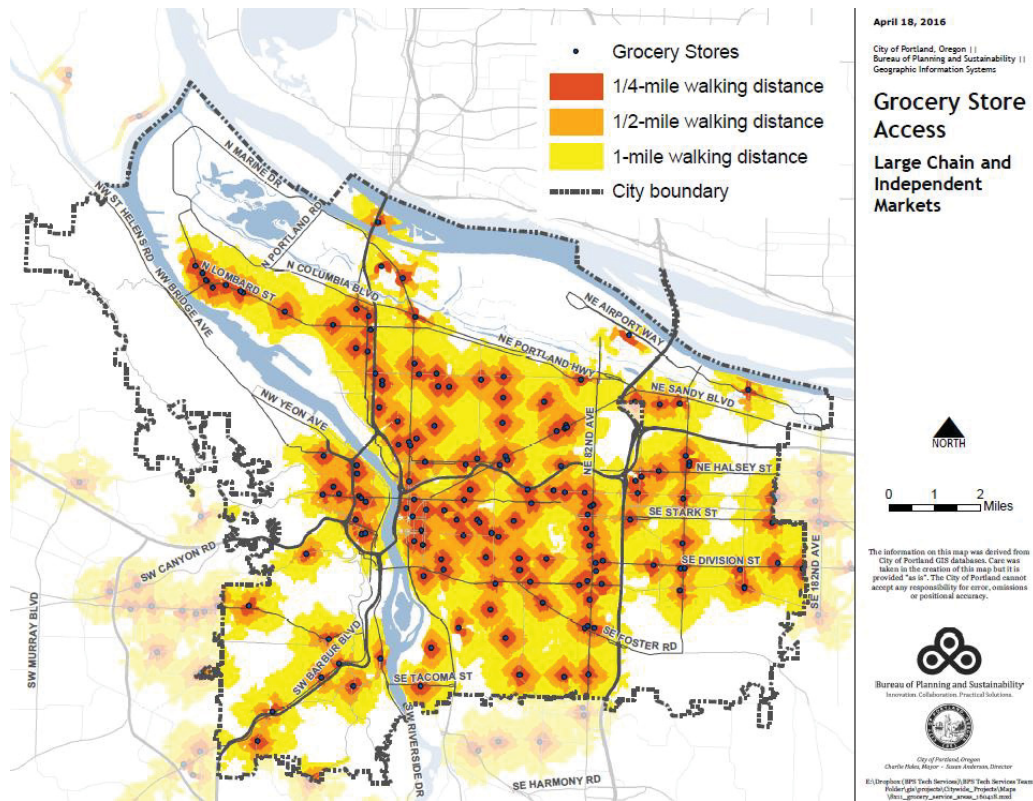
Also, Hovee’s findings of a higher vacancy rate and lower rents in East Portland are an indicator of retail space availability. Something other than zoning/land development capacity is at work - a combination of insufficient demographic demand and business support. The City of Portland strategy is not to zone even more land for commercial retail development, but rather to support business growth through programs like PDC’s Neighborhood Prosperity Initiative.

The high amount of retail and grocery leakage that occurs in the Western Neighborhoods pattern area can be attributed to a number of factors. The built form and residential density levels vary significantly across the Western pattern area from the south to north which impacts access to commercial services. Retail demand analysis for this large of a geography identifies a significant amount of demand based on higher income levels of households while



these neighborhoods have significant land use and topography constraints that limit the market response from large format retailers. Much of the leakage in the Western pattern area is going to Inner Pattern Area stores such as the Northwest Portland Fred Meyer, Whole Foods, New Seasons, and Food Front Co-Op as well as large format retailers on the west side of Portland near Raleigh Hills and Cedar Hills shopping centers that include Fred Meyer, New Seasons, Winco Foods, and a variety of culturally specific grocery stores including Uwajimaya, Bazaar Market, Asian Food Center, G Mart and Salsa Market. The recent closure of the Walmart Neighborhood Market in Raleigh Hills is demonstrative of the large supply of west side grocers that serve finite demand of a larger market area in and around the Southwest Hills.¹

The 2008 retail leakage analysis in Section 1 of the EOA found that, “Generally, Portland is adequately retailed.” In the 2008 analysis using ESRI Business Analyst data, there was an identified citywide retail surplus of 14%. An update of citywide retail analysis conducted for this memo found that a retail surplus of 10% exists as of March 2016. Additionally, recent analysis of access to grocery stores in the City of Portland indicates that access throughout the city is reasonably well distributed with the exception of Parkrose where challenges exist to compete with the existing Costco on NE 138th Avenue, near SE 122nd Avenue and Foster Road where land use changes were made to accommodate a variety of neighborhood serving retail as part of the 122nd Avenue Rezoning Project (2012), and parts of the Southwest and Northwest hills where land use and topography constraints limit commercial activity.



¹ <http://pamplinmedia.com/bvt/15-news/289089-166241-walmart-to-close-raleigh-hills-store-268-others>



Previous testimony by Whitlow (December 31, 2015) also references a 2011 PDC study by Leland Consulting Group as further evidence of a “lack of available sites” for grocery stores in East Portland. BPS does not find the 2011 PDC/Leland study to be compelling for a 20-year EOA because it was a short-term market study of what was currently available on the market at that time and limited to what buildings were available for lease and what vacant land was for sale. The Leland Consulting Group report that was conducted for the Portland Development Commission did not consider redevelopment of underutilized, lower-value sites, which is the primary source of developable land supply in the Neighborhood Commercial geographies identified in the Buildable Land Inventory, which is the basis for the land supply analysis in the EOA Section 2/3. The EOA Section 2/3 found that there was sufficient developable and redevelopable land for a variety of site sizes as referenced below in the research that was conducted by E.D. Hovee and Company and the Bureau of Planning and Sustainability.

Table 2. Comparison of Buildable Land Inventory Demand and Supply by Site Size

EOA Geography	Buildable Land Inventory by Parcel Size (acres)	
	< 3 Acres	> 3 Acres
Neighborhood Commercial Demand	515	176
Neighborhood Commercial Supply	761	543
Neighborhood Commercial Surplus	246	367

BPS analysis of the BLI development capacity in the Neighborhood Commercial geography shows an adequate distribution across the pattern areas for both small and large parcel sizes. As discussed above the Western Neighborhood pattern area has the most constrained land supply, but it is in-line with its proportional share (17%) of the population. (Note: Industrial & River pattern area is included because it include the retail development on Hayden Island as well as Cascade Station).

Table 3 Neighborhood Commercial Development Capacity by Pattern Area

Pattern Area	Parcel Size		Total	Share
	Less than 3 acres	More than 3 acres		
Eastern Neighborhoods	230	275	505	37%
Inner Neighborhoods	455	110	564	41%
Western Neighborhoods	66	64	131	10%
Industrial & River	22	138	160	12%
	773	587		



Conclusion

BPS staff disagrees with the Hovee/Whitlow position that “Portland experiences significant sales leakage.” The 2016 BPS analysis is consistent with the 2008 data in the Section 1 of EOA. Therefore, no amendment to that portion of the document is necessary.

BPS staff disagrees with the Hovee/Whitlow position that the land supply is inadequate for store types that require larger sites. The land supply analysis in the EOA finds an overall 216% surplus of developable land in Neighborhood Commercial geographies relative to 20-year demand. The BLI shows that there is ample supply of Neighborhood Commercial land in all size categories, including for 2-5 acre sites. Additionally, some of the mixed use commercial map changes in the Comprehensive Plan have been made to address areas that are underserved by neighborhood serving retail and services as part of creating complete neighborhoods.

The EOA includes retail leakage analysis within a broad review of neighborhood commercial land considerations, including job growth, sector trends, development trends, business focus group insights, small business vitality, complete neighborhoods, and adequate land supply. The EOA analysis particularly explores new market opportunities and new policy directions, including expanding transit oriented development, an urban form hierarchy of centers and corridors, neighborhood revitalization, and healthy food access.

Finally, BPS staff does not think it is necessary to include an additional statement in Section 4 of the EOA to emphasize the need to serve unmet neighborhood commercial needs. Section 4 already acknowledges that only 64% of Portlanders live in complete neighborhoods, and that only 60% live within a half-mile of a grocery store and that there is a need for additional commercial capacity in underserved neighborhoods, but this challenge is more than a land use development capacity issue, it requires other actions, in terms of incentives and investments, to support additional retail development in underserved neighborhoods.

