

## **MEMORANDUM**

To: Karla Antonini, City of Hillsboro  
From: David Zehnder and Frank Refuerzo  
Subject: Downtown Hillsboro Grocery Retail Market Analysis;  
EPS #172041  
Date: June 30, 2017

*The Economics of Land Use*



Economic & Planning Systems, Inc. (EPS) was retained by the City of Hillsboro (City) to conduct a grocery retail market analysis for the Downtown Hillsboro neighborhood. The analysis assesses the ability of Hillsboro's downtown core and surrounding neighborhoods to support a new grocery store. The analysis is also designed to assist the City in planning the development of Block 67, a vacant 3.6-acre City-owned property that was the site of the former Hank's Thriftway grocery store. This study considers both quantitative and qualitative data to evaluate potential market supportability.

### **Executive Summary**

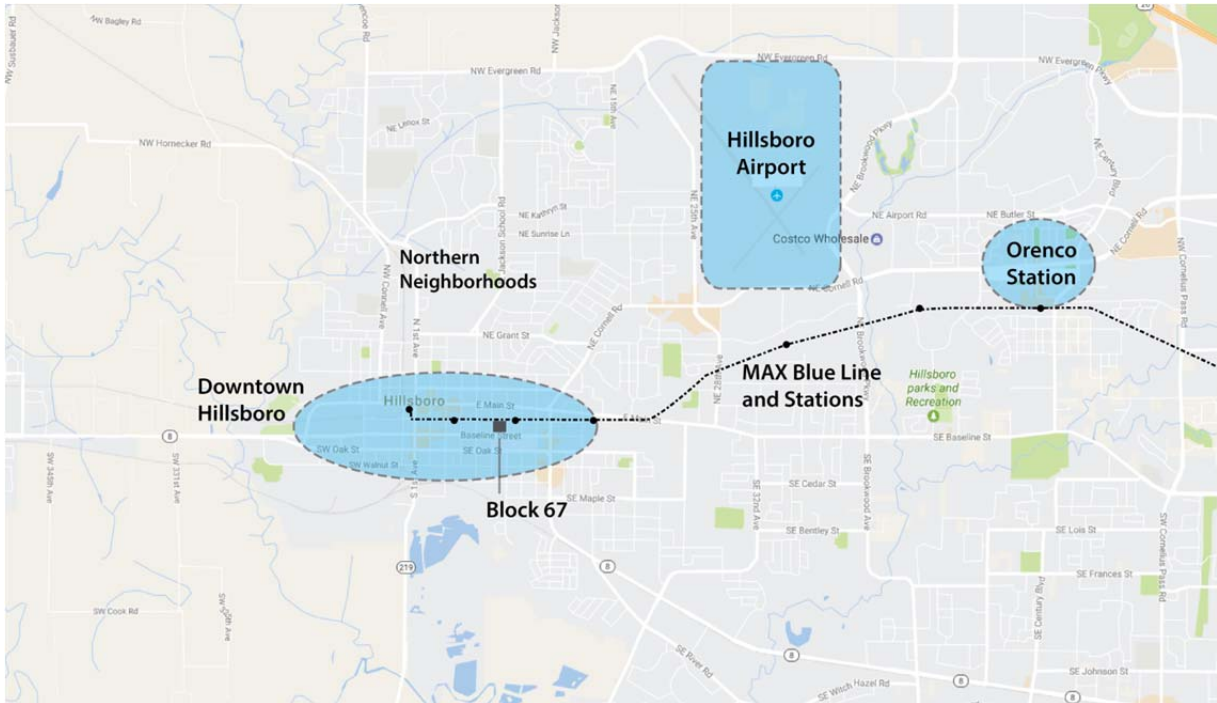
Downtown Hillsboro primarily serves the West Hillsboro community as it is located on the City's western edge. This community is diverse, composed of a mix of long-time residents and relative newcomers, drawn to the area by many well-paying jobs with major employers such as Intel, Nike, and other firms that collectively form the Silicon Forest. New neighborhoods were built to serve the expanding presence of Silicon Forest, most notably the successful high-density Orenco Station project, which has garnered most of the attention from the development community since 2000.

In recent years Downtown Hillsboro has begun to emerge as an alternative to Orenco, reflecting the preferences of new demographic groups to locate in close-in, older, and eclectic neighborhoods. Downtown also represents an extension of the mostly residential neighborhoods to its north, providing a potential retail and commercial district that northern residents can call their "own."

*Economic & Planning Systems, Inc.  
400 Capitol Mall, 28th Floor  
Sacramento, CA 95814  
916 649 8010 tel  
916 649 2070 fax*

*Oakland  
Sacramento  
Denver  
Los Angeles*

**[www.epsys.com](http://www.epsys.com)**



Downtown Hillsboro has the benefit of four light rail stations, supporting substantial household and business intensification potential. The City-owned Block 67 parcel, the former location of Hank's Thriftway grocery store, is adjacent to the Tuality Hospital MAX Station, and four stops (or 3.5 miles) from the highly reputed Orenco Station—a well-known icon of transit-oriented development (TOD) in the Western United States. This area immediately around Block 67 and the Downtown districts (e.g. Main Street corridor) that surround it have the opportunity to be an organic and bona fide alternative to the Orenco Station development concept. This notion of an eclectic and diverse Downtown is fully compatible with emerging consumer sentiments.

Market acceptance of Downtown Hillsboro is evident based on the rapid lease-up of 4<sup>th</sup> Main, the first higher density market-rate housing concept to be introduced to the area. According to property management, approximately half of the current tenants of this highly successful private-public partnership are Intel employees, with a diverse mix of students, seniors, and others composing the remainder.

The Health and Education District is another source of future growth, with all of Pacific University's undergraduate and graduate career health programs, specialty centers, and new facilities under consideration in upcoming phases of development. Located immediately adjacent to the site, this district, which also includes the expanding Tuality Community Hospital, may ultimately have the most important direct influence on development in Downtown Hillsboro.

There is also a substantial Hispanic community to the south and west of Downtown, stretching to the community of Cornelius. To date there have been very few examples of grocery concepts that can bring together disparate elements of a community (i.e., retail and food needs of different ethnic communities and at various price points) under one roof. Certain prototypes examined for this analysis have the ability to provide the requisite flexibility to address this community opportunity.

Another approach to incorporating a thoughtful and flexible niche approach to local grocery merchandising is to pursue a co-op led concept that would by definition be inclusive of multiple community elements. Hillsboro's emergent co-op movement may be capable of delivering a specialty foods format that can draw from multiple, diffuse market segments to serve a multiplicity of communities and income, ethnicity, and age segments.

Overall grocery supply/demand metrics indicate that the City as a whole is close to equilibrium. However, the community demographics of downtown and its adjacent neighborhoods are changing, and as a result, citizens are demanding walkable or short-drive access to store types which are under-represented in the core Downtown area.

Highly desirable upscale grocery chains prefer to see tangible evidence of income growth, increasing income density, and other growth indicators when evaluating existing infill areas as potential store locations. The neighborhoods immediately north of Downtown Hillsboro display some evidence of this dynamic. However, available evidence suggests that a successful full-scale grocery (such as New Seasons) would consume existing stores' market share.

Another more plausible possibility would be a smaller specialty market or related hybrid product providing community gathering opportunities and other features closer to 10,000 square feet (or less) in size, potentially specializing in healthy prepared foods, craft beer/wine, organic produce, multi-ethnic bakery, roastery, and other features. Such a store would go beyond functional grocery needs to provide a "third place" lifestyle function for local population segments.

In addition to being better calibrated to demonstrated supply gaps, such a store could be integrated into a more diverse mixed-use real estate development concept demonstrating superior development economics relative to a single-use grocery concept. Moreover, the placement of such a vertical mixed-use concept adjacent to the Health and Education District (such as at Block 67), would further strengthen capital funding potential due to its proximity to large institutional demand drivers and their needs to provide complementary services to their employees, students, and visitors. Attracting additional development is critical to building the market potential of Downtown Hillsboro. It is important that this mixed-use development establish the strength and viability of Downtown Hillsboro in order to demonstrate the area's investment potential to and attract attention from the development community.

EPS recommends the creation of a supporting district surrounding Block 67, with a specific focus on realizing residential development, improving Downtown's capture of regional and City-wide growth to create improved spending potential and overall critical mass in this part of Hillsboro. This can be achieved through additional projects similar to the successful market-rate 4th Main offering, as well as efforts to facilitate occupancy of vacant second floor space throughout the Downtown.

Downtown Hillsboro is primed to enter a new stage of growth and development, succeeding Orenco Station as the next Hillsboro neighborhood to receive high-density mixed-use transit-oriented projects. The City should embrace Downtown Hillsboro's ability to receive intensified development on the area's vacant and underutilized land, drawing on its genuine Downtown charm and existing community assets. Although a new full-scale grocery store is unlikely to be supportable under current market conditions, more modest options, such as a small niche or specialty foods store, appear more viable, but only with continued and accelerated Downtown

growth, as this is the most likely path forward to building sufficient market demand for any and all grocery options.

## **Key Findings**

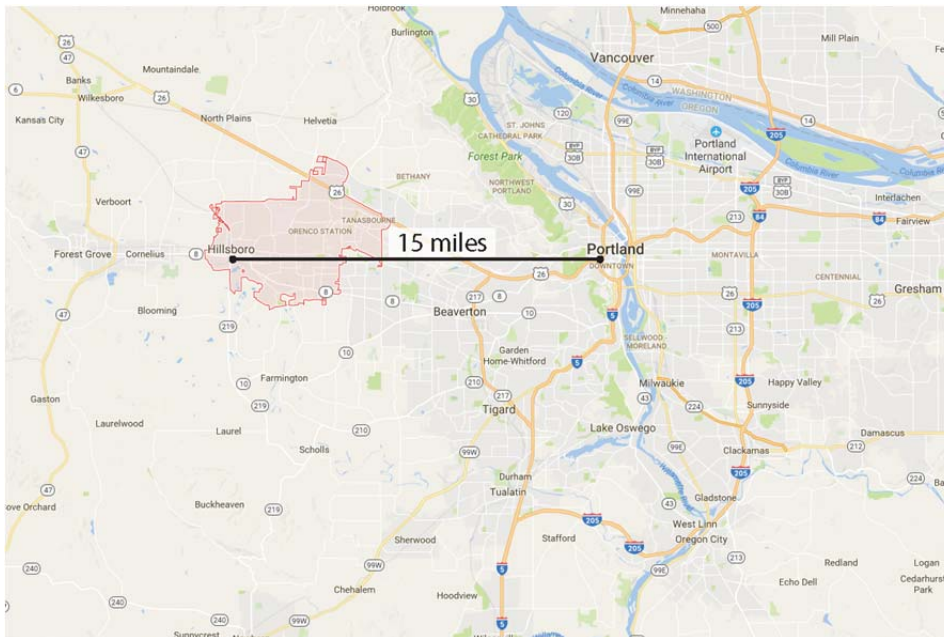
West Hillsboro (Downtown and its surrounding neighborhoods) has grown in population over the last 5 years, albeit at a slower pace than the City as a whole. However, the amount of vacant and underutilized land, combined with the presence of four light rail stations, place the Downtown area in a position to capture a good share of Hillsboro's future high-intensity development. An estimated demand for 4,600 net new residential units has been forecasted for the City of Hillsboro for the next 5 years. EPS believes Downtown Hillsboro has the capacity to capture one third of this future growth:

- Future demand drivers for Downtown Hillsboro include the continued emergence of the neighborhood as an alternative to Orenco Station and the expansion of the Health and Education District resulting from the planned buildout of Tuality Hospital and Pacific University.
- West Hillsboro is well served by a diverse array of existing grocery retailers, resulting in a market that is likely at or close to equilibrium with limited demand for additional grocery space at best. A traditional stand-alone grocery store is not the highest and best use of vacant land. However, there appears to be market support for a niche retailer that could be folded into a more comprehensive mixed-use development rubric.
- A small format grocery store (about 10,000 square feet or less) or specialty foods shop as part of a retail component within a larger mixed-use development is more likely to realize Downtown's high-density potential, resident desire for new grocery options, and the City of Hillsboro's vision for Downtown. Grocery demand is more than striking a simple supply and demand balance, and the success of a new store in Downtown Hillsboro will depend greatly on its "fit" with prevailing demographic conditions and trends. Finding a store with an appropriate fit for the community is of even greater importance in Downtown Hillsboro due to the diversity of existing grocery suppliers in the greater Downtown area.
- The public ownership, location proximate to northern neighborhoods, availability of adjacent light rail, and potential integration into the Health and Education District make the Block 67 site ideal as a mixed-use project offering ground floor uses featuring a small-scale urban grocery or specialty foods store. Medical office and high-density market-rate residential uses can drive a potential project at Block 67 due to its adjacency to the Health and Education District, low rental residential vacancy in Hillsboro, and the stated needs of expanding institutions such as Tuality Community Hospital and Pacific University.
- The City should employ a variety of tools to incentivize and catalyze the above-referenced high-density mixed-use project at Block 67. The City should explore a Public Private Partnership as a means to improve the economics of an initial catalyst project at Block 67, harnessing the institutional clout of the University and Hospital, providing appropriate incentives in terms of fee and or land cost arrangements appropriate to accelerate new development, and working to provide additional housing support and related amenities to accelerate the overall development of Downtown.

## Hillsboro Overview

The City of Hillsboro is the seat of Washington County, and lies on the western edge of the Portland metropolitan statistical area (MSA). According to Experian Marketing Solutions Inc., the total population of the Portland MSA was estimated at nearly 2.4 million in 2016, about 2.0 million of which reside in Oregon, and constitute 48.7 percent of the total state population.

**Figure 1 Hillsboro Regional Context**



Portland is noted for sustainable policies, progressive land-use planning, and investment in transit oriented development. Oregon's 1973 Urban Growth Boundary (UGB) law aims to limit large scale urban sprawl in each metropolitan area within the state. The UGB, along with efforts to create economic development zones, has led to an overall increase in housing and business density within designated urban areas, restricting growth outside of the UGB. Every five years, Metro adjusts the UGB to ensure a 20.0 year supply of developable land is available to meet population and economic growth forecasts for the metro area. The Portland UGB has been expanded 32 times to include an additional 31,386 acres of land since the original 227,410 acres were established inside the boundary in 1979. The most recent expansion of the UGB occurred in 2014 and included 1,181 acres of land in Washington County, along the outer edges of Hillsboro, Cornelius, and Forest Grove.

The Portland MSA benefits from a relatively diverse employment base, and serves as the major service and logistics hub for Oregon and southwest Washington. The metro area contains the highest concentration of employees in the computer and electronic manufacturing industry in the nation, recording 10 times the national average concentration of semiconductor manufacturing jobs in 2016, according to the Bureau of Labor Statistics. This high concentration may pose a potential long term risk for the area, due to the heavy reliance on the industry.

Hillsboro, the fifth largest city in the State of Oregon, is one of the Portland area's major employment centers, with key industries including technology, communications, advanced manufacturing, bio and clean technologies, and aviation. Primarily due to Intel Corporation's Hillsboro facility, the Portland metro area is a hub for semiconductor development and manufacturing.

According to the Bureau of Labor Statistics, the region employs the highest amount of workers in the semiconductor and electronic component manufacturing industry in the nation, with over 29,000 employees. Locally, this industry is led by Intel who has three campuses located south of US Highway 26. The Hillsboro Airport is approximately 3 miles from the Hillsboro Civic Center in Downtown.

In addition to Intel's presence in Hillsboro, the City is home to a critical mass of other technology businesses, including Qorovo, Thermo Fisher Scientific formerly FEI Company, Tokyo Electron America, Cabot Microelectronics, FiServ, Genentech, Synopsys, and Yahoo. With such a large concentration of technology and advanced manufacturing businesses, the region's concentration of skilled manufacturing talent is more than double the US average at more than 25.0 percent.

Hillsboro is the county seat of Washington County, and local government is also a major employer in the city. Washington County offices and services are concentrated in Downtown Hillsboro at the Hatfield Government Center. The City of Hillsboro reports that total employment growth in the city between 2010 and 2015 was 18.4 percent, exceeding increases of 13.9 percent in the Portland MSA and 11.0 percent across the entire United States.

Overall, Hillsboro's economy is in a position to benefit from its well established technology industry and the influx of educated workers moving to the Portland metro region. Coupled with positive economic conditions across the metro area and United States, Hillsboro's moderate to optimistic outlook should fuel demand for real estate across property types and lift values in the near term. Downtown Hillsboro has the potential to capture a good share of the City's future growth, especially provided the vacant and underutilized land near the downtown light rail stations that hold high potential for dense transit-oriented development.

## **Study Area Overview**

Located on the western edge of the City of Hillsboro and near the Urban Growth Boundary, Downtown Hillsboro is far from Highway 26 and as a result is not only somewhat removed from other sections of the City, but also substantially less accessible to the greater Portland region than other commercial nodes of Hillsboro.

The neighborhoods immediately surrounding the downtown core are highly diverse and range from having relatively low household incomes compared to the City as a whole, to neighborhoods that have high household incomes. While new residential development in the downtown core has been slow, the residential areas north of downtown show signs of increased real estate activity and turnover.

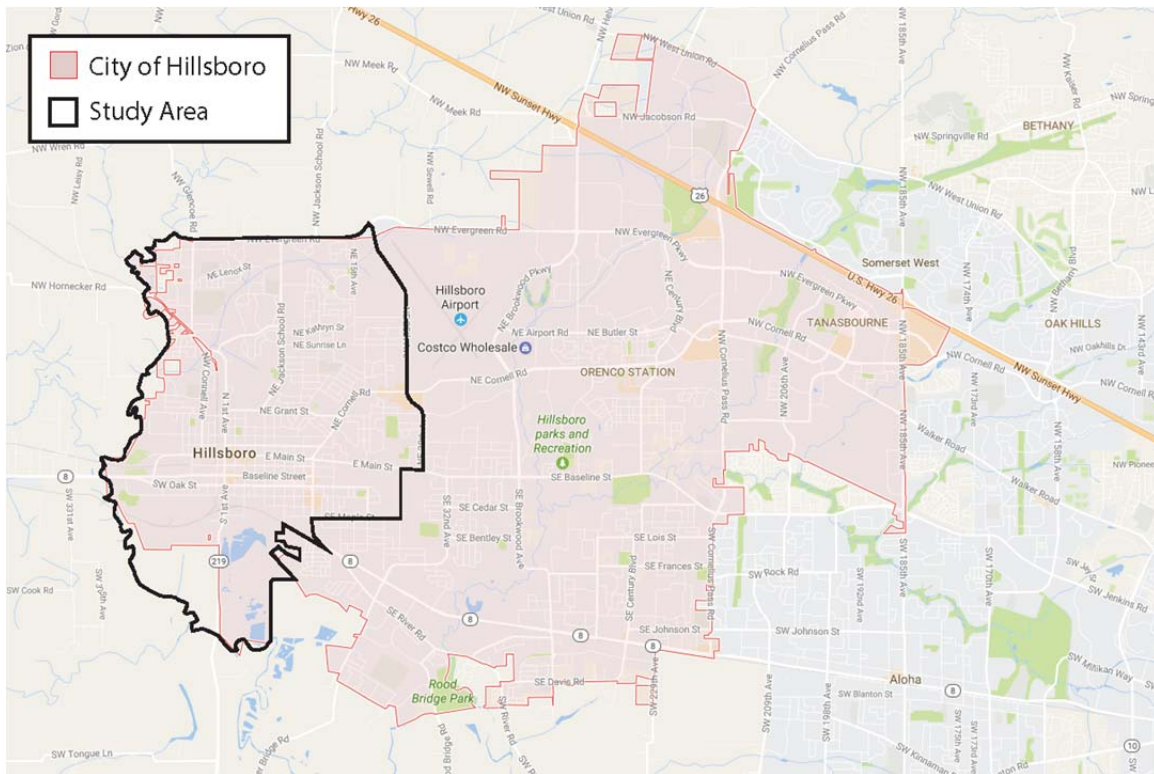
Although somewhat removed from Highway 26, Downtown Hillsboro is well-served by other transit options, namely the MAX and the Tualatin Valley Highway. Downtown's four MAX Light Rail stations represent the western end of the Blue Line. Downtown is two stops from the Hillsboro Airport Station, three stops from the Hawthorn Farm Station, and four stops from

Orencia Station. In addition to the MAX Light Rail, Downtown is also served by multiple TriMet bus lines that convene at the Hillsboro Central/3<sup>rd</sup> Avenue Transit Center.

Downtown Hillsboro is anchored by City and County government uses on its west end and the burgeoning Health and Education District on its east end. The Health and Education District spans six blocks and includes Tuality Community Hospital and Pacific University's Health Professions Campus. These institutions are major employers with the government center, bookending Downtown with significant daytime populations from employees as well as visitors. Tuality and Pacific are expanding and the two institutions work closely with the City on planning for the Health and Education District, such as the development of the jointly funded and shared Intermodal Parking Facility. Tuality and Pacific have adequate land supply for their long-term needs.

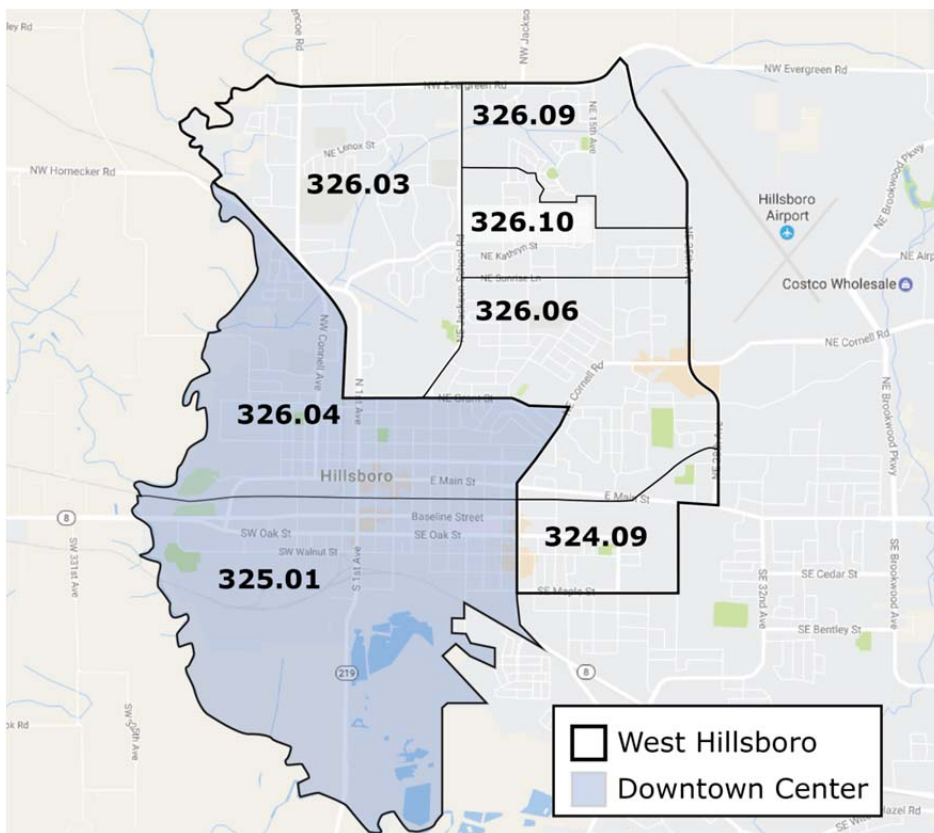
Professionals in retail development consider Orencia Station to be the most western node of "traditional retail" from which a catchment area can be drawn. This perception and Downtown Hillsboro's location on the actual western edge of the City have made it difficult to attract a high concentration of more traditional retailers. Retailers in Downtown have trade areas with limited density of households due to its proximity to the Urban Growth Boundary.

**Figure 2 Study Area and the City of Hillsboro**



A variety of geographies are relevant to evaluating Downtown Hillsboro's market potential. This analysis focuses on a number of overlapping geographies for the purposes of estimating key economic variables for the trade area most relevant to the retail uses being considered. These geographies were also delineated based on data availability. Two study areas were analyzed and are described below. These study areas can be seen in **Figure 3**.

**Figure 3 Study Area Census Tracts: West Hillsboro and Downtown Center**



- **Downtown Center.** For the purposes of this analysis, the Downtown Center is defined as the two Census Tracts encompassing a majority of the Downtown Hillsboro Urban Renewal Area. This study area represents areas most people associate with Downtown Hillsboro, and includes several neighborhoods identified by previous Hillsboro planning documents, such as the mixed-use Main Street Commercial District, Health and Education District, and the Southwest Industrial Area, and the primarily residential neighborhoods Heart of Hillsboro, Garden Tracts, and South of Oak Street.
- **West Hillsboro.** This analysis also includes a larger study area of West Hillsboro. This study area includes the Downtown Center, as well as the neighborhoods north of Downtown, and a small area immediately to the east of Downtown. The purpose of the larger study area is to analyze the areas which may be served by Downtown businesses and services. Hillsboro Airport represents a general barrier between West Hillsboro and the remainder of the City, creating a natural market from which businesses in Downtown Hillsboro can draw.

### Demographics

Retail demand can be disaggregated into spending from local sources such as residents and employees and spending from outside sources such as commuters, tourists, and other visitors. Spending from local sources is largely determined by demographic and economic variables such as population, income, and employment. Spending from outside sources, in turn, is determined by such factors as regional commute patterns, local destinations or tourist attractions, and the quality/character of retail supply itself. Grocery retail demand is primarily driven by local sources, and this analysis will focus on the local residential population. However, Downtown acts



as a hub of activity, is well-served by several light rail stations, and is home to a high concentration of government services, so the study area has potential to capture a small share of spending from outside sources.

### Population Characteristics

The population of the Downtown Center is estimated at just under 9,400, while the larger West Hillsboro area has a population of roughly 35,300 (see **Table 1**). The population of the Downtown Center has grown slightly since 2011, while the population of West Hillsboro has grown at a much faster pace. This holds true for the number of households within the two study areas as well. Of particular note is the median household income of the Downtown Center, which is substantially lower than the median household income of the City as a whole. Including the Downtown Center households results in a lower median income for the West Hillsboro study area. However, many of the neighborhoods north of the Downtown Center have median household incomes that are higher than the City's median. The aggregate household incomes of both study areas have risen faster than population growth, a positive sign of improving income.

Although the study areas show some positive signs of market potential, such as increasing incomes and slight to moderate population growth, other population characteristics signal market challenges. One point of concern is the increase in the percent of the population with incomes below the poverty level. Both study areas show an increase in this characteristic over the last five years. The Downtown Center's low median household income represents another challenge in demonstrating improving market potential in the area.

### Supply and Demand Analysis

This section considers various aspects of the grocery supply and demand for the study area. This section includes an examination of existing grocery retailers that serve the study area and with which additional grocery space in Downtown Hillsboro would likely compete. This section also includes a retail gap analysis for grocery and specialty foods. While the demographics of the study area provide important context for understanding the market demand potential, qualitative research can help to provide a multidimensional portrayal of the market. This section includes qualitative research gathered from interviews and meetings with study area residents and stakeholders as well as professionals involved with grocery store development.

#### Existing Supply

Although the closing of Hank's Thriftway has generally been seen as a loss of an essential business service in Downtown Hillsboro, there is a wide array of existing grocery retailers within the two study areas and beyond (see **Figure 4**). **Table 2** shows a list of grocery retailers in the area, grouped into three categories: primary competition, secondary competition, and other competition. The primary and secondary competition categories represent grocers that have a wide-range of offerings, such as supermarkets and national chains. These stores are separated into primary and secondary categories according to distance from the study area. The Other Grocery Store Competition category represents grocery locations whose offerings are much narrower than the grocery retailers in the primary and secondary competition categories.

**Table 1**  
**Downtown Hillsboro Grocery Feasibility Analysis**  
**Study Area Demographics**

Year	Downtown Center [1]				West Hillsboro [2]				City of Hillsboro			
	2011	2013	2015	5-Yr. Avg. Annual Change	2011	2013	2015	5-Yr. Avg. Annual Change	2011	2013	2015	5-Yr. Avg. Annual Change
<b>Total Population</b>	9,269	9,283	9,377	0.29%	32,842	33,264	35,311	1.83%	89,946	93,880	97,751	2.10%
<b>Race</b>												
White	74%	0%	0%	(88.27%)	71%	75%	78%	2.43%	72%	72%	74%	0.82%
Black	2%	8%	8%	37.86%	1%	1%	1%	(0.83%)	2%	1%	1%	(11.92%)
American Indian	8%	13%	12%	9.42%	5%	2%	1%	(32.07%)	3%	1%	1%	(21.67%)
Asian	1%	8%	13%	75.41%	4%	5%	5%	4.51%	8%	9%	10%	5.93%
Pacific Islander	0%	1%	2%	0.00%	2%	1%	1%	(16.86%)	1%	1%	1%	(6.09%)
Other	10%	60%	48%	49.67%	12%	13%	10%	(4.35%)	10%	11%	7%	(9.09%)
2 or More Races	4%	11%	17%	42.99%	5%	4%	4%	(5.47%)	4%	5%	6%	8.62%
Total	100%	100%	100%		100%	100%	100%		100%	100%	100%	
<b>Households</b>												
Number of Households	3,011	2,900	3,039	0.23%	10,416	10,374	11,106	1.62%	32,177	32,594	35,284	2.33%
Number of Non-family Households	1,056	879	935	(3.00%)	2,380	2,196	2,421	0.43%	10,583	10,336	10,956	0.87%
Percent Non-Family Households	35.1%	30.3%	30.8%	(3.22%)	22.8%	21.2%	21.8%	(1.17%)	32.9%	31.7%	31.1%	(1.43%)
<b>Median Household Income</b>	\$48,185	\$46,119	\$45,386	(1.49%)	\$60,521	\$60,982	\$62,281	0.72%	\$64,197	\$65,158	\$67,757	1.36%
<b>Aggregate Household Income</b>	\$176,201,100	\$172,417,900	\$179,136,000	0.41%	\$758,114,600	\$769,024,800	\$822,498,000	2.06%	\$2,385,562,800	\$2,496,639,400	\$2,760,214,900	3.71%
<b>Persons with Incomes Below Poverty Level</b>	20.0%	19.1%	20.7%	0.83%	16.1%	16.9%	18.7%	3.87%	11.84%	13.6%	13.6%	3.49%
<b>Population Over 25 with Bachelor's Degree or Higher</b>	19.4%	19.8%	18.7%	(0.91%)	26.8%	26.5%	27.0%	0.26%	34.2%	32.9%	35.7%	1.09%
<b>Housing Tenure</b>												
Owner-Occupied	55%	51%	51%	(1.75%)	60%	56%	57%	(1.22%)	56%	54%	53%	(1.63%)
Renter-Occupied	45%	49%	49%	1.99%	40%	44%	43%	1.75%	44%	46%	47%	1.99%

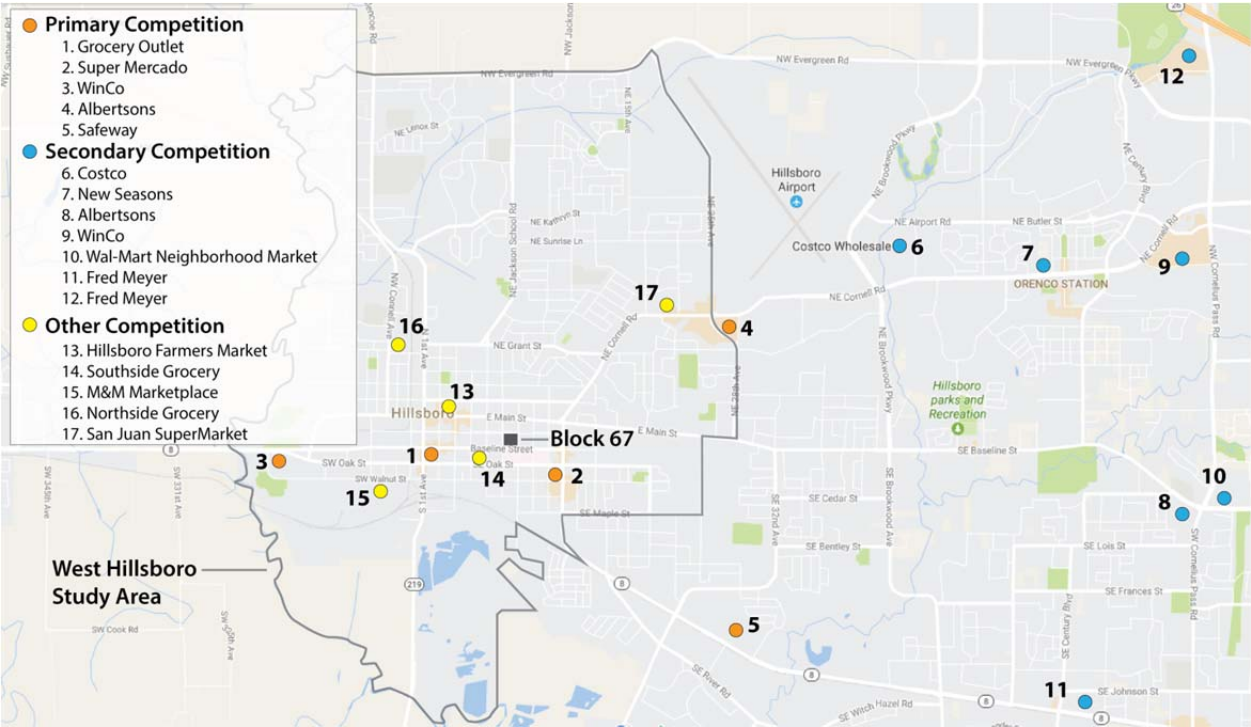
Source: American Community Survey, 5-Year Estimates; EPS.

demographics

[1] Downtown Center includes Census Tracts 325.01 and 326.04. See Figure 3.

[2] West Hillsboro includes Census Tracts 324.09, 326.03, 326.06, 326.09, and 326.10. See Figure 3.

Figure 4 Existing Grocery Competition



**Table 2**  
**Downtown Hillsboro Grocery Feasibility Analysis**  
**Competitive Grocery Supply**

Store	Address	City	Miles to Downtown Center [1]
<b>Primary Grocery Store Competition</b>			
Grocery Outlet Bargain Market	354 S 1st Avenue	Hillsboro	0.4
Super Mercado Mexico	970 SE Oak Street	Hillsboro	0.9
WinCo Foods	1500 SW Oak Street	Hillsboro	1.3
Albertsons	888 NE 25th Avenue	Hillsboro	1.8
Safeway	2525 SE Tualatin Valley Highway	Hillsboro	2.5
<b>Secondary Grocery Store Competition</b>			
Costco Wholesale	1255 NE 48th Avenue	Hillsboro	3.1
New Seasons Market Orenco Station	1453 NE 61st Avenue	Hillsboro	3.9
Albertsons	7500 SW Baseline Road	Hillsboro	4.3
WinCo	7330 NE Butler Street	Hillsboro	4.5
Wal-Mart Neighborhood Market	7650 NE Shaleen Street	Hillsboro	4.9
Fred Meyer	6495 SE Tualatin Highway	Hillsboro	5.0
Fred Meyer	22075 NW Imbrie Drive	Hillsboro	5.9
<b>Other Grocery Store Competition</b>			
Hillsboro Farmers' Market Downtown	232 NE Lincoln Street	Hillsboro	0.3
Southside Grocery	370 SE 4th Avenue # A	Hillsboro	0.5
M&M Marketplace	346 SW Walnut Street	Hillsboro	0.8
Northside Grocery	506 NW Connell Avenue	Hillsboro	0.9
San Juan SuperMarket	1991 NE Cornell Road # 170	Hillsboro	1.5

*comp supply*

Source: Cushman & Wakefield of Oregon Inc.; EPS.

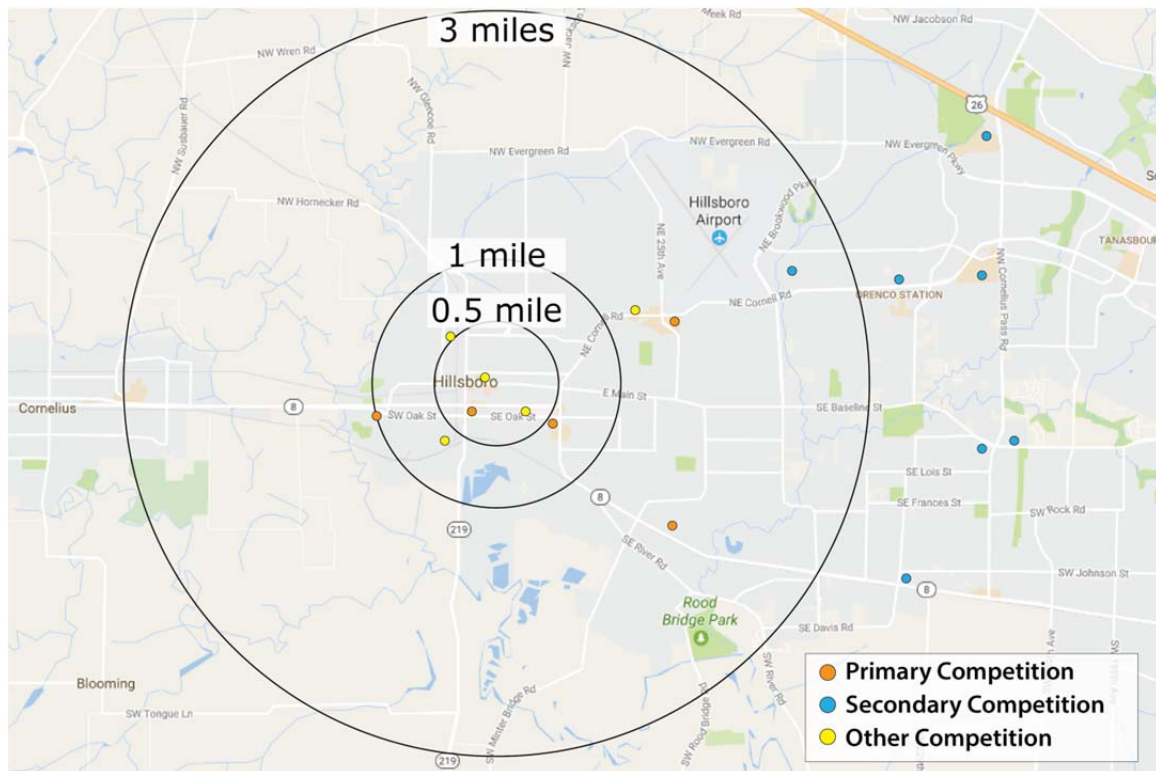
[1] Driving distance in miles from 409 E. Main Street, Hillsboro, OR.

The primary and secondary grocery store competition loosely forms a ring around the two study areas, located to the south and to the east. Three grocery stores are located within the Downtown Center—WinCo, Grocery Outlet Bargain Market, and Super Mercado Mexico. These are all located in the southern stretch of West Hillsboro. Other traditional supermarkets that are within close proximity to the area include an Albertsons near the western edge of the Hillsboro Airport, a Safeway along Tualatin Valley Highway, and two Fred Meyers locations—one easily accessible along Tualatin Valley Highway in the south and another easily accessible along Evergreen Road in the north. Specialty grocery stores that serve West Hillsboro include the members-only warehouse giant Costco Wholesale located near Hillsboro Airport and organic foods retailer New Seasons at Orenco Station.

### Retail Gap Analysis

EPS conducted a retail gap analysis that considers the current supply and demand of specified trade areas. A retail trade area is defined as a geographic region that contains the elements of demand and supply that will determine the performance of a particular tenant or project. A trade area is influenced by a variety of factors, including competitive supply, the location and density of the targeted residential and workforce populations, the relative distance or travel time for each of the above, geographic and psychological barriers, and existing commute or shopping patterns. For this analysis, EPS evaluated the retail marketplace profile according to trade areas based on distance from the Downtown Center. For the purposes of the retail gap analysis, the central point of the Downtown Center is 409 E Main Street. The initial trade areas for the retail gap analysis are described below and are shown in **Figure 5**.

**Figure 5 Retail Gap Analysis Trade Area—Distance from 409 E. Main Street**



- **Half-Mile Radius of Downtown Center.** Some grocery retailers use a similar area when evaluating the market potential of a particular neighborhood. For example, New Seasons analyzes the area within 1-square mile from a study site. The area within a half-mile radius equals approximately 0.8 square miles.
- **One-Mile Radius of Downtown Center.** A traditional grocery store typically evaluates the demographics within a 1-mile radius to determine the viability of a new store. As such, this area was defined as a potential trade area.
- **Three-Mile Radius of Downtown Center.** This area was analyzed as a trade area based on reasonable distances of grocery stores within the existing competitive supply.

Upon first glance, the results of the retail gap analysis shown below in **Table 3** indicate that there is a significant grocery store surplus in the area, particularly within one half mile of the center of Downtown. The low demand figure can be attributed to the small number of residents living within this trade area and the generally low income levels in Downtown Center discussed earlier. Several factors can be affecting the strength of the supply figure, which is based on sales. This data includes the sales from Hank's Thriftway, which has since closed. EPS has adjusted the supply figure using \$300 of sales per square foot for Hank's 22,000 square feet, resulting in a net reduction in supply of \$6.6 million.

Other grocery suppliers in the area that are driving the supply figure include Grocery Outlet Bargain Market as well as Super Mercado Mexico. Ethnic grocery stores typically draw from a large area, and it is likely that Super Mercado draws its customer base from areas beyond the trade area.

Overall, the area is well-served by existing grocery stores and there appears to be limited demand for additional grocery store space. However, the data shows demand leakage in the specialty food stores category, presenting an opportunity for Downtown Hillsboro to offer niche products currently not being supplied by existing retailers. Although a new full-scale grocery store is unlikely to be supportable under current market conditions, more modest options, such as a small niche or specialty foods store, appear more viable, but only with continued and accelerated Downtown growth, as this is the most likely path forward to building sufficient market demand for any and all grocery options.

### **Focus Area: Northern Neighborhoods of West Hillsboro**

Taking into consideration the strong demographic and household characteristics of the neighborhoods north of Downtown Hillsboro as well as their long distance from the existing grocery stores relative to the Downtown Center, EPS conducted a specific retail gap analysis of these northern neighborhoods (see **Figure 6**), which is roughly composed of the West Hillsboro area north of Baseline Street and west of 15th Avenue. The high median household incomes of the northern neighborhoods and general lack of retail grocery offerings within these neighborhoods present strong potential for Downtown businesses to serve the residents of these northern neighborhoods.

**Table 3**  
**Downtown Hillsboro Grocery Feasibility Analysis**  
**Downtown Hillsboro Retail Market Leakage [1]**

Item	Demand	Supply	Retail Gap
<b>0 - 0.5 mile</b>			
Grocery	\$5,832,265	\$41,856,210	(\$36,023,945)
Specialty Food Stores	\$594,830	\$228,112	\$366,718
<b>Subtotal</b>	<b>\$6,427,095</b>	<b>\$42,084,322</b>	<b>(\$35,657,227)</b>
<b>0.5 mile - 1mile</b>			
Grocery	\$21,738,511	\$30,585,847	(\$8,847,336)
Specialty Food Stores	\$2,215,349	\$877,843	\$1,337,506
<b>Subtotal</b>	<b>\$23,953,860</b>	<b>\$31,463,690</b>	<b>(\$7,509,830)</b>
<b>1 mile - 3 miles</b>			
Grocery	\$101,104,141	\$98,872,018	\$2,232,123
Specialty Food Stores	\$10,233,262	\$919,437	\$9,313,825
<b>Subtotal</b>	<b>\$111,337,403</b>	<b>\$99,791,455</b>	<b>\$11,545,948</b>
<b>Total</b>			
Grocery	\$128,674,917	\$171,314,075	(\$42,639,158)
Specialty Food Stores	\$13,043,441	\$2,025,392	\$11,018,049
<b>Subtotal</b>	<b>\$141,718,358</b>	<b>\$173,339,467</b>	<b>(\$31,621,109)</b>

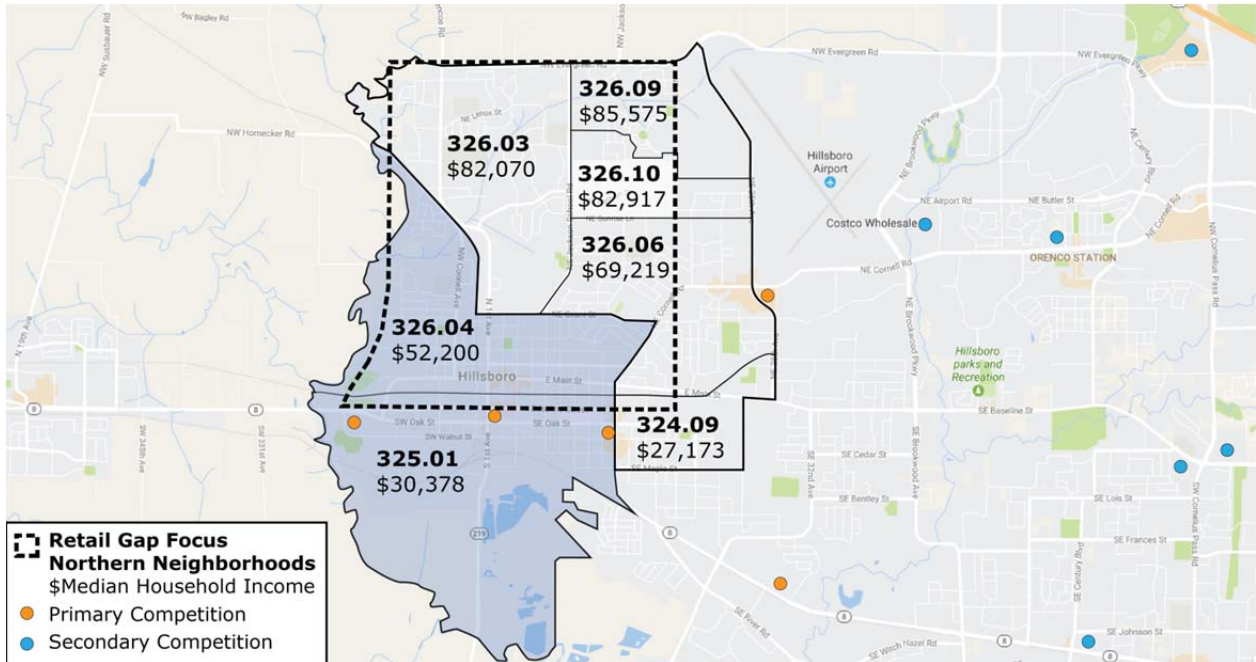
*gap analysis 1*

Source: Esri and Infogroup. Retail MarketPlace 2016 Release 2.

[1] Retail trade area defined as distance from 409 E. Main Street.

[2] Esri data includes sales from the now closed Hank's Thriftway grocery store. This figure has been adjusted down assuming \$300 in sales per square foot at 22,000 square feet, for a total of \$6,600,000 in sales.

**Figure 6 Census Tract Median Household Income, Existing Grocery Store Competition, and Northern Neighborhood Retail Gap Analysis Focus Area**



As shown in **Table 4** below, this focused retail gap analysis shows a substantial retail gap in grocery and specialty food stores amounting to approximately \$25 million. A successful grocery store typically requires per-square foot sales volume of about \$400, which translates to a total of about 80,000 square feet of supportable grocery and specialty foods square footage. Using conservative capture rates, EPS estimates supportable square footage of approximately 12,000 to 17,000 square feet. The northern neighborhoods' adjacency to Downtown Hillsboro and relative isolation from other Hillsboro commercial nodes, present an opportunity for Downtown Hillsboro to act as a commercial extension of these northern residential neighborhoods.

### Market Potential

As previously discussed, the grocery retail market is close to equilibrium and there remains limited demand for additional grocery space. The addition of a new grocery retailer can be supported in one of three ways. The first is an increase in demand—this can result from either growth in population as well as from growth in overall income as rising incomes or the entry of new residents with higher incomes can increase overall consumer spending. Secondly, if the market is currently at equilibrium, then a new grocery store can penetrate and capture sales from existing stores in the competitive supply. And lastly, additional food and beverage retail space can be supported by creating new demand through offering grocery and good products currently not represented in the area.

Population increase in Downtown Hillsboro is likely, especially considering the City's goals to intensify development in the area in addition to the strong market fundamentals of the Hillsboro residential market. The City of Hillsboro's strong economy and growing job sector are positive



**Table 4**  
**Downtown Hillsboro Grocery Feasibility Analysis**  
**Focused Retail Gap Analysis on Northern Neighborhoods**

Item	Demand	Supply	Gap	Supportable Square Footage (at \$400 / sq. ft.)	SQUARE FOOTAGE CAPTURE			
					Capture Rate		Square Footage	
					Low	High	Low	High
<i>Formula</i>	<i>a</i>	<i>b</i>	<i>c = a - b</i>	<i>d = c / \$400</i>	<i>e</i>	<i>f</i>	<i>g = d * e</i>	<i>h = d * f</i>
Grocery Stores [1]	\$47,486,452	\$20,370,924	<b>\$27,115,528</b>	67,789	15%	20%	10,168	13,558
Specialty Food Stores	\$4,813,108	\$397,877	<b>\$4,415,231</b>	11,038	20%	30%	2,208	3,311
<b>Subtotal</b>	<b>\$52,299,560</b>	<b>\$20,768,801</b>	<b>\$31,530,759</b>	<b>78,827</b>			<b>12,376</b>	<b>16,869</b>

*gap analysis 2*

Source: Esri and Infogroup. Retail MarketPlace 2016 Release 2; EPS.

[1] Esri data includes sales from the now closed Hank's Thriftway grocery store. This figure has been adjusted down assuming \$300 in sales per square foot at 22,000 square feet, for a total of \$6,600,000 in sales.

factors for housing demand in the City. A May 2017 Downtown Hillsboro Residential Needs Analysis conducted by Johnson Economics estimates an overall growth in housing demand of 4,600 units over the next 5 years—the forecasts show net new demand for 1,000 rental units and 3,600 units of ownership housing. This translates to an average annual growth of approximately 200 rental units and 720 ownership units for the next 5 years.

Downtown Hillsboro is in a position to capture a good share of the future residential growth, especially with the higher-intensity zoning in the Urban Renewal Area. Some vacant and underutilized parcels within the Urban Renewal Area are located within proximity to the light rail stations and thus prime for dense urban infill development. **Table 5** shows a 5-year growth forecast of 1,600 new household and 1,375 new employees in Downtown Hillsboro. **Table 5** also shows the increase in added demand for grocery store space associated with the forecasted growth. According to the U.S. Bureau of Labor Statistics (BLS), a typical household spends approximately 5 percent of its income on grocery items. Based on incomes of new households derived from estimated average rent and home prices calculated in **Table 6**, the new households collectively have approximately \$6.2 million in potential sales on grocery items. Provided the wide array of existing grocery stores, EPS estimates a conservative 20 to 25 percent of these sales would be captured by a new downtown grocery store, representing approximately 4,000 to 6,000 square feet of supportable square footage.

The household growth represents an optimistic outlook and relatively aggressive forecast in order to show the scale of future development needed in order to build sufficient market demand for a new grocery store. The additional demand generated by five years of growth in Downtown Hillsboro, along with the underserved retail demand of West Hillsboro's northern neighborhoods, indicate market potential for approximately 16,000 to 23,000 square feet of new grocery store space, as shown in **Table 7**. However, the grocery business is risky, and attracting a grocery store operator to meet this estimated demand can be a challenge, as operators may point to the number of existing competitors and Downtown's low median household income as less than ideal market conditions. Nevertheless, in the near term, a small format grocery or specialty foods store may be supportable by the existing and near-term future demand. Depending on the rate of development growth Downtown and the response to such growth from existing grocery and food competition, a new medium format grocery store (i.e., 20,000 square feet as opposed to the national average of approximately 40,000 square feet for a supermarket) may be supportable in the long term.

Downtown Hillsboro will compete with South Hillsboro for future demand. The City envisions 8,000 homes in South Hillsboro by 2035, representing the largest planned residential development in Oregon history. Reed's Crossing, the first development in South Hillsboro, broke ground in August 2016, but the first houses are not likely to be built until early- to mid-2018.<sup>2</sup> Reed's Crossing will have approximately 3,800 single-family units, an additional 600 to 900 multifamily units, and 90 acres of mixed-use with a town center in the middle of the 422-acre site. Although South Hillsboro will have a share of the future housing demand, its suburban

---

<sup>2</sup> Brettman, Allan. "Massive South Hillsboro project breaks ground; welcome mat out for 20,000 people." <[http://www.oregonlive.com/washingtoncounty/index.ssf/2016/08/post\\_87.html](http://www.oregonlive.com/washingtoncounty/index.ssf/2016/08/post_87.html)>

**Table 5**  
**Downtown Hillsboro Grocery Feasibility Analysis**  
**Downtown Hillsboro 5-Year Household and Employment Growth Forecast (2017\$)**

New Downtown Residents and Workers	Quantity	Household Income [1]	SPENDING ON GROCERIES [2]			New Spending Power Per Year	DOWNTOWN GROCERY CAPTURE				Supportable Square Footage at \$400 in Sales per Sq. Ft.	
			Households Per Year [3]	Non-Residents			Capture Rate		Sales Captured		Low	High
				Per Day	Per Year [4]		Low	High	Low	High		
<i>Formula</i>	<i>a</i>	<i>b</i>	$c = a * b * 5\%$	<i>d</i>	$e = a * d * 260$	$f = c + e$	<i>g</i>	<i>h</i>	$i = f * g$	$j = f * h$	$k = i / \$400$	$l = j / \$400$
<b>Resident Households</b>	<i>Households</i>				\$ 0	\$ 0						
Rental [5]	1,000	\$60,000	\$3,000,000	20%	30%	\$3,000,000	20%	25%	\$600,000	\$750,000	1,714	2,143
Homeowner [6]	600	\$108,000	\$3,240,000			\$3,240,000	20%	25%	\$648,000	\$810,000	1,851	2,314
<b>Subtotal Residents</b>	<b>1,600</b>		<b>\$6,240,000</b>			<b>\$6,240,000</b>			<b>\$1,248,000</b>	<b>\$1,560,000</b>	<b>3,566</b>	<b>4,457</b>
<b>Workers</b>	<i>Persons</i>											
Tuality Hospital [7]	50			\$10	\$130,000	\$130,000	15%	25%	\$19,500	\$32,500	56	93
Pacific University [8]	116			\$10	\$301,600	\$301,600	15%	25%	\$45,240	\$75,400	129	215
Other [9]	1,209			\$8	\$2,514,373	\$2,514,373	5%	10%	\$125,719	\$251,437	359	718
<b>Subtotal Workers</b>	<b>1,375</b>				<b>\$2,945,973</b>	<b>\$2,945,973</b>			<b>\$190,459</b>	<b>\$359,337</b>	<b>544</b>	<b>1,027</b>
<b>Students</b>	<b>700</b>			<b>\$5</b>	<b>\$910,000</b>	<b>\$910,000</b>	<b>10%</b>	<b>20%</b>	<b>\$91,000</b>	<b>\$182,000</b>	<b>260</b>	<b>520</b>
<b>Total</b>			<b>\$6,240,000</b>		<b>\$3,855,973</b>	<b>\$10,095,974</b>			<b>\$1,529,459</b>	<b>\$2,101,337</b>	<b>4,370</b>	<b>6,004</b>

5-yr forecast

Source: US Bureau of Labor and Statistics; City of Hillsboro; Tuality Hospital; Pacific University; EPS.

[1] Based on average residential rental price of \$1,500 per unit and home price of \$400,000. See Appendix for income estimate methodology.  
 [2] Includes spending at grocery and specialty food stores.  
 [3] According to the U.S. Bureau of Labor Statistics (BLS), a typical household spends approximately 5 percent of its income on grocery items.  
 [4] Assumes 260 work days per year.  
 [5] Assumes 1,000 new rental units in the next 5 years.  
 [6] Assumes 600 new ownership residential units in the next 5 years.  
 [7] Placeholder estimate, to be confirmed with Tuality.  
 [8] Based on 2014 Pacific University College of Health Professions faculty and staff to student ratio of 1:6. The Hillsboro campus is expected to grow by approximately 700 students by 2020.  
 [9] Based on City of Hillsboro Downtown employment projections for 2040, which indicate an average annual growth of 275 employees per year in Downtown. Estimates for Tuality Hospital and Pacific University have been subtracted from the City's overall projection of 1,375 additional employees in Downtown Hillsboro.

19

**Table 6**  
**Downtown Hillsboro Grocery Feasibility Analysis**  
**Estimated Household Income by Product Type**

Item	Assumption	Estimated Annual Housing Costs (Rounded)	Estimated Household Income (Rounded)
<b>Assumptions</b>			
% Income Dedicated to Housing Costs	30%		
Mortgage Term (In Years)	30		
Mortgage Interest Rate	5.5%		
Down Payment as a % of Unit Value	10%		
Annual Home Taxes and Insurance	2.0%		
<b>Owner-Occupied - Estimated Unit Value</b>			
\$400,000		\$32,500	\$108,000
<b>Renter-Occupied - Estimated Monthly Rent</b>			
\$1,500		\$18,000	\$60,000

*hh\_income*

Source: Redfin.com; Johnson Economics; EPS.

**Table 7**  
**Downtown Hillsboro Grocery Feasibility Analysis**  
**Market Potential for Additional Grocery Store Space**

Item	Source	Supportable Square Footage	
		Low	High
<b>Demand Potential</b>			
Northern Neighborhoods	Table 4	12,376	16,869
5-Year Forecast of New Downtown Residents and Employees	Table 5	4,370	6,004
<b>Subtotal</b>		<b>16,746</b>	<b>22,873</b>

*potential*

Source: ESRI Retail MarketPlace; EPS.

character is very different than the dense development that would arise in Downtown Hillsboro's urban environment, presenting different residential products that would not directly compete with each other. South Hillsboro has been hailed as a significant piece in helping to relieve the region's pressing housing needs, but the City should also embrace Downtown Hillsboro's capacity to help ameliorate the housing crisis with high-density projects that are close to employment centers and serviced by existing infrastructure.

The growing Health and Education District will be a significant demand driver for retail and residential uses and the expansion plans of Tuality Community Hospital and Pacific University are harbingers for new Downtown development. Tuality has entered a partnership with Oregon Health & Science University (OHSU), with which they are collaborating on five clinics, such as a neurology clinic and a pre-natal clinic. These clinics will add about 1,000 patients per week on site. Tuality is also planning to double the size of its cancer center within the next two to three years. Pacific University is expanding its presence as well, expecting to grow its current student population of 1,300 graduate students to 2,000 students by 2020.

Tuality and Pacific have similar needs, such as housing. Tuality cites a need to offer housing for out of town patients and guests, while Pacific University recognizes that there is a demand for convenient housing for its students, although the university does not have specific plans to build housing for them. These two institutions drive a significant amount of traffic Downtown and there is great potential to capture their food and beverage needs. Pacific University cited an on-site grab and go food provider that was very popular with students, which suggests that a grocery store can find added success with a prepared foods sections. The growing daytime population should be encouraged to visit Downtown businesses during the daytime and off-hours. The expansion of these two institutions presents a bright future for the neighborhood.

## **Discussion: Community Needs and Role of Urban Grocery**

EPS interviewed Hillsboro residents, the Urban Renewal Advisory Committee, and City staff as well as professionals active in the real estate of grocery development in the Portland area. This section draws themes and observations from these interviews and meetings.

### **Current Market Conditions**

Hank's Thriftway served Downtown Hillsboro and its surrounding neighborhoods for more than 80 years and the grocery store's closing struck a nostalgic tone in the community that is still felt to this day. The store's closing came on the heels of increased competition from seasoned and well-operated grocery store brands entering the market over the decades. The closure falls in line with national grocery and retail trends, such as e-commerce's gains in retail market share (which in recent years has been penetrating the grocery market) and over-retailed neighborhoods from previous eras correcting themselves to current market conditions. However, several retail sectors have been growing—discount stores, high-end retail, and small grocery formats<sup>3</sup>. In addition to the expected prime retail hot spots, certain types of retail locations

---

<sup>3</sup> Barcaly, Eliza. "Grocery Stores Are Losing You. Here's How They Plan To Win You Back."  
<<http://www.npr.org/sections/thesalt/2015/03/30/395774725/grocery-stores-are-losing-you-heres-how-they-plan-to-win-you-back>>

have fared well. Neighborhood centers in good locations with strong grocery store anchors, mixed-use suburban retail spots made to look urban, and “cool streets” or areas that are hip and happening with unique retail and food establishments have all benefitted from the public’s desire to still see and be seen but not in mediocre environments.<sup>4</sup>

Despite the closing of an institution like Hank’s, Downtown Hillsboro holds a lot of potential to be part of a class of up-and-coming trade areas with new restaurant and retail concepts driven by dramatic demographic shifts and the preference for urban living. Recent real estate activity in Downtown Hillsboro reflects growing interest in the neighborhood from the investment and development community. The 4th Main project represents a market-rate mixed-use development model that can be replicated in future Downtown projects. The project’s scale fits well within the neighborhood and the project has been generally well-received by the community as well as the market. According to 4th Main property management, the 71 residential units were quickly absorbed by a diverse set of tenants including approximately 20 percent students, 12 percent seniors, as well as workers from both the City and tech companies such as Intel. Downtown has also garnered attention from established brands, such as Insomnia Coffee Co., which opened its sixth location in Downtown Hillsboro in early 2017.<sup>5</sup> New enterprises have also began take an interest in Downtown, such as Mindy Simmons, an award-winning baker and owner of popular bakery Decadent Creations, who is renovating a property off Main Street to house a commercial kitchen, a retail space, and a walk-up window and potentially a restaurant or bar.

While this new activity and interest in Downtown Hillsboro appear to signal the confluence of several important elements of a vibrant downtown, many residents have voiced that a grocery store is an essential piece missing from the mix. Generally speaking, the need for a new grocery store in Downtown Hillsboro is actually more of a “want”. Some residents report being well served by the diversity of grocery stores in and surrounding Downtown. Although many full-service grocery stores are within a short driving distance from Downtown, senior and auto-less Downtown residents have been most affected by Hank’s closure.

Grocery needs are also being met by non-traditional options like the Downtown Hillsboro Farmers Market, which is a great seasonal resource. Other residents subscribe to produce drops, a service which offers a more direct farm to consumer delivery of produce. There is also a local grocery cooperative (co-op) movement gaining momentum. The co-op leaders are currently building the local support base and will look to open a retail front once co-op membership reaches a certain threshold. Although local residents voice strong support for new grocery offerings, many believe that a traditional big format store is not needed, but instead acknowledge the desire for a specialty foods store, with ideas ranging from a delicatessen, fish market, butcher and meat market, and wine and cheese offerings. The community recognizes that each existing grocery store has its strengths and that it is difficult for grocery stores to carry everything, but there is consensus that there remains a specialty niche that has not been met.

---

<sup>4</sup> Sammons, Robert. “The Death of Retail Greatly Exaggerated?”

<sup>5</sup> Loose, Travis. “Downtown Hillsboro’s retailer quotient ‘on the up,’ downtown says.”  
<<http://www.pamplinmedia.com/ht/117-hillsboro-tribune-news/314539-193297-downtown-hillsboros-retailer-quotient-on-the-up-downtown-says>>

## **Demographic Changes and Market Potential**

Demographic changes and the emergence of new communities in Hillsboro have also created opportunities for new enterprises. A growing Latino community in Hillsboro (and in Aloha and Cornelius) has driven the demand for Latino food and retail businesses. One recent success is the opening of the Super Mercado Mexico, a Mexican-focused retail grocer from California, which provides a niche offering on the eastern edge of Downtown. As the community make up continues to shift, so will grocery preferences and needs. Other growing demographic groups include seniors and empty nesters, students, and new property owners in the Heart of Hillsboro neighborhood. The co-op grocery concept has the flexibility to adapt to changing needs of the community as its stock can be self-curated by the membership base.

Residents believe that there is strong residential market demand, evidenced by the quick absorption of 4th Main, and even pent up demand for high quality residential products. Supply has been slow to respond to this demand, but rising prices in Orenco Station have caused some renters to consider Downtown Hillsboro as an alternative neighborhood to Orenco. Orenco Station is viewed as a good temporary location, drawing young singles and tech employees newly arriving to the Portland area. Some of these residents eventually choose to move into bigger and newer units or houses when they start families or when their families move and join them in the Portland area. Downtown Hillsboro is not currently capturing a substantial share of these tenants because the supply does not exist in the neighborhood. Upper income households demand a high quality housing product, and the supply of available high quality housing product is concentrated outside of downtown Hillsboro. Even though demand for high quality residential product may be present, adequate supply has not been delivered in and near Downtown Hillsboro, which may indicate that additional housing supply in Downtown would be successful.

There are several issues with Hillsboro, and particularly Downtown Hillsboro, that may be hampering the neighborhood's ability to capture more residents. Downtown Hillsboro is perceived as less safe than other neighborhoods, mostly due to the presence of the Washington County Jail. The concentration of other County services, such as those for mental health and drug use, contribute to the perception of Downtown as a dangerous place. Downtown's distance from Highway 26 may be another hindrance in the neighborhood's capture of future development demand. Community members also cite the weak reputation of Hillsboro schools as detrimental to attracting and retaining households with children who opt for better schools in nearby communities.

Downtown Hillsboro holds great development potential despite the aforementioned issues. The area has begun to increase its overall accessibility through transportation projects such as wayfinding improvements and upcoming shared parking arrangements. Another key project has been the Jackson School Road and Highway 26 interchange, which greatly improves access to Downtown. Downtown's location near the edge of the Urban Growth Boundary positions it as a natural gateway to wine country to the west and south, as well as to popular nature and open space amenities like Jackson Bottom Wetlands Preserve, a park with hundreds of acres of open space and trails that is also very popular with the Portland-area cycling community. Within Downtown, Block 67 is a site ripe with catalytic potential and the development that emerges will likely accelerate change in Downtown Hillsboro. The City should build on its strengths and improve its weaknesses in order to maximize its capture of future development demand.



## **Development and Investment Community**

Downtown Hillsboro is on the radar of several grocery retailers and developers. For example, Hillsboro is the most requested place for a new location of New Seasons. There have also been previous attempts to bring new grocery stores to Downtown Hillsboro, none of which have penciled out. Several developers believe that there is potential for a grocery store Downtown, but do not view the current market dynamics as particularly favorable for the location for a variety of factors. Some of those factors include the lack of critical mass of residents to support an additional grocery store given the wide array of existing options and the high cost of construction, particularly costs associated with structured parking that would be necessary for the type of high-density mixed-use development the City would like to have Downtown. In addition, there has been an increase in the percent of the population with incomes below the poverty level.

The success of Orenco Station has caught the attention of the investment community, evidenced by developer interest and construction in communities nearby like Amberglen and Tanasbourne. Although Downtown is of a completely different character, it seems poised as the next location for intensified development in Hillsboro. Residential rents in Downtown Hillsboro appear to lag behind Orenco Station by a few years, but these lower rents may be a result of a lack of new supply in Downtown Hillsboro. However, a strong export job base, light rail access, and bona fide downtown charm, combined with a dysfunctionally tight vacancy rate (2.8 percent)<sup>6</sup> in the City overall, downtown is poised to grow at a faster rate than other areas. With rents consuming less than 30 percent of income<sup>7</sup> there would appear to be upward growth potential on rents. The strong competitive position of Downtown should overcome structural issues and support multiple additional mixed-use 4<sup>th</sup> Main-type projects.

There may be a two- to five-year window for rent improvement and developer interest to build in Downtown Hillsboro, providing a window for the City to improve on Downtown's weaknesses and build upon its strengths. The City's ownership of Block 67 affords it a unique opportunity to catalyze Downtown's growth within the next five years, and the resulting development on the site should deliver strategically programmed products as Downtown Hillsboro is increasingly seen as an alternative venue for key demographics.

In addition to tailoring residential products to the preferences of key demographics, an important part of attracting such groups is the provision of neighborhood amenities. One such amenity may be a small-format grocery store or specialty foods shop, which EPS believes there is supportable market demand. The following section describes a variety of grocery store formats that may be considered for including as a retail component within a larger mixed-use development.

## **Potential Grocery Store Formats**

Based on the quantitative and qualitative research presented earlier, this section presents several grocery store formats that EPS believes fit within the scope of what is feasible in Downtown Hillsboro in the future. EPS recommends that a small-format grocery store part of a

---

<sup>6</sup> "Housing Needs Analysis for Downtown Hillsboro, Oregon" prepared by Johnson Economics, 2017.

<sup>7</sup> "Housing Needs Analysis for Downtown Hillsboro, Oregon" prepared by Johnson Economics, 2017.

larger mixed-use development concept can meet the current and near future (1 to 5 years) needs of the West Hillsboro area. This initial small-format store can serve as an amenity to the mixed-use development and provide some potential capture for existing residents and employees. This initial store can help build demand for future retail in Downtown as a whole, acting as an interim step to a larger store that can be supported only with continued residential development in the area down the line. Although an initial small-format store in Downtown may be niche and fill a current specialty void in grocery offerings, a larger grocery space in the future has the potential to be a unique concept that brings the community together under one roof, appealing to the diversity of Downtown and its surrounding neighborhoods.

### **Small Format General Grocer**

**Pros:** Place-based/neighborhood-centric; flexibility for innovation

**Cons:** Limited offerings—difficult to compete with supermarkets; difficult to appeal to cross-section of groups

#### **Example: Green Zebra**

**Model:** Healthy and convenient corner grocer offering grab-and-go meals, coffee bar, beer and wine, grocery staples, and locally sourced products

**Size:**

Portland Lloyd District: 8,203 sq. ft. (employs 40 to 50 people)

Portland Kenton: 5,600 sq. ft.

Portland State University: 4,200 sq. ft. (employs 40 to 50 people, prioritizes students)

**Expansion plans:** Portland, Seattle, California

**Community engagement:** Local donations; 10 percent discount for SNAP-eligible customers



Image Source:

<https://circleup.com/blog/article/with-green-zebra-grocery-lisa-sedlar-and-team-are-rethinking-the-modern-convenience-store./VTf1uSgAABor9Kx-/>

**Example: Providore Fine Foods**

**Model:** Gourmet food market and collaboration between several well-known purveyors  
European style marketplace: Pastaworks, meat monger, produce, baker, fish (all different operators)

**Size:** 5,000 sq. ft.

**Community engagement:** Local purveyors, gathering place

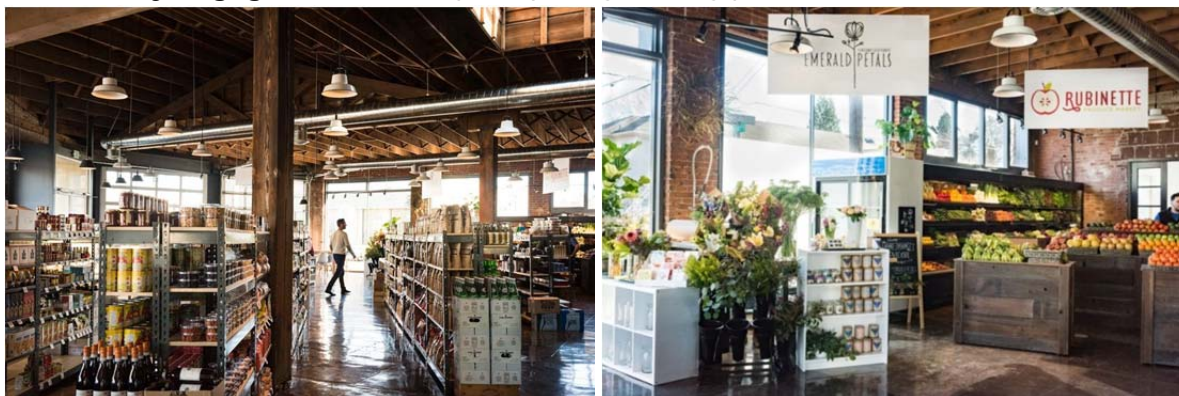


Image Source: <https://pdx.eater.com/2016/2/9/10954336/providore-fine-foods-opens-on-ne-sandy-photos-pastaworks-marketplace>

**Co-Op**

**Pros:** Community-based, can easily address and adapt to changing community needs; flexible and inclusive structure

**Cons:** Untraditional management structures can bring challenges; rely on continued community engagement and ownership

**Example: Our Table (Sherwood, Oregon)**

**Model:** Community-owned operation including retail grocery storefront, commercial-grade commissary kitchen, and community gathering hall, "farm to shelf"

**Size:** 2,200 sq. ft. storefront with 58-acre regenerative farm

**Community engagement:** Community owned and operated, community farm, CSA



Image Source: <http://www.ourtable.us/our-grocery.html>; <http://www.communitecture.net/our-table-farmstand.html>

**Example: People's Co-Op (Southeast Portland)**

**Model:** Food cooperative owned by over 3,000 member owners and managed by a "non-hierarchical collective" of 27 co-managers

**Size:** 2,400 sq. ft.

**Expansion plans:** Expanded on-site in 2002; secured member and bank loans to finance \$900,000 expansion project to double store's retail space and community room

**Community engagement:** Community room, community-operated, weekly farmers' market in courtyard, membership in regional and national cooperative foundations

**Award:** BEST (Businesses for an Environmentally Sustainable Tomorrow) award from City of Portland's Office of Sustainable Development for energy efficiency (2003)



Image Source: <https://buildingdata.energy.gov/project/renovation-and-expansion-peoples-food-co-op/>  
<http://ecoroofofseverywhere.com/2009/09/peoples-food-coop-solarium/>

### Specialty Foods (small-format specialty)

Pros: Destination shopping; high-profit goods; community support

Cons: May be inaccessible to lower-income populations (and unprofitable in low-income communities) without addressing community needs; may not reach multiple sociodemographic target group preferences

**Example: Savenor's Market (Boston/Cambridge)**

**Model:** Gourmet butcher shop, restaurant supplier, and high-end grocer offering specialty items like exotic game

**Community engagement:** Neighborhood gathering place



Image Source: [http://www.thekitchn.com/shopping/store\\_profiles/store-review-savenors-market-88630/](http://www.thekitchn.com/shopping/store_profiles/store-review-savenors-market-88630/)  
<http://www.savenorsmarket.com/contact-us/>

**Example: Oakville Grocery (Healdsburg/Napa Valley)**

**Model:** Oldest continually operating grocery store in California offering a curated selection from local farmers, artisans, and purveyors, including wine tasting room; "local food from local people"

**Size:** Employee estimate of 2,000 sq. ft.

**Community engagement:** Community gathering place, sells local goods, community icon



Image Source: <http://www.oakvillegrocery.com/find-us/>

**Example: SHED (Healdsburg)**

**Model:** Modern “grange”

- Open kitchen and café with seasonal menu, coffee bar, fermentation bar, larder, pantry
- Communal tables
- Events (workshops, talks, exhibits, farmer meet-ups, dinners)

**Size:** 10,000 square feet, two-story store; 30-acre farm

**Community engagement:** Gathering place for local residents, community events, communal tables

**Award:** James Beard best restaurant design 2014 award



Image Source: <http://insidescoopsf.sfgate.com/blog/2013/09/05/kenny-rochford-and-chef-niki-ford-leave-healdsburgs-shed/>; [http://jensen-architects.com/case\\_studies/case-study/shed/](http://jensen-architects.com/case_studies/case-study/shed/)

### **Ethnic-Focused Grocer**

**Pros:** Fills market niche for culturally specific groceries/foods that can't be found elsewhere; appealing to one base's preferences helps assure customer loyalty

**Cons:** May deter other sociodemographic groups; may be difficult to evolve as location demographics change; presence of existing ethnic-focused stores nearby such as Super Mercado Mexico in Downtown Hillsboro and Uwajimaya in Beaverton

#### **Example: Northgate (California)**

**Model:** 41 Hispanic-focused markets in California with departments including grocery, meat, bakery, tortilleria (50 varieties), Mexican kitchen (hot food)

**Northgate Financial:** Currency exchange, money transfers, utility bill payments

**Community engagement:** Donations to local community through Gonzalez Reynoso Family Foundation, employee training and development



Image Source: <https://sdfoodtravel.com/food-market-review-gonzalez-northgate-market/>  
<http://pearmama.com/2015/11/northgate-markets-mercado-project-norwalk/>

#### **Example: H-Mart (national locations; urban setting in Cambridge, Massachusetts)**

**Model:** Chain of approximately 60 Korean grocery stores offering "superior products, the best price"

**Community engagement:** Local nonprofit donations, youth development programs, scholarship funds

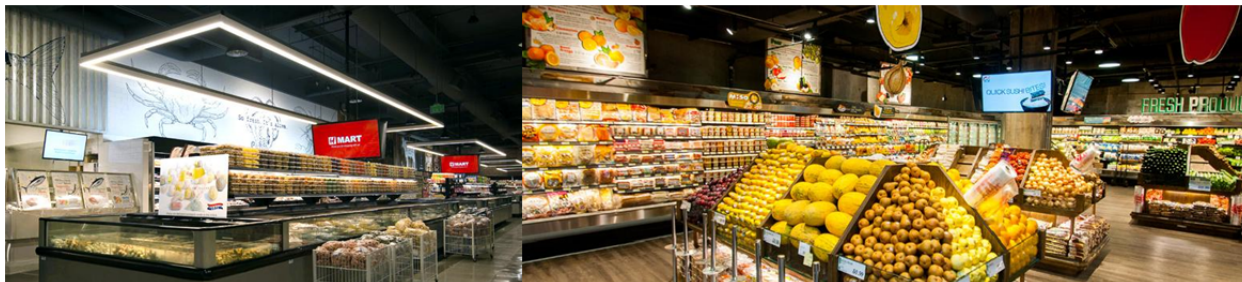


Image Source: <http://nj.hmart.com/stores/>

## Other/New Format

Pros: Convenience; innovative prototype

Cons: No community engagement or neighborhood-specific characteristics; new prototype that has largely been untested

### **Example: Amazon**

**Model:** Drive-through brick and mortar location to pick up previously ordered groceries (AmazonFresh Pickup)

- Offers ordinary supermarket goods at higher prices
- Amazon Prime subscribers place online order, then choose two-hour pickup window
- Alternative model: cashier-less grocery store still being tested

## Development Feasibility Analysis

Because a traditional stand-alone grocery store does not seem supportable by current market conditions in Downtown Hillsboro, EPS evaluated the feasibility for a mixed-use development on the City-owned Block 67 site. Including a grocery store as a component of a mixed-use development is preferable to a single-use grocery building because the grocery tenant's space can more easily be adapted into another use, greatly reducing the development risk otherwise associated with developing a build to suit property for a use that does not seem supportable.

EPS assumes a program mix of residential, office (potentially medical office), and ground floor retail uses. The illustrative mixed-use development is driven by residential uses as this land use commands high rent and low vacancy rates, while the retail portion commands the lowest rent. Office uses are included due to Block 67's proximity to the Health and Education District, and complementary ground floor office space has great potential to drive additional foot traffic and create a dynamic synergy between the various blocks. Although retail uses provide the lowest financial return, it is an amenity to the larger development and may help the residential and office components achieve the top end of their respective lease rate ranges, and thus creating strong overall project economics that could carry the lower-earning retail uses. It is important that this mixed-use model retain a certain level of flexibility to respond to changing market conditions and consumer preferences. Ground floor space should be able to be leased as office or retail uses depending on market demand.

Other programmatic elements to consider include the residential product types delivered as well as parking requirements. Smaller residential products geared toward price sensitive students, either in the form of micro units or unique group living arrangements, can present students with lower overall price points while producing higher rents on a per square foot basis for the developer, which would improve overall financial performance. Parking requirements should also be evaluated as this hypothetical project would require expensive structured or underground parking. Parking needs for commercial uses should be evaluated in relation to an overall downtown parking strategy that fully utilizes existing parking spaces and plans for future parking spaces that may be shared with other downtown uses. This would decrease the cost burden of the development, improving project economics, and maximizing land available for development.



The success of a high-density mixed-use development on Block 67 is critical to establishing the strength of the Downtown Hillsboro market and demonstrating the area's viability to the development community. In this sense, Block 67 has catalytic potential, and its ability to attract additional high-intensity development will be essential to achieving the City's overall vision and goals for Downtown Hillsboro.

## Implementation Recommendations

Downtown Hillsboro is primed to enter a new stage of growth and development, succeeding Orenco Station as the next Hillsboro neighborhood to receive high-density mixed-use transit-oriented projects. The City should embrace Downtown Hillsboro's ability to receive intensified development on the area's vacant and underutilized land, drawing on its genuine Downtown charm and existing community assets. Although a new full-scale grocery store is unlikely to be supportable under current market conditions, more modest options, such as a small niche or specialty foods store, appear more viable, but only with continued and accelerated Downtown growth, as this is the most likely path forward to building sufficient market demand for any and all grocery options. These are near-term recommendations for the City to implement and accelerate growth in Downtown:

**Outline Development Concept.** The public ownership, location near northern neighborhood of West Hillsboro, availability of adjacent light rail, and potential integration into the Health and Education District make the Block 67 site ideal as a mixed-use, housing-driven project offering ground-floor uses, including a potential small-scale urban grocery as outlined in this report.

**Define Project Partnerships.** The City should continue discussions with the University and Tuality Hospital stakeholders, the private sector, and key community members to understand potential interests in pursuing a mixed-use concept, using the strength of the housing market to "carry" ground-floor uses, including an appropriately scaled urban grocery concept (e.g., 10,000 square feet or fewer) as a primary option. Specific discussions should be focused on the interest and ability of these major stakeholders to participate in funding and realization of the project.

**Evaluate Strategic Public Investment.** EPS conducted a pro forma analysis demonstrating that even with some public assistance, current market conditions produce a marginally feasible project, sensitive to rises in costs. Contribution of City-owned land to key projects like Block 67 can catalyze further growth and over time improve the market to a point that can support development without public assistance. Overall the need to discount land, waive or defer impact fees, and contribute outside funding/grants should be based on a refined financial assessment building on this analysis.

**Pursue Acceleration of Downtown Residential Development.** Discussion of the topics above should include reference to next steps the City may take in the creation of a supporting district surrounding Block 67. Policies, incentives, and other efforts should have a specific focus on realizing residential development, improving Downtown's capture of regional and City-wide growth to create improved spending potential and overall critical mass in this part of Hillsboro through additional projects similar to the successful 4th Main offering, as well as efforts to facilitate occupancy of vacant second floor space throughout the Downtown. Showcasing Downtown's offerings to people new to the Hillsboro area, such as new Silicon Forest employees moving from other states and countries, is one way to further build demand for housing in Downtown.

**Initiate Developer Selection and Negotiations.** As similar concepts have been proposed in the past, an important next step will be to evaluate specific attributes of such a project and initiate developer discussions. An important component of these discussions will be evaluating developer knowledge and relationships with specific operators that have the ability to be flexible and nimble with product offerings, providing a level of awareness of niche opportunities and an ability to do so while keeping fixed costs in line to maintain profitability.